

Economic Cooperation in the Wider Central Asia Region

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Executive Summary

Background

Central Asia has had a turbulent history, sometimes as a “land bridge” for trade and ideas between the world’s main civilizations, but since the 19th century increasingly fragmented—the locus of fault lines between major powers surrounding the region. Starting with the breakup of the former Soviet Union and more recently the overthrow of the Taliban regime and end of major conflict in Afghanistan, opportunities have opened up for regional cooperation, with the potential to benefit all of the countries of the region. Although there has been some development of trade and other economic interactions, driven to a large extent by the dynamic informal private sector active in the region, opportunities for more systematic regional cooperation and development have not been substantially exploited. This reflects the legacy of conflicts, continuing security concerns, infrastructural and administrative constraints, differing geopolitical conceptions for the region, and differing degrees of openness and private sector orientation among countries. Opportunities for quick “win-win” solutions appear to be relatively few, and thus concerted efforts are needed to prioritize and exploit them.

The countries of the region share many economic characteristics (much of the region landlocked, difficult terrain and underdeveloped infrastructure, legacy of public sector involvement in the economy, a vibrant informal private sector). However, there is also considerable diversity (in economic size, level of development, energy and water endowments, trade regimes and economic policy regimes, and so forth). While diversity in resource endowments and economic structures can be a source of gains from trade (with countries exporting to each other on the basis of comparative advantage), diversity can also be an impediment to closer interactions. For example, differing endowments of water resources could lead to disputes among riparian countries, divergence in per capita incomes could trigger significant cross-border labor movements, and differences in trade regimes hinder trade and drive it underground. Moreover, limited government capacity, weak governance, and corruption create additional impediments for private business in the region, drive it into the informal sector, and further limit and distort economic exchange.

The wider Central Asia region (see definition in footnote 1 on page 1) includes and is surrounded by several important regional powers and has considerable geopolitical importance. Unfortunately, regional and global rivalries in the recent past tended to hold the region back and have fomented instability and violence. This provides an important, if sobering, background for greater regional cooperation. The prospects for turning the wider Central Asia region once again into a land bridge on the Eurasian continent will thus depend on collaboration not just among the countries of the region themselves, but among the region’s important neighbors as well. A number of regional groupings exist, which to varying extents include neighboring powers and could be harnessed as vehicles for greater cooperation.

Objectives and Approach

This paper has a two-fold purpose: (1) to lay out the big issues that affect regional cooperation and development in the wider Central Asia region, focusing on the critical interrelationships

among these issues; and (2) to analyze in greater detail selected areas where there appear to be good prospects for progress in the short run, and which may help generate momentum and facilitate “breakthroughs” in dealing with more difficult issues. The paper is not comprehensive and, in the interest of achieving focus, has left out, or not discussed in detail, a number of important issues. Additional areas may be the subject of future analytical work.

The framework for approaching regional cooperation developed in this paper is based on two fundamental analytical findings:

- *Critical linkages among sectors:* The following have been identified: (i) between border management, security, narcotics, labor movements, and trade and transit facilitation; (ii) between transport infrastructure and trade and transport facilitation; (iii) between narcotics production and trafficking, irrigation investments and water allocation along the major river basins, and regional labor movements; and (iv) between electricity trade, hydropower generation, and water issues.
- *Political obstacles to progress and corresponding need for political incentives:* The track record on regional cooperation has been modest to date, reflecting the strength of the obstacles noted above—in part physical and financial but to a large extent political. Rather than frontal attacks on political obstacles that may have little chance of success in the short run, the paper suggests a two-pronged approach: (i) in the short term the focus should be on “win-win” initiatives that aim to build mutual confidence and ease political concerns; and (ii) these initiatives should be complemented by a few selected “bold strokes” where donor support could help increase and alter the distribution of benefits from regional cooperation in ways that make a visible breakthrough possible. Both approaches would help build the basis for more far-reaching and institutionalized regional cooperation and associated domestic reforms in the future.

To move forward with this agenda, the paper advocates that governments and partners in the region should, first, keep the “big picture” issues of regional cooperation and development in mind, including the linkages among them and the obstacles. Second, governments and partners should identify and agree on areas where there are good possibilities for near-term success (based on mutually beneficial, less controversial projects) and which may serve as entry points for further progress. Third, prioritized, intensive work (including further analysis to robustly establish estimated benefits) is needed on these few selected areas, with regular monitoring of progress and feedback to decisionmakers. Some of the existing regional organizations, if revitalized, may be able to play such a monitoring and feedback role. Fourth, capacity building will be essential, most notably in the case of Afghanistan but also in some of the other regional countries and in some of the regional organizations. Finally, it must be recognized that opportunities for progress are unlikely to be spread evenly throughout the region but will often involve subgroups of countries and sometimes bilateral cooperation between different pairings of countries. Such opportunities should be exploited and may themselves encourage similar initiatives involving other regional countries. However, in some areas—such as harmonization of customs procedures, visa policies, border management initiatives, transit standards, and so forth—there are important advantages to coordinated regional initiatives so these should be pursued as is already occurring in some cases.

Electricity Trade

Perhaps the greatest prospects for quick win-win initiatives at the regional level are in electricity trade. Afghanistan's power needs, and donors' willingness to fund investments in transmission infrastructure, create electricity export opportunities for neighboring countries. Successful exploitation of such opportunities for bilateral trade in electricity will build a track record of cooperation and momentum for larger-scale initiatives. There are also possibilities for one or more "bold stroke" projects with large benefits for a number of regional countries and significant private sector participation. Progress with these initiatives may open up prospects over the medium term for developing a regional power market, with major electricity flows and benefits. Specific recommendations include:

- *Formalize power trading agreements* between Afghanistan and neighbors where appropriate (that is, there is mutual agreement for stable multi-year trade).
- *Accelerate construction of critical transmission infrastructure* to ensure that this does not become a bottleneck to expanding electricity trade, where a bilateral or multi-lateral agreement to trade power exists.
- *Conduct a study on regional energy markets* that includes all countries in the wider Central Asia region, building on the Regional Energy Export Potential Study for post-Soviet Central Asia, and fully in line with the analytical work envisaged by ECO.
- *Solicit private sector interest* in longer-term investments in generation and transmission systems, focusing first on run of the river hydel opportunities and thermal generation.
- *Continue developing an institutional framework* within which longer-term issues of energy development and trade, and possible integration of electricity markets, can be discussed and resolved.

Transport Development

The potential gains from regional cooperation in the transport sector are large but unequally distributed both within and between countries. Hence quick win solutions will require a greater degree of political buy-in and leadership from the governments in the region, as well as selectivity and focus by donors in order to leverage their financial support. Perhaps the best chance for achieving multilateral progress lies in establishing performance benchmarks to highlight the urgency and the benefits of action. It may also be possible to identify particular transport corridors where the benefits of cooperation could be clearly demonstrated. Donors should structure their assistance in a way that maximizes these opportunities. In the meantime, national trade facilitation policies and bilateral agreements should be designed in ways that would fit easily into a wider regional approach. External anchors such as the WTO accession process or existing regional cooperation organizations could be used to coordinate national policies. Investments to rehabilitate transport corridors need to be sequenced in ways that are coordinated among different donors along major routes, and which recognize and reward countries for demonstrated progress in trade facilitation. As a way of generating additional pressure, transport routes bypassing countries that are dragging their feet on trade facilitation and economic cooperation

should be costed and may be considered for donor funding. Specific recommendations include:

- *Undertake a review of existing transportation routes to identify particular bottlenecks* and coordinate donor assistance for physical reconstruction to focus on such bottlenecks.
- *Carry out a complete review of inter-regional transit routes* by calculating current and anticipated future costs of inter-continental transit corridors through Central Asia. Identify selected corridors where cooperation on a pilot basis would demonstrate benefits quickly.
- *Develop carefully sequenced investments in the sector* to leverage improvements in bilateral or multi-lateral regulations affecting trade and transit. Opportunities for “bold strokes” may exist where investments in critical infrastructure could help unlock greater policy coordination.
- *Progressively open up regional air transportation markets.*

Trade Facilitation

The trade facilitation agenda for the region is long. The liberalization of trade policies is politically sensitive for some countries, and on a region-wide basis most likely will be a longer-term endeavor. However, individual countries which have liberalized their trade regimes and those which are currently doing so should be encouraged to continue and deepen the trade liberalization process. Current trade policies and restrictions do not effectively protect the domestic markets of countries with restrictive trade regimes but simply push trade and people movements into the informal sector. One short-term measure suggested by the paper in this regard is creation of cross-border zones relating to countries with more restrictive trade regimes, where goods and people can move more freely. This would generate new employment opportunities for the poor in border areas, and would also help separate out informal trade in goods from narcotics and crime by creating incentives for informal traders to declare their products. Border guards and customs officials would be better able to concentrate on stopping criminals and controlling large cargo, rather than dissipating efforts and resources interacting with small individual traders.

Additional short-term recommendations for trade facilitation include:

- *Create a performance measurement system for border stations and transit corridors*, so that progress in improving their performance can be transparently assessed, with feedback about problems so that they can be addressed.
- *Harmonize primary legislation for customs as well as documentation requirements* in each country, in line with the Kyoto Convention and WTO.
- *Improve coordination between border enforcement agencies at the national level*, for example, through the creation of a National Trade Facilitation Council, as has been done in Pakistan.
- *Increase bilateral border management cooperation*, such as data exchanges, mutual recognition of customs documentation, and so forth. Bilateral cooperation, and donor support to customs and other border institutions, should be designed in ways that allow for easy extension to other countries.

- *Consider establishing a truck modernization fund with donor assistance, which would help upgrade national fleets to meet minimum performance standards, subject to concrete measures by regional countries to reduce entry barriers for trucks from neighboring countries, such as truck entry bans or fees, convoy requirements for transit trucks even under TIR, and cumbersome visa requirements for truckers.*

Additional proposals, which may require more time, include the following:

- *Enforce the TIR convention among post-Soviet countries and consider the establishment of a temporary alternative transit insurance system for the rest of wider Central Asia.*
- *Create one common visa zone for all post-Soviet Central Asian countries (for instance in the context of EurASEC) and reduce visa fees for non-CIS members.*
- *Create a regional association of transport operators to lobby for improved regulation and enforce a self-policing regime.*

The paper also offers some short-term recommendations relating to *water issues*, as well as the *security–border management–narcotics–labor movements* nexus, but the resolution of larger regional issues in these areas is likely to be politically sensitive and difficult, and will probably take more time. Nevertheless, the proposed initiatives will help pave the way for further progress when that becomes possible. Specific recommendations include the following:

- *Concerted efforts to measure water flows and use in Afghanistan, for which the information base is very weak.*
- *Accelerated rehabilitation of existing water conservancy facilities in Afghanistan, which does not raise riparian issues.*
- *Participation by Afghanistan in existing riparian groups, specifically for the Amu Darya; this could initially be on a special basis if there is no existing agreement.*
- *Initiation/continuation of technical-level dialogue between Iran and Afghanistan with respect to the Helmand River and between Pakistan and Afghanistan with respect to the Kabul River.*
- *Technical work on improving water utilization, which can benefit all regional countries.*
- *Develop pilot schemes for cross-border movement of goods and people within a limited border zone to formalize existing informal movements.*
- *Ensure adequate donor assistance to border guards to fight against the drug trade, perhaps concentrated initially on a few pilot border posts along major trade and transit routes, to demonstrate how security concerns and trade facilitation can be simultaneously addressed.*
- *Develop bilateral agreements on temporary migration and sharing of border facilities.*

Conclusions

Governments of the countries of the wider Central Asia region may be encouraged to cooperate with each other in the awareness of the important linkages between sectors, of the political constraints that they are facing themselves, and therefore of the need for careful sequencing of measures to achieve maximum impact and progress over time.

Acknowledging explicitly what will be politically possible and what is unlikely to be possible in the short run would be a first confidence-building measure. Where certain countries are demonstrating unwillingness to engage in regional cooperation in important areas of mutual benefit, the other countries who are interested in moving forward may start exploring second-best solutions, bypassing countries that refuse to enter into a substantive dialogue on regional cooperation. Such solutions ultimately would attract donor funding. It is hoped that all regional countries will recognize the benefits of greater regional cooperation and—through short-term measures along the lines suggested here—progressively build the trust and momentum that will make such bypass solutions unnecessary.

Finally, it should be emphasized that the analysis and proposals in this paper are preliminary and are intended to generate further discussion and consideration. Above all, these issues, and the proposals for entry points and ways forward, need to be carefully considered by the regional countries themselves. The concrete ideas are perhaps less important than the analytical framework and overall approach put forward in the paper.

Introduction

This paper has a two-fold purpose: (1) to lay out some big issues that affect regional cooperation and development in the wider Central Asia region,¹ focusing in particular on the critical interrelationships among these issues; and (2) to analyze in greater detail selected areas where there appear to be good prospects for progress in the short run, and which may help generate momentum and facilitate “breakthroughs” in dealing with more difficult issues.

This first chapter provides some historical background, briefly summarizes the common features and diversity of the economies of the region, and discusses geopolitical and political economy considerations. Chapter 2 provides a sector-by-sector overview of the main issues for regional development: (i) security, border management, narcotics, and people movements and regional labor markets; (ii) transport connections and infrastructure; (iii) prospects and constraints for development of regional and transit trade; (iv) prospects for energy development and trade; and (v) water issues.

Following this overview of the “big picture” issues in each of these areas, the paper suggests selected areas where prospects for moving ahead with regional cooperation in a timely manner appear to be good, based on: (i) technical feasibility—can be implemented taking into account weak capacity especially in Afghanistan; (ii) high economic returns, shared

1. The definition of a “Central Asia Region” is somewhat arbitrary and varies with the countries and organizations that are making the definition. Moreover, geography is such that a number of countries (or at least parts of their territories) fall into more than one geographical or geopolitical cluster. For the purpose of this study, the wider Central Asia region is defined to include Afghanistan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan, and, at least in terms of parts of their territories and strong economic ties, Iran, Pakistan and, for the post-Soviet states of Central Asia, Russia. Of major importance for the wider Central Asia region are a set of large neighboring countries/areas including China, India, and the Middle East.

among countries (“win-win”); (iii) manageable in terms of geopolitical and political economy considerations; and (iv) policy framework to realize benefits in place or has reasonable prospects of being put in place. The paper adopts a pragmatic approach in looking for ways to create momentum behind regional cooperation, suggesting small steps that could build trust and change the perceptions of political leaders, but also highlighting areas where “bold strokes” are possible—sizable projects with high impact, high visibility, and where donor financing might be critical for achieving a breakthrough. The main recommendations for action in the short run are listed at the end of each sectoral analysis in Chapter 2. More detailed background notes which motivate these recommendations are included as Appendixes on cooperation in the electricity sector (Appendix A), regional transportation links (Appendix B), and trade and transit facilitation (Appendix C). Chapter 3 concludes the paper with some general observations and recommendations for moving forward in the short run focused on these three sectors.

It should be emphasized at the outset that this paper is not comprehensive and has left out, or not discussed in any detail, a number of important issues, such as financial flows in the region, trade in services, standards, public sector procurement, participation of regional countries in reconstruction activities in Afghanistan, direct foreign investment, the hydrocarbon sector, regional agricultural issues, environment, and so forth. This is in the interest of achieving focus. Additional areas may be the subject of future analytical work, depending on demand and their importance from a regional perspective.

Historical Background

Central Asia has had a turbulent history, both internally and as a field for competition and conflict among empires and major powers. On certain occasions the region has been a “land bridge” for trade and ideas, bringing different parts of the Eurasian landmass and its civilizations closer together. More recently it has been the locus of fault lines between different powers as they ran into their military and political limits in the face of the mountainous topography and fiercely independent peoples of the region. As a result, since the 19th century the wider Central Asia region has been fragmented—becoming a region of barriers and conflicts rather than economic and people-to-people connections.

Changing geopolitical circumstances, starting with the break-up of the former Soviet Union in the early 1990s and more recently with the overthrow of the Taliban regime and the end of major conflict in Afghanistan, have opened up opportunities for regional economic cooperation, which potentially can benefit all of the countries of the region. Several neighboring and nearby countries are supporting Afghanistan’s reconstruction with financial and technical assistance. Progress has been made in the development of trade and other economic interactions among some of the countries. To date such integration has been driven to a large extent by the dynamic informal private sector that is active in the region. Despite a number of regional meetings, however, opportunities for more systematic regional cooperation and development have not been substantially exploited.

This lack of concrete progress reflects, among other constraints, the legacy of conflicts, continuing security concerns, infrastructural and administrative constraints, differing geopolitical conceptions for the region, and differing degrees of openness and private sector orientation in the economic policy regimes of the regional countries. The

fact that five of the countries in the region only recently gained sovereignty is an additional political constraint that needs to be borne in mind, as it has motivated attempts to become also economically independent, even if at considerable cost. One conclusion of this paper is that in the face of these constraints, the opportunities for rapid win-win solutions are relatively few. Thus efforts to encourage greater regional cooperation will need to be focused on a few priority areas.

The Economies of the Region

Most countries in the wider Central Asia region share some common economic characteristics, such as difficult terrain and lack of direct access to the sea, underdeveloped transport infrastructure, and a largely commodity-oriented structure of exports (Table 1.1). Many of the countries (although not all of them) have a legacy of substantial public sector involvement in their economies but at the same time face significant constraints in administrative capacity. There are also significant cultural and ethnic ties across many of the countries, even if these have at times been ruptured by the experience of conflict and geopolitical rivalries.

One of the defining characteristics of the region is the vibrant informal sector, which means that in most cases unofficial economic ties are stronger than formal economic relationships among the countries. Informal trade—often called “shuttle trade” or unofficial trade—is common, involving usually small-scale movement of goods across countries on an unofficial basis. Dubai, where the business climate is excellent for private sector activity on a virtually “free-trade” basis, serves as an economic hub for large parts of the region.² Chinese consumer goods are increasingly present in the markets of the region, brought in by individual traders on land routes through Kazakhstan and the Kyrgyz Republic. Informal traders take advantage of arbitrage opportunities offered by the widely diverging trade regimes in the region, thereby mitigating the distortionary effects of the more restrictive trade regimes. More organized, larger-scale informal trade also is prevalent in major protected markets such as Pakistan and Uzbekistan. While the informal sector provides a vital source of income for many poor people in the region, it also presents some drawbacks for governments. Tax and customs collection suffers, and security risks associated with the uncontrolled movement of goods and people are a concern. The informal sector can also be a constraint on longer-term growth, as it relies on personal or kin connections and has limited access to finance; moreover, informal sector business entities tend not to expand in size beyond a certain point, don’t modernize their technology, and face difficulties breaking into export markets. A key challenge therefore, and a theme to which this paper returns repeatedly, is to create incentives for the formalization of economic exchange rather than attempting to repress informal exchange of legal goods through additional controls.³

2. Even in post-Soviet Central Asia, for instance, informal trade with Dubai is relatively well developed. The price margins for goods such as consumer electronics and other durables are often high enough to cover the cost of a plane ticket, and there are flights between Dubai and capital cities in Central Asia almost on a daily basis.

3. For an analysis of Afghanistan’s reconstruction effort which stresses this theme see World Bank (2005a). This report roughly estimates that the informal sector currently accounts for 80–90 percent of economic activity in Afghanistan.

Country	Population (millions)	GDP per Capita (US \$)	Total GDP (US\$ billion)	Agriculture in GDP (% of GDP)	Exports (US\$ billion)	Imports (US\$ billion)	Primary Energy (oil, gas, coal)/a (MTOE)	Exploitable Hydro Power Potential/a (TWh/year)	Literacy Rate (%)
Afghanistan	24	c. 250	6/b	52	–/c	–	–	–	c. 30
Kazakhstan	15	2724	41	7	18	16	27914	62	93
Kyrgyz Republic	5	432	2	39	1	1	591	99	92
Tajikistan	6	323	2	24	1	1	507	317	90
Turkmenistan	5	1251	6	25	4	3	2684	5	93
Uzbekistan	26	461	12	35	5	4	4606	27	91
Subtotal Central Asian countries:	81	5441	69	182	29	25	36302	510	489
Iran	67	2431	163	11	38	36	42818	88	77
Pakistan	152	632	96	23	15	15	1735	130	49
Russia	143	4078	582	5	177	123	121758	1670	95
Subtotal WCA	443	12582	910	221	259	199	202613	2398	710
China	1296	1272	1649	15	639	624	63234	1920	90
India	1080	638	689	22	112	124	62433	660	61
Turkey	72	4210	302	12	91	102	1488	216	88
UAE	4	23810	102/e	22	82/e	54/e	18794	–	77
Total for WCA plus main neighbors	2895	42512	3550	292	1101	1049	348562	5194	1026

Notes: China is placed in the group of main neighbors countries, because although it borders on Afghanistan and other Central Asian countries, it is a major global economy for which economic relations with Wider Central Asia comprise only a relatively small portion of its total economic activity.

a. The data on technically exploitable capacity came from World Energy Council (Survey of Energy Resources)

b. Not including opium economy.

c. It should be noted that a blank (i.e. “–”) does not mean zero; data for these items/countries were not immediately available.

d. Totals do not include countries for which information is not available, notably Afghanistan.

e. Latest available data from U.S. Department of State.

Source: Data are for 2004 or latest year available data from World Bank (Central and Regional databases), unless otherwise indicated.

Just as striking as the common features is the considerable diversity across countries in the region. As shown in Table 1.1, there is great diversity in economic size (population and total GDP), level of development (per capita GDP as well as human capital, proxied by the literacy rate), and economic structure (for example, share of agriculture in GDP). Energy endowments vary considerably across the regional countries, in terms of both amounts and types of energy resources, and there are also great differences in endowments of water, the scarce resource in the region.

While diversity in resource endowments and economic structures can be a source of gains from trade (with countries exporting to each other on the basis of comparative advantage), diversity may also in some respects constitute an impediment to closer economic interactions. For instance, differing endowments of water resources could be a source of disputes, particularly given the riparian relationships among many of the countries. Divergence in per capita incomes could trigger significant cross-border labor movements, which while economically beneficial may be a source of political tension for security and other reasons.

There is also considerable diversity within the region in terms of economic policy regimes (Table 1.2). For example, the countries vary greatly in terms of trade restrictiveness, with overall ratings ranging from the least restrictive rating of “1” to just one level below the most restrictive rating of “10.” While differing resource endowments and economic structures create potential for gains from trade, widely differing economic policy regimes constitute an impediment to closer economic cooperation, most notably in the

	Political Stability Index	Rule of Law Index	Control of Corruption	Overall Trade Restrictiveness Index	Non-Tariff Barriers Index	Average Import Tariff (%)
Wider CA Region:						
Afghanistan	3.4	1	3.9	4	2	5.3
Iran	19.9	23.2	35	7	2	22.7
Kazakhstan	45.6	17.4	9.9	4	2	7.4
Kyrgyz Republic	19.9	15	15.3	1	1	5.2
Pakistan	6.3	26.1	20.2	6	2	16.5
Russia	21.8	29.5	29.1	5	2	11.1
Tajikistan	13.1	9.2	8.9	1	1	7.6
Turkmenistan	18.9	5.8	3.4	7	3	5.6
Uzbekistan	9.7	7.7	5.9	9	3	14.6
Main Neighbors:						
China	46.6	40.6	39.9	5	2	10.5
India	24.3	50.7	47.3	7	2	22.0
Turkey	30.6	54.6	50.7	5	2	12.7
UAE	78.2	78.7	86.7	1	1	5.0

Source: Political Stability Index, Rule of Law Index, Corruption Index: Kaufman, Kraay, and Mastruzzi (2005), shown in percentiles of countries. It should be noted that as they are based on polls and surveys, these indexes have significant margins of error, reflected in the standard errors reported in the source.

Trade restrictions: IMF Trade Policy Information Database.

case of intra-regional trade. Moreover, limited government capacity, weak governance, and corruption create additional impediments for private business in the region, drive it into the informal sector, and further limit and distort economic exchange.

It is interesting to note that trade within the Central Asia region constitutes only a small fraction of the region's total trade, while when the other wider Central Asia countries and main neighbors are added, this proportion rises to well over 50 percent of total trade (Appendix B). This pattern of trade suggests that there would be significant welfare gains from reducing the costs of trade between wider Central Asia and its large neighbors. It also suggests that a large share of trade in the region may be affected by geopolitical considerations relating to regional and surrounding countries (see the discussion that follows).

Current Geopolitical and Political Economy Considerations

The wider Central Asia region includes and is surrounded by a number of important regional powers. To the North, Russia has since the 17th century exercised increasingly significant control over the region, colonizing the area down to the Amu Darya River and during Soviet rule extending its occupation into Afghanistan. In the southern part of the region, Pakistan since its birth in 1947 has had special interests in and close economic relations with Afghanistan. From the subcontinent, India is an important geopolitical player for the region, with important and growing economic relationships. In the West, Iran has both traditional cultural ties with other countries in the region (including a common language with Afghanistan and Tajikistan) and is becoming an important economic partner to some of the countries. Further to the west, Turkey has cultural and economic ties with Central Asia. And to the East, China's growing economic power is increasingly reflected in expanding trade and investment relations with wider Central Asia, and China also has declared strategic and security interests in the region. More distantly, Japan is an important donor to all Central Asian countries and has stressed the importance of regional cooperation. Finally, Europe—in particular the UK—and America have played an important role, initially the former as a colonial power, then as sponsors of the anti-Soviet resistance in Afghanistan, as investors in Caspian energy resources, and after 9/11 as military actors and key sponsors of Afghanistan's reconstruction.

The Central Asia region thus is indeed unique in lying at the frontiers of influence of the world's major economic and military powers. Unfortunately their rivalries have in the recent past tended to hold the region back and have fomented instability and violence. The legacy of these rivalries and conflicts persists to some extent today and forms an important, if sobering, background to the prospects for greater regional cooperation:

- During the Cold War, Afghanistan preserved its neutrality for a long period of time but eventually was occupied by the Soviet Union and became one of the victims of the Soviet-western confrontation, which accentuated domestic divisions that are only gradually being overcome.
- While in Afghanistan distrust of Russia to some extent persists, conversely the experience of Taliban rule has created significant unease in post-Soviet Central Asia and in Russia itself about the dangers of imported Islamist political and security challenges from the South. Further, Afghanistan has concerns about support for the continuing insurgency in parts of the country by interests in Pakistan.