



the Hollings Center
for international dialogue

Dialogue Snapshot
Regional Policy Dialogue on Central Asia's Challenges
October 2013

Central Asia is the region that isn't exactly a region. The republics trade globally, but relatively little with one another. Their border and customs policies remain highly dysfunctional despite well-meaning international aid programs. And much of the new infrastructure in the region has developed to serve national territory, rather than to better connect states to one another. Central Asia's status as a non-region persists at a time when policymakers in the US and abroad need the republics to become more engaged and supportive of neighboring Afghanistan. The New Silk Route vision is appealing in its desire to better integrate the great region, but it faces a series of impediments—international, national and local.

What new thinking and approaches are needed if Central Asia is to become a more dynamic region? What can be done to encourage the Central Asian republics to play a more supportive role in? Do Central Asian entrepreneurs and civil society actors want regional integration, and if so, how could such a vision be achieved?

To address these and other questions, the Hollings Center convened a three-day Regional Policy Dialogue entitled, "Central Asia's Regional Challenges." Held in Istanbul, Turkey from October 3-6, 2013, the dialogue brought together scholars, entrepreneurs, civil society members, policy makers, journalists and development workers to discuss Central Asia and its prospects for regional integration. The dialogue presented a unique opportunity for citizens of Central Asian states to interact with each other and with counterparts in the international community.

"We've been trying to integrate top-down, but it's better to do it bottom up."

- Conference participant from Tajikistan discussing regional integration prospects.

Through the dialogue, the participants came to the following conclusions:

- Central Asia exists as a region only in concept, not reality. To achieve meaningful, cooperative interaction, better attention should be paid to specific challenges that each state faces. Doing so would create a more positive environment for economic integration.
- Action by the international community has become an ideological zero-sum game that is contradictory to the stated goals of regional integration.

- Successful examples of economic interaction and development exist at the micro, hyper-local level, specifically in border regions.
- Central Asian peoples are displaying remarkable resilience and entrepreneurial spirit. Support is needed, however, to help successful small businesses transition to medium and large enterprises.
- Developing human capital in Central Asia is a pressing need, which can be achieved through investments in education. Such contributions could be the most valuable investments made by foreign governments. It would also support the development of civil society.
- The barriers to trade created by the Central Asian borders are both physical and psychological. Psychological barriers will be more difficult to overcome, especially in the case of Afghanistan.

Regional Background

The countries in the common definition of Central Asia (Kazakhstan, Turkmenistan, Tajikistan, Kyrgyzstan and Uzbekistan) share common traits and history, particularly through common religion (Islam) and their shared domination under Russia during both the Imperial and Soviet eras. The genesis of the current Central Asian republics dates from the Stalin era, when the borders for new Soviet Socialist Republics (SSRs) were drawn and when populations were forcibly moved. The intention was to forcibly disintegrate existing linkages in the region to decrease the probability of challenging the authority of the Soviet state. During that period, each of these SSRs featured a command economy, single party dominance and allegiance to Moscow. Upon dissolution of the Soviet Union, each of the new republics faced similar challenges of political and economic liberalization. It is through this common lens that Central Asia is seen as a region.

However, in the 20 years following the collapse of the Soviet Union, each of these states has developed separate, distinct identities to respond to common post-Soviet challenges as well as problems unique to each new republic. Through the legacy of Soviet borders, today's status quo echoes the Stalin era goal of preventing regional integration, stymying efforts to establish both interstate and intrastate connections. The barriers to regional integration also exist in the case of Afghanistan. As a result, Central Asia as a region exists only in concept. The status quo in each nation presents distinct challenges to making that concept a reality:

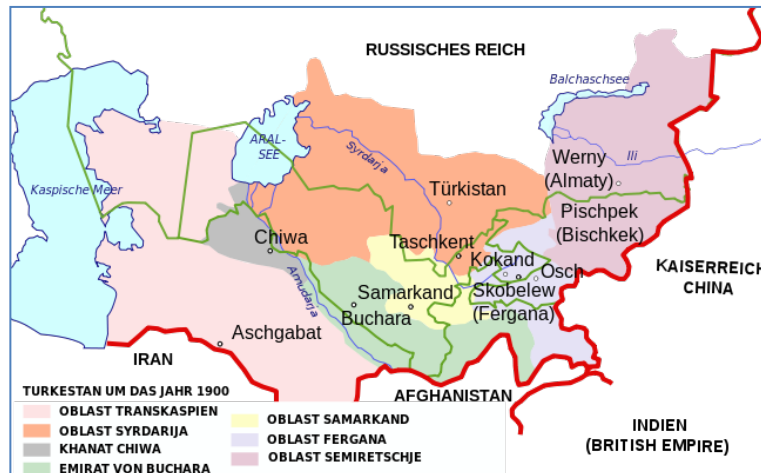
- Kazakhstan: Kazakhstan represents a bright spot in the possibility of economic integration and international trade. The country's leadership has aggressively pursued long-term market strategies and international investment. Kazakhstan has entered into multiple bilateral agreements with non-Central Asian states and has pursued a multi-vector economic strategy by seeking both WTO ascension and membership in the Russian-led Customs Union. But, cooperation with Central Asian states is sporadic at best. And, political liberalization has not taken place, fostering corruption and creating a looming political transition problem as the entrenched political establishment ages.
- Uzbekistan: Participants recognized the challenges to integration posed by the government of Uzbekistan, which has a state structure that makes regional interaction prohibitive. State operations are highly centralized, requiring even the smallest business to obtain ministerial-level approval to operate and engage in trade. Regional cooperation by the state is viewed with suspicion.

- Kyrgyzstan: Of the Central Asian republics, Kyrgyzstan has the most vibrant civil society. However, this has resulted in frequent political unrest since independence. As a result, the Kyrgyz state is relatively weak, with frequent changes in government that make the development of long-term economic strategy nearly impossible and breeds one of the highest levels of corruption in the region.
- Tajikistan: Following a five-year civil war in the 1990s, instability and famine in Tajikistan has resulted in significant labor migration to nearby states, particularly Russia. This has made Tajikistan tremendously dependent on remittances as a source of capital, which totals \$2.1B or approximately 32% of nominal GDP according to the World Bank. Positively, the bridge between Tajikistan and Afghanistan created potential trade links to South Asia for Tajikistan's raw resources. But with poor human capital resources, trade will be limited.
- Turkmenistan: According to World Bank data, Turkmenistan boasts the highest sustained GDP growth rate in the region at 11.1% for 2012. However, this growth rate comes predominantly from Turkmenistan's significant oil and natural gas reserves, and the dominant-party state system has resulted in high levels of corruption and uneven distribution of wealth. Export infrastructure remains inadequate and unemployment staggeringly high.
- Afghanistan: Afghanistan is approaching a major transition in 2014 with the withdrawal of U.S. forces and scheduled presidential elections in April. As a result of the pending drawdown, signs already exist of economic contraction. Efforts to establish trading connections to the north with Central Asian republics have been hindered by phobias, infrastructural challenges, and illicit drug trade. However, positive examples of trade do exist and can be built upon, particularly in energy, agriculture, and textiles.

From the 1990s until now, these Central Asian states have according to one participant, "beat all of the negative expectations and achieved several significant milestones." So the potential for further positive developments certainly exist. These achievements, while significant, have led to a new set of challenges. As noted in the appendix at the end of this report, Central Asians now have additional challenges to consider in the region.

Problems with Macro-Level Strategies

There are many significant spoilers to the concept of regionalism amongst the Central Asian republics. A major spoiler comes from the history of the boundaries between the nations themselves. Prior to the October Revolution, the borders of the autonomous regions and oblasts of Russian Turkestan looked substantially different. Capitals were centralized and administrative divisions were largely drawn to reflect certain ethnic enclaves. In the mid-1920s, the Soviets under Stalin re-drew the borders to divide potential challenges to Soviet power and authority. As one participant noted, "The legacy of the borders drawn by the Stalinist regime is that they were designed to separate and to look for Russia to leadership, trade, and human capital. To think that this would change would be wishful thinking." Another participant noted that air travel between Central Asian capitals barely exists, often requiring travel outside of the region, including transit through Russia, just to interact.



Administrative divisions of Russian Turkestan region in 1900. Modern-day borders are drawn in green.

Source: Wikipedia. Author: Hylgeriak

Another significant spoiler to macro-level regionalism exists in the contradictory nature between stated policies and actual actions of foreign powers such as Russia, China and the US. All of these countries have publicly promoted regional integration and are aligned with trade organizations such as the WTO (US-led), the Customs Union (Russia), and the Shanghai Cooperation Organization (China), as well as NGOs, development agencies, and corporations to promote these visions. However, the actions of the international actors have had the opposite effect, promoting state self-interests over regional visions.

For starters, these foreign visions see Central Asia in an artificial, European Union style context. They do not recognize the ingrained differences and challenges between the Central Asian republics, differences that the international community itself exacerbates. Western countries have long maintained the policy of protecting the sovereignty of each republic since Soviet dissolution in 1991. This policy has been remarkably successful in supporting state sovereignty, but it has done so at the expense of Central Asian cooperation. The cooperation that does exist can be seen in limited bilateral agreements between the Central Asian states, many of which are insubstantial and poorly enforced. It is unclear whether the policies of state sovereignty and regionalism could be balanced.

The resulting separation is further supported by the actions of NGOs, foreign corporations and development agencies that are more interested in building stronger state institutions within each state than inter-regional frameworks or social institutions that would be more conducive to promoting regionalism. These groups see the support of state institutions as the route to promote and protect international investments and promote stability. However, as some participants noted, supporting the state has the effect of endorsing the strong, corrupt, and predatory regimes in some of the Central Asian states. One noted further, "It's not an accident that the most pluralistic societies are where the weakest states are – [that] should be a caution to policymakers in the West who wish to build up state structures and capacity." Such pluralism could serve as the core of regional interaction. Instead, foreign action hardens the presence and power of governments that have little interest in cooperation with their neighbors.

International presence and the flow of international aid has also resulted in competition among Central Asian states, as they have "played" to specific pools of international aid and international corporate investment. Much of this aid is focused on security, which is a keen interest of many of the government elites in the region. In some cases, such as Uzbekistan, the government will portray other neighbors negatively in the interest of attaining security aid. Such competition and finger-pointing lessens the opportunity for cooperation. And participants reported that it creates a climate where several of these countries have become aid dependent.

These regional visions by foreign powers present competing ideas that have evolved into a zero-sum game between those powers. For some of these players, especially the United States and Russia, the strategy has become completely ideological, with programs, treaties and organizations designed less to support regional economies, but rather their respective national priorities. This has led to some states adopting multi-vector approaches that are contradictory and often not in their best interests. Kyrgyzstan is prime example. It has ascended to the WTO and is planning to join the Customs Union by the end of 2013. However, because of the speed with which the Kyrgyz government ascended, the tariff rates they negotiated were comparatively low, which in turn undermined local industry that could not compete with imported goods. Similar effects are expected in joining the Customs Union. That multi-polar policy may cause political problems for the country, as the US has publically expressed criticism of the Customs Union.

Creating a regional trading scheme needs to be bounded by realism. Currently, most of the states are exporting raw materials for processing in Russia or China. In turn, finished goods are being sent back to these economies. One participant asked, "85% of China to Central Asian trade is finished products. So, how can Central Asia survive this strong trade imbalance?" There's little prospect that this would change given the small size of the markets of each state. Even if the markets of Central Asia were combined, it could not compete with the size of the Russian (\$3.3T GDP) or the Chinese (\$12.4T GDP) markets. International markets clearly want the region open to trade for their goods, not the other way around.

Macro-level approaches are also hampered by the simple fact that governments in Central Asia are not interested in integration or cooperation. In the interest of maintaining sovereignty and the political spoils of the regime, these governments are wary of creating any interdependence. As a participant noted, "The number one issue is security [of the regime]. Everything flows from that. Offering Uzbekistan FDI [foreign direct investment] that will create 100,000 jobs will be rejected if it does not address the government's security concerns." Those security concerns are reflected in the difficulties that traders experience at the borders. As one participant noted, the average speed of transit for goods across Central Asia is a mere 25km/h. Much of that slow speed is caused not by poor infrastructure, but by delays at or closures of borders. Government concerns of the spread of radical Islam, narco-trade, and other potentially destabilizing elements play a significant role in obstructing true regional cooperation.

Opportunities at the Grassroots

The seeds of successful grassroots efforts come from the resilience of the people in Central Asia. Outside of the governments, participants noted willingness to learn and a desire to trade that has resulted in entrepreneurs finding ways around corruption. The signs of regional integration do not exist when one looks solely at the relations between the Central Asian governments and their capitals. However, participants cited multiple examples of successful economic integration between border communities.

- A participant stated that people in the border regions are not waiting for the central governments to establish trade regimes; they are creating their own economic zones and their own direct trading relationships.
- Another participant cited the example of Pamir Energy and how that organization has grown to a 600-person company that has successfully streamlined the electric grid to make electricity exportable.

- In Afghanistan, there is a burgeoning trade in apparel and in dried fruits, some of which is going through Central Asia on its way to other markets. The trade has been inspirational to other entrepreneurs, particularly women. But there have been some problems with the transit of fresh goods, as delays in transit have caused spoilage.

Migrant labor serves as a short term solution to many of the issues the Central Asian states face economically. Participants noted that unlike FDI and aid, remittances have a faster impact, providing quick injections of foreign capital that help families procure goods and support local commerce. However, these remittances carry a long-term caveat. Several Central Asian economies like Tajikistan have become hugely remittance dependent. Remittances are a disincentive to the development of human capital, medium and large businesses and trade infrastructure. The negative impacts on familial social fabric, women's rights and the ability for workers to earn retirement pensions are difficult to measure, but are clearly observable. Migrant labor therefore serves only as a temporary measure, one that mortgages the future economic viability of each state at the expense of sustainable economic development.

In spite of increasing rates of labor migration, participants did report that an entrepreneurial class is developing, particularly small business owners along the border regions. A participant commented, "It has become prestigious to own a container at a bazaar." These small businesses are particularly adept at navigating low-level corruption and making a living. A small bribe is capable of opening closed borders and many small business entrepreneurs will actively seek out loopholes and special arrangements to secure trade. To many of the participants, state corruption was not the greatest problem, but rather international actions from both neighboring countries and the larger international community. Two specific examples were cited. The first was Kyrgyzstan's patent and duty system, which taxes based on weighted inputs or number of machines rather than assessed value. This system treats an iPhone the same as an agricultural good, thereby prohibiting the development of a value-added economy. Another example given by a participant was an attempt by a foreign aid agency in Kyrgyzstan to implement cash registers in the bazaar to track sales and taxation. Since the implementers did not seek local input and buy-in prior to implementation, the effort results in a social uprising and a resounding rejection of the plan. To this effect, participants agreed that international actors should spend less time on ending low-level corruption and focus on ensuring buy-in for locally executed development programs.

State corruption and predation are more harmful in the case of small businesses aspiring to become medium or large size enterprises. One participant noted, "Once they grow big, they're subject to scrutiny and state interventions. Even going abroad with your business needs your government go-ahead, and may run into unwritten rules and political issues, even if they are not necessarily political." The difficulties a business owner faces varies from country to country and it is not expected that this corruption will be limited any time soon. As one participant succinctly put it, "Corruption is the *raison d'être* of the state. It is the state."

The solution to many of these problems and to creating grassroots opportunities, many believed, was to spend additional time and resources for the development of human capital. One stated, "The amount of assistance that goes into democracy and civil society is small. It has all been in economic development, with very little for the development of human resources." Participants called for significant investment in education as an effective long-term development strategy available to the international community, and a strategy that could be properly framed to ensure buy-in at both the

state and local levels. In addition to building technical and entrepreneurial skills at the local level that could help end the cycle of remittance dependency and migrant labor, educational development could be used to promote the positive aspects of developing a business sector in each country. The buy-in, therefore, would work at multiple levels. Promoting the positive aspects of business development with state elites could lead to reforms in border control and tax systems. At the local level, business education could promote new norms for growth and support the prestige of the growing entrepreneurial class.

Transcending Psychological and Physical Borders

Regardless of actions taken at sub-regional levels and within particular states, borders will remain an important hindrance to regional integration, but they can also serve as a possible point of solution to many of the challenges described above. The current borders were designed artificially and in recent history. Therefore, they are subject to the permeation of goods and people so long as good strategies are adopted that can provide the right balance of security and transit.



Border crossing between Kyrgyzstan and Kazakhstan at Kordoy in 2007. Source: Wikimedia Commons. Author: Vmenkov

Some of these border challenges are physical in nature. The crossings themselves can often be closed at whim and sometimes used as political points of leverage in bilateral negotiations between states and as domestic political tools that provide jobs and the illusion of state power and security. One participant, who lived in a border town, noted that local residents could tell when a border was closed by the skyrocketing price of produce in local markets. Often, such closures come without warning or explanation to the local populace and can be extremely prohibitive to the development of an entrepreneurial class.

But the border challenges are not just physical. They're also psychological as in the case of Afghanistan. The only physically "open" border with Afghanistan is its northern frontier. A bridge was built between Afghanistan and Tajikistan, and trade encouraged by the United States in order to help stabilize the country prior to the 2014 troop withdrawal. However, psychologically Afghans see that border as closed, their backs turned toward it in favor of trading relationships (both licit and illicit) along the Durand Line with Pakistan and the Iranian border. To many Afghans, those physical boundaries with Iran and Pakistan do not exist. In contrast, the northern boundaries represent bad history (the Soviet invasion in 1979) and trepidation with the future (Central Asian fears of instability and radicalization following the U.S. departure). These phobias run deep and are exacerbated by central governments for political reasons. Overcoming the psychology of separation will be critical to improving trade and hopes for regional integration.

Some suggestions, keeping in line with targeted micro-level strategies, for improving border issues in Central Asia were:

- Targeting specific crossing points instead of large, overarching border improvement strategies.

- Promoting buy-in for development plans at the local level. Programs should also be properly framed to ensure government buy-in at upper levels so that development efforts are not wasted.
- Developing an information system to alert local border communities of decisions by the state to close borders. Local communities are often not made aware of closures or the reasons for them. Sometimes, as in examples when borders were closed to stop the spread of agricultural disease, timely information from the state can be very helpful to traders in protecting their investments.
- Making efforts to construct more consulates in the region outside of the capitals. Particularly, these new consulates should be placed in key border communities in which cross-border trade is very active. Doing so could provide a timelier link between active border trade and the central governments and mitigate costly delays in solving minor disputes.
- Not focusing on adding more border guards to provide border security, but rather focusing on managing interactions between the border guards. This simple program could easily alleviate many of the problems at the crossings that cause transit delays and promote low-level linkages that would foster better grassroots economic growth.

APPENDIX:

Milestones Achieved – Next Challenges

Positive Milestones	Challenges to Face
Entrepreneurial spirit is rising and Central Asian peoples have shown a willingness to learn and openness to new ideas.	Entrepreneurs have experienced roadblocks to growth from state bureaucracies and predation through corruption.
Self-initiated businesses are growing and are finding ways around low-level corruption at the local level.	Assistance is needed to help small business grow larger and avoid state predation.
Local communities are interacting and cooperating with each other. This has led to new opportunities and constructive problem solving. People to people relations are very practical and collegial.	Better links between local border regions and their respective capitals, as well as better linkages between Central Asian capitals need to be established.
Internet access and access to technology is growing in the area, opening up new information and access to new markets.	This technology is still too costly for most to afford and access to the Internet can sometimes be blocked by central governments.
Personal security in the region has increased, resulting in greater transit by citizens within the region and with Afghanistan.	Transit within the region can still be difficult due to poor infrastructure and the lack of direct flight connections.
Access to Western education has increased with exchanges, scholarships, and the opening of branch campuses of Western universities.	This increased access has resulted in fears of a “brain drain” and may not yet be of critical enough mass to build an entrepreneurial class or a vibrant civil society.
There is significant labor migration in the region, which has served to elevate the social status of families, provide much needed capital, empowered some women, and trained Central Asian workers in necessary skills.	There is concern the emigration has damaged traditional family fabric through separation. In some localities, the economy has become too dependent on remittances.
Trade has increased between Central Asian nations and Afghanistan, particularly in textiles and agricultural goods.	Trade with Afghanistan is hampered by phobias on both sides of the border, particularly from overblown fears of radicalism “spillover.”



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