

# ASIAN SURVEY

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A Bimonthly Review of Contemporary Asian Affairs ■ University of California Press

**Vol. XLVII, No. 3, May/June 2007**

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# THE VIRTUES AND POTENTIAL GAINS OF CONTINENTAL TRADE IN EURASIA

\_\_\_\_\_ Nicklas Norling and Niklas Swanström  
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## Abstract

Trade in Eurasia is shifting to growing continental rather than regional ties at the same time as overland transports are becoming a viable option. If trade obstacles could be surmounted, this trend promises to have substantial implications for the landlocked states of Greater Central Asia and their access to world markets.

Keywords: Eurasia, continental trade, Afghanistan, infrastructure, transport

## Introduction

Remarkable opportunities have opened on the Eurasian continent spurring one of the most significant contemporary developments in the global economy. After a century of almost constant conflict and ideological mishaps, countries located along the ancient Silk Road have started trading with each other to an extent envisaged by few during the Cold War. The reintegration of economies in Eurasia and expanding trade ties among the landlocked Greater Central Asian countries (Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan) and their neighbors now promise to be two of the chief drivers of peace and prosperity on the Eurasian continent. Not only will Greater Central Asia benefit from this, but India, Pakistan, Iran, China, Azerbaijan, and Russia have similar gains to make by engaging the region

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*Asian Survey*, Vol. 47, Issue 3, pp. 351–373, ISSN 0004-4687, electronic ISSN 1533-838X. © 2007 by The Regents of the University of California. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press's Rights and Permissions website, at <http://www.ucpressjournals.com/reprintInfo.asp>. DOI: AS.2007.47.3.351.

in continental trade, including energy. This potential exists in direct bilateral trade, where great complementarity exists between the South and East Asian economies and Greater Central Asia, as well as through the use of Greater Central Asia as a transit region for overland continental transport—east-west from China to Europe and north-south from Russia to India. Indeed, aggregate intra-Eurasian trade has already emerged as more important for the regional economies than trade with the rest of the world.<sup>1</sup>

Although this dynamic gained momentum in the early 1990s, a key trigger for today's opportunities was the liberation of Afghanistan five years ago. Even if the primary objective of the U.S. intervention was not Afghanistan's economic success but removal of the world's key sponsors of terrorism, Operation Enduring Freedom had the effect of opening transport corridors that had been closed for centuries.<sup>2</sup> Currently, transport corridors from Central Asia down to the Indian Ocean via Afghanistan are being restored, and overland trade from China via Central Asia, Afghanistan, and the Caucasus to Europe is increasingly becoming a viable alternative to seaborne transport. Amid more market-friendly policies in the region a foundation has been laid for the further expansion of this trade network, notwithstanding the effects that potential World Trade Organization (WTO) membership of regional states may have in promoting multilateralism and continental trade.

These dynamics should not come as a surprise: trade and specialization have been the hallmark of the region for millennia. Through the Kuchan, Roman, and Persian empires, trade was conducted from the Indian Ocean stretching as an arc from the rimland of the Indus Basin to the heartland of Central Asia.<sup>3</sup> Strong cultural affiliations across the region between, for example, the Tajiks and the Persian speakers in Iran and Afghanistan, or Turkey and the Turkic peoples in Uzbekistan, Turkmenistan, Kyrgyzstan, and ethnic Xinjiang Uyghurs in Central Asia, may also contribute to greater inter-state and entrepreneurial interaction.

To make full use of existing opportunities, there is, however, a need to tackle the impediments to continental trade, primarily in poor infrastructure, protectionism, and slow border crossings. A problem while carrying out these efforts is that old thinking and bureaucratic barriers within donor countries and international organizations have prevented realization of potential gains. Most

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1. Johannes F. Linn and David Tiomkin, "Economic Integration of Eurasia: Opportunities and Challenges of Global Significance," paper prepared for "Europe after Enlargement," Warsaw, Poland, April 8–9, 2005, p. 10, <[http://www.case.com.pl/upload/publikacja\\_plik/4974349\\_sa298%20ok.pdf](http://www.case.com.pl/upload/publikacja_plik/4974349_sa298%20ok.pdf)>, accessed on January 30, 2007.

2. S. Frederick Starr, "A Greater Central Asia Partnership for Afghanistan and Its Neighbors," Silk Road Paper (Washington, D.C.: Central Asia-Caucasus Institute and Silk Road Studies Program, March 2005).

3. *Ibid.*, p. 21.

policy makers have been stuck in the mind-set that trade is best done regionally rather than continentally and have not recognized that regionalization of trade may in some contexts be welfare reducing, most notably in Central Asia.<sup>4</sup> Most strategies envisaged so far have aimed for regional economic integration and a single market within Central Asia rather than exploring the vast opportunities and markets that exist for Central Asian products in India, Pakistan, China, Afghanistan, and Iran. Worse, Central Asia is still considered by international financial institutions and most governments as belonging to the Commonwealth of Independent States (CIS)—dependent on Russia—rather than being independent sovereign states. This has fomented the negative effects of regionalization for the Central Asian states.

Using the CIS as a sub-regional trade bloc is becoming more and more outdated. This can be seen in the simple fact that CIS countries exported \$23 billion worth of goods within the CIS bloc but a total of \$83 billion to the rest of Eurasia in 2003.<sup>5</sup> Some institutions have recognized the absurdity of keeping such categorizations and restricting trade facilitation strategies to the CIS space. Most notable is the reorganization of the U.S. State Department in 2006 and the creation of a new bureau for South and Central Asian Affairs. This acknowledgement is unfortunately more of an exception than a rule and has led to a situation where the former Soviet border still slices through the Eurasian continent in most development strategies devised for the continent. The result is that development of continental trade falters because of a continual failure by donor countries and international organizations to appreciate that the “CIS” on the one hand and South Asia on the other do not need separate development strategies—they need to be integrated.

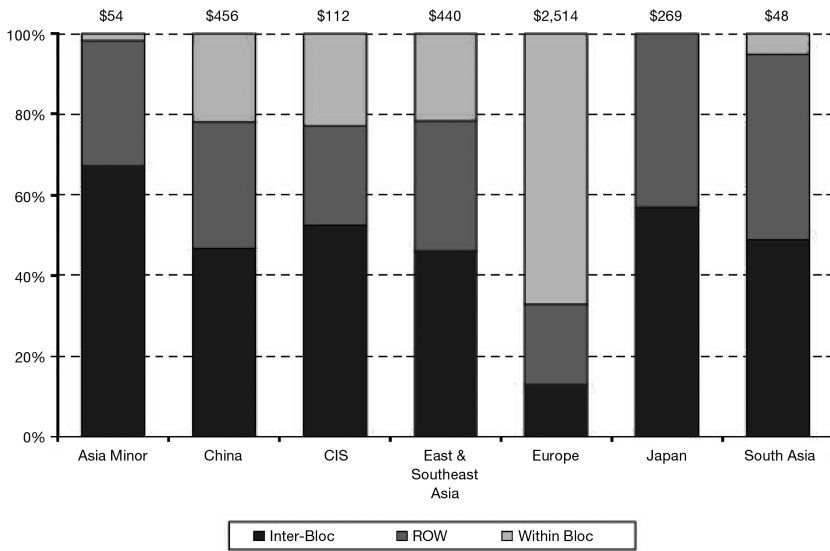
### The Opportunities for Continental Trade

Although donor countries and international organizations have been slow to adapt to emerging dynamics of continental trade, favorable political developments have created significant opportunities for this type of commerce. Most notable is the demise of the Soviet Union, but the termination of four factors—Indian socialism, Chinese protectionism, Iranian populism, and Afghan extremism—have had similar positive effects on trade. Under Soviet rule, cross-border interaction and trade between Central Asia on the one hand and Afghanistan, China, and Iran on the other were minimal. Before Deng Xiaoping’s leadership in the 1970s and the opening up of the Chinese economy, China’s foreign trade was equally weak; the same applied to the period of Nehruvian socialism

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4. Shang-Jin Wei and Jeffrey A. Frankel, “Open Regionalism in a World of Continental Trade Blocs,” National Bureau of Economic Research, NBR Working Paper, no. 5272, 1995, p. 1.

5. Linn and Tiomkin, “Economic Integration of Eurasia,” p. 10.

TABLE 1 *Eurasian Export Split by Trading Blocs, 2003* (\$bln/total trade)

SOURCE: U.N. Comtrade Database and William Davidson Institute (University of Michigan) Base of the Pyramid (BOP) Data, adapted from Linn and Tiomkin, "Economic Integration of Eurasia."

in India and Iranian populism under Khomeini. Overall, Cold War proxy wars in Afghanistan, more than 50 years of conflict between India and Pakistan, the end of the Shah era in Iran, and border disputes throughout Eurasia all have had detrimental effects for these economies.

Today, this situation is approaching a turning point. Early promising results of infrastructural efforts and greater interdependence have been seen in the growing bilateral trade volumes and continental transit trade in Eurasia, even though trade is still far below potential. As seen in Table 1, the traditional Eurasian sub-regional trading blocs today are trading more with other blocs than within the blocs: intra-bloc trade amounts to no more than approximately 20% in all blocs, with the exception of Europe. Inter-bloc trade within Eurasia, on the other hand, is far more important than trade with the rest of the world (ROW) in all sub-regional trading-blocs, with the exception of Europe and potentially South Asia, which is a borderline case. This is the emerging reality of Eurasian trade, where regionalism is diminishing in importance in favor of continental movement of goods across Eurasia. However, looking at the patterns of trade between the sub-regional trading blocs it becomes clear that

there are vast unused potentials across former Cold War frontiers. This is especially so across the South Asia-Central Asia divide. For example, Afghanistan's exports to India and Pakistan, worth \$278 million in 2005–06, represent 92% of Afghanistan's total export market.<sup>6</sup> However, Afghan exports to the former post-Soviet states in Central Asia are negligible, representing less than 1% of total exports. Afghan imports from Kazakhstan and Turkmenistan—its two main trading partners in Central Asia—accounted in 2005–06 for no more than \$13 million and \$26 million, respectively, representing only 0.6% and 1.1% of total imported goods.<sup>7</sup> In terms of foreign trade, to put it bluntly, the former Soviet border still exists.

With the opening of old trade routes and greater inter-state cooperation, natural specialization could be achieved: Kyrgyzstan could supply Afghanistan with building materials; cotton from Tajikistan could be exported to Turkey, China, and Pakistan; and Pakistani producers could compete with Chinese and Indian manufacturers.<sup>8</sup> That there is significant room for trade expansion between Greater Central Asia and its neighbors is perhaps most evident when we observe that India's trade with Greater Central Asia, which reached \$420 million in 2004, represents only 0.25% of India's total foreign trade. Likewise, China's trade with Greater Central Asia, reaching \$5.9 billion the same year is roughly 0.5% of China's total foreign trade, whereas Iran in 2004 traded to a value of about \$1.26 billion—still no more than 2% of Tehran's foreign trade.

Turkey, with extensive ethnic and historical ties to the Greater Central Asia countries, also has a vast unexplored trade potential with this region. Out of Turkey's foreign trade in 2004, which totaled \$158 billion, a little more than 1%, or \$1.78 billion, was with Greater Central Asia. Similarly, although Russia's trade with Europe and China has increased overall, there is still room for expansion south to Central Asia, most notably in high-tech and energy. Russia's total trade volume with Pakistan is no more than \$253 million, while trade with India reaches just above \$1.8 billion—the latter being just 0.7% of Russia's total foreign trade.<sup>9</sup>

Following the collapse of the Soviet Union, the trade volumes between China and the post-Soviet states in Central Asia increased incrementally during

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6. International Monetary Fund, "Islamic Republic of Afghanistan: Selected Issues and Statistical Appendix" (IMF Country Report, no. 06/114, Washington, D.C., IMF, March 2006), Table 40, at <<http://www.imf.org/external/pubs/ft/scr/2006/cr06114.pdf>>, accessed on May 24, 2007.

7. Ibid.

8. Frederick Starr, "Central Asia's Re-emerging Transport Network: Promise and Perils for Mountain Regions," paper submitted to the International Workshop Strategies for Development and Food Security in Mountainous Areas of Central Asia, Dushanbe, Tajikistan, June 6–10, 2005, p. 6, <[http://www.akdn.org/mountains/14%20-%20Central%20Asia's%20Transport%20Network%20\(Eng\).pdf](http://www.akdn.org/mountains/14%20-%20Central%20Asia's%20Transport%20Network%20(Eng).pdf)>, accessed January 28, 2007.

9. IMF, *Direction of Trade Statistics: Yearbook 2005* (Washington, D.C.: IMF, 2005). All figures are from 2004, except for Iran's figures that are based on 2003 calculations.

the 1990s, picking up the pace in the 2000s. Trade across this Cold War frontier was virtually zero in 1991. According to Chinese Customs statistics, total trade volume between China and Central Asia grew from approximately \$465 million in 1992 to \$7.7 billion in 2005.<sup>10</sup> Similarly, China's bilateral trade with Russia, totaling \$5.46 billion in 1998, topped \$21.23 billion in 2004, while trade with Iran expanded from \$1.21 billion to more than \$7 billion in the same period.<sup>11</sup>

Apart from creating opportunities for bilateral trade, the opening of the Sino-Soviet border has created prospects for transit trade. The current revitalization of the Silk Road and development of the continental transport corridors running from China's east coast to Europe should bring massive gains to the landlocked countries of Central Asia—if trade obstacles are tackled successfully. The booming trade volume between Europe and China is forecast to increase from 300 million tons in 2000 to 460 million tons by 2015.<sup>12</sup>

A key transport corridor that has drawn increased interest runs from Lianyungang in China's eastern Jiangsu Province through Xinjiang Province in the country's far west and Greater Central Asia all the way to Rotterdam in the Netherlands. Interest in the corridor derives in part from infrastructural development in Greater Central Asia and China but primarily from the fact that using the corridor could cut transport time considerably. In comparison to the sea journey from China to Europe, which takes 20 to 40 days, cargo might be moved along this route on railways via the second Euro-Asia landbridge in a startling 11 days, according to the Asian Development Bank (ADB).<sup>13</sup> As the sea lines of communication become ever more congested, overland transport will increasingly become an option for forwarders and transporters.<sup>14</sup> If the full potential of continental trade could be harnessed, primarily across the South

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10. The 2005 figure is based on the period January–November, which means that \$8 billion was with all certainty surpassed.

11. IMF, *Direction of Trade Statistics: Yearbook 2005*, pp. 134–35.

12. Nicklas Norling, *First Kabul Conference on Partnership, Trade, and Development in Greater Central Asia*, Kabul, April 2006, p. 20.

13. ADB, “Xinjiang Autonomous Region, PRC: Trade Facilitation and Customs Cooperation Project, Draft Technical Assistance Consultant’s Report,” November 2005, p. 30 (unpublished), provided by Craig Steffensen, head of ADB’s Central Asia Regional Economic Cooperation (CAREC) unit. The first Euro-Asia landbridge runs on the Trans-Siberian Railway via Russia. There are still major trade impediments to be tackled in the further development of the second landbridge even though both Kazakhstan and China have devoted significant efforts lately to reduce these impediments. Corruption and the differing track gauge on Chinese and Kazakh railways are two examples of such barriers that impede efficient transport, delay transshipments, and add transaction costs.

14. For an official view on this, see, for example, European Conference on Ministers of Transport–Council of Ministers (CEMT/CM), “Globalization: Europe-Asia Links,” April 26, 2005, <<http://www.cemt.org/online/council/2005/CM200501e.pdf>>, accessed May 20, 2007.

and Central Asia divide, Afghanistan would find itself in the middle of a continental market stretching east-west from Lianyungang to Rotterdam and north-south from Moscow to New Delhi. This would raise the prospects for long-term prosperity in this pivotal Asian country.

## Main Impediments to Continental Trade and Transports

### *Infrastructure in Greater Central Asia and Slow Border Crossings*

Infrastructural factors have made it hard to realize Greater Central Asia's potential to act as a landbridge and transit region. The two key trade barriers in Eurasia today are poor infrastructure and slow border crossings. This applies especially to both the Central Asian countries and Afghanistan, whose unfavorable trade climate deters transit traffic and reduces the competitiveness of their products. Although infrastructure is occasionally substandard in China, India, Iran, Russia, and Pakistan as well, the most urgent problems exist within Greater Central Asia and along its links to its neighbors. Exacerbating these infrastructural problems is the fact that the region is landlocked; together these factors cause transport costs to skyrocket. The mountainous topography of Greater Central Asia also impedes efficient transport of goods and reduces the competitiveness of the regional economy. In part because of these factors, it has been estimated that transport costs in Central Asia amount to as much as 60% of the value of manufactured imports.<sup>15</sup> As such, the main obstacles for realizing the potential gains from overland trade are found within Greater Central Asia itself.

More broadly, there is a great need to increase the current combined spending of approximately \$1 billion on Central Asian transport infrastructure. The ADB estimates that for Central Asia to sustain growth and provide adequate services for transport will require investment of \$2 billion to \$3 billion a year from 2005–10.<sup>16</sup> As well, Afghanistan must be better integrated with Central Asia. Projects designed to help the country reach this goal have focused primarily on rehabilitating roads, bridges, and tunnels, including the Afghan ring road and the Salang Tunnel, in addition to bridges linking Afghanistan and Tajikistan over the Pyanj River.<sup>17</sup> As CIS states in the region became independent,

15. Statement by H. E. Mrs. Madilna B. Jarbussynova, ambassador, permanent representative of the Republic of Kazakhstan to the United Nations, Agenda item 92(a), New York, October 26, 2000, <[http://www.un.int/kazakhstan/s\\_261000.htm](http://www.un.int/kazakhstan/s_261000.htm)>, accessed January 8, 2006.

16. Malcolm Dowling and Ganeshan Wignaraja, *Central Asia: Mapping Future Prospects to 2015*, ERD (Economics and Research Department) Working Paper Series, no. 80 (Manila: ADB, April 2006), p. 36.

17. See Frederick Starr, "Afghanistan: Free Trade and Regional Transformation," in *Afghanistan's Reform Agenda*, report for Asia Society, March 2002, p. 13, <<http://www.asiasociety.org/publications/AsianUpdateContent.pdf>>, accessed on May 20, 2007.



their railway lines were linked with Russia. Connections to China, Iran, and Afghanistan were scarce and underdeveloped, creating impediments to extra-regional trade. This exacerbated the contractions that occurred in gross domestic product (GDP) when the Soviet regional trading bloc Council for Mutual Economic Assistance (COMECON) broke down.<sup>18</sup>

In addition, poor state-to-state interconnectedness and reluctance in linking transport systems to neighbors within Central Asia itself are major problems. By avoiding transit opportunities and extension of infrastructure into neighboring states, a short-term gain is won in domestic trade because border formalities, transport costs, and transport times are decreased. In both the long and short run, though, this will have severe repercussions on the regional economy. Uzbekistan seems to have been particularly circled by neighboring states that are reluctant to establish transport network links with Uzbek borders. This is most likely a result of the country's high tariffs and complicated customs procedures imposed on transiting vehicles and goods.

For example, Kazakhstan built the Kuzylasker-Kirovskiy road from the Char-dara Reservoir in the south but did not connect it with Uzbekistan as would have been expected geographically. Kyrgyzstan has made a \$12 million upgrade of the Jalal-Abad to Uzgen road without passing through Uzbekistan; Turkmenistan has avoided linking Uzbekistan into its new railway now connecting with Kerkishi in the Amu Darya Valley. Uzbekistan, in turn, responded by excluding Turkmenistan from its \$10 million Uchkuduk-Misken-Karauzak railway connecting Bukhara with Nukus via Navoi.<sup>19</sup> While such improvements of national infrastructure surely have benefited domestic movements of goods and people, these problems hamper the possibilities of regional trade and entrench a system of continued border inefficiency—not to mention decreases in GDP.

As a result of these inadequate services, the firms that ship more than 95% of Chinese goods to Europe choose other routes. This exacerbates the problem of transport: very complicated combinations of road, rail, and sea freight are often necessary.<sup>20</sup> The complexity involved with such multi-modal operations has led a great majority of transporters and forwarders engaged in continental trade to prefer seaborne transport to overland—fewer transshipments are necessary. Excessive transshipments at Afghan borders are also adding major transaction costs, especially for trade between Afghanistan and Pakistan. Currently, cargo destined for Kabul via Pakistan is transshipped through Quetta

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18. Linn and Tiomkin, "Economic Integration of Eurasia," p. 9.

19. UN Development Program (UNDP), "Bringing Down Barriers: Regional Cooperation for Human Development and Human Security," *Central Asia Human Development Report* (Bratislava: UNDP, 2005), p. 61.

20. ADB, "Xinjiang Autonomous Region," p. 3.

and Peshawar in Pakistan and Spin-Boldak in Afghanistan, near the border. This causes significant delays. Similar lengthy transshipment occurs on the border with Iran.

Other bottlenecks at borders severely impede the efficient flow of goods in Eurasia. Extensive customs procedures and lack of cooperation between customs agencies is estimated to add 25%–40% in extra transit time, which in turn represents an additional transport cost of 25%–120%. Currently cargo en route from Almaty in Kazakhstan to Europe via Moscow spends more than 50% of its total transport time of 10–20 days waiting at borders. It has been projected that if this waiting time were reduced to five hours at each border the aggregate time of transport could be cut in half. Bribes to corrupt customs officials and traffic police boost the cost of doing business by anywhere from \$10 to \$1,000 per trip.<sup>21</sup> Opportunity costs are accordingly substantial; regional governments need to recognize the harmful effects these have on state income. This is apart from the fact that these impediments risk compromising the possible revival of the open economic space that once existed in this region.

### Russia: An Indispensable but Occasionally Awkward Partner

Besides poor infrastructure, there has been a tendency from Russia to occasionally deny the Central Asian and Caucasian states access to other markets, especially in energy. This is in spite of the fact that Russia has enjoyed a booming trade with such major markets as Europe and China. While the Central Asian states have been interested in exploring the potential of trade with South Asia ever since the 1960s, there has been a consistent fear among these states of Russian reprisals and of Moscow cutting military ties, leaving the Central Asian states vulnerable. Russia's fierce opposition to the Baku-Tbilisi-Ceyhan pipeline (BTC) pipeline running from Azerbaijan to Turkey and the trans-Afghan pipeline stretching from Turkmenistan to South Asia is another example of this attitude. The failure of the West to give assurances of assistance in the event of deteriorating ties with Russia has left Central Asian states with few options but the Russian one. With the tendency of the U.S. and Europe to leave Central Asia hanging out to dry as their interests shift elsewhere, it is unsurprising that the latter states keep their pro-Moscow orientation intact. Ironically, despite the fundamental interests of the U.S. and Europe in seeing the Russian leverage over Central Asia states weaken—not least because the energy resources they control are valuable—the West has viewed those

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21. Hildegunn Kyvik Nordås, Enrico Pinali, and Massimo Geloso Grosso, "Logistics and Time as a Trade Barrier," OECD Trade Policy Working Paper, no. 35, TD/TC/WP(2006)3/FINAL, May 2006, p. 20, <<http://oberon.sourceoecd.org/v1=25545684/cl=13/nw=1/rpsv/cgi-bin/wppdf?file=519ppmzpzdzq.pdf>>, accessed on May 20, 2007.

states as feeble Soviet dependents. Their primary identity is seen as being constituent parts of the CIS rather than independent sovereign states.

This reality clearly has not strengthened incentives to explore any options but the Russian one. Let it be acknowledged that Russia is an indispensable trading partner for the Central Asian states and that a rapid reduction of this trade would have severe repercussions for their economies. But exploration of other options and the benefits derived from trading omni-directionally could give an additional boost to growth in the region, reduce transport times, and raise revenues. For example, the vast majority of Central Asian cotton is currently exported through distant Baltic ports at prices lower than could accrue from shipping through the geographically closer ports of Chah Bahar, Karachi, and Gwadar via the Indian Ocean.<sup>22</sup> Apart from the poor security situation in Afghanistan and Russian opposition to Central Asia's search for other options, the international donor community and governments have failed to reorganize themselves in a way that reflects the post-Cold War world as well.

### Administrative Barriers to Trade

#### *Old Thinking, Bureaucratic Barriers, and Weak State Capacities*

Most Central Asian organizations and governments devoted to trade facilitation are stuck in old patterns of thinking: their bureaucracies remain organized along the lines of the CIS along the old Soviet border. Afghanistan, located peculiarly in the center of Eurasia but on the periphery of Central Asia and South Asia, often finds itself squeezed between stiff bureaucratic policies and procedures. The Japanese Foreign Ministry still groups Afghanistan with the Middle East, while the Central Asian countries are listed as part of the European Affairs Bureau. The Chinese government groups also Central Asia with Europe, while Afghanistan is consigned to "Asian affairs." The European Union (EU) groups Central Asia with Eastern Europe, while Afghanistan is part of South Asia. The World Bank consigns Central Asia to Europe. The European Bank for Reconstruction and Development considers the Central Asian countries to be within the bank's sphere of engagement—but not Afghanistan. The same applies to the Organization for Security and Cooperation in Europe, whose map of Central Asia on its website figuratively cuts Afghanistan in half. This may seem like a petty problem, but the effects are uniformly negative.

This lack of clarity mirrors a lack of cooperation among the relevant bureaus within government departments and the international financial institutions. These

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22. Statement by S. Frederick Starr at the United States Institute of Peace, Washington, D.C., in an event titled "Afghanistan and Its Neighbors: Trade, Trafficking, and Terrorism," January 24, 2006.

deficits have led to a situation where effective coordination is virtually impossible. Studies on trade facilitation within these institutions explicitly assume that Central Asia has its natural trading ties with Europe and Russia rather than with its other neighbors in Afghanistan, India, Iran, the Caucasus, and China. With the important exceptions of the ADB, which groups together the five Central Asian states plus Afghanistan, Xinjiang, and Azerbaijan, and the recent reorganization of the U.S. State Department, this list could go on and on. With the removal of the Taliban and the opening of transport routes through the country, this coordination is becoming even more urgent. Because the successful reconstruction of Afghanistan is of essential importance for Central Asia both in security and trade matters, these bureaucratic barriers will impede recognition of the potential in continental trade and its role in enhancing regional security.

There has been little positive response to the occasional calls from Central Asia itself stressing the potential of trade among South Asia, Central Asia, and Afghanistan. Most notably Tajik President Rahmon Nabiev made repeated statements in the early 1990s on the potential of trading south of the former Soviet border.<sup>23</sup> Conceived as such, the U.S. (and other donor countries) failed in raising these countries' chances of economic development and actively encouraging a "balanced" foreign policy that some Central Asian states have attempted. Worse, in this strategy there has been little opportunity for the states themselves to cooperate with each other within the framework of U.S. assistance.

In contrast to the Marshall Plan, where the European states had to justify assistance and coordinate it among themselves before presenting requests to the U.S.,<sup>24</sup> the American strategy in Central Asia has been perceived as being based on pure self-interest and carried out on a purely bilateral basis.<sup>25</sup> Despite a total U.S. spending of \$28 billion on the former Soviet Union from 1992–2005, the potential payoff has not matched the size of the investments.<sup>26</sup> Not to mention the fact that the U.S. (and indeed European) failure to engage with governments in Afghanistan as well as Central Asia while implementing donor programs also has significantly weakened state capacity in all these countries. Even worse is the tendency of Western non-governmental organizations (NGOs) to recruit the best-educated and capable nationals into their programs, resulting in a brain drain of state services. In terms of building long-term prospects

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23. Vyacheslav Ya. Belokrenitsky, "Russia and Greater Central Asia," *Asian Survey* 34:12 (December 1994), p. 1099.

24. Charles Weiss, Jr., "Eurasia Letter: A Marshall Plan We Can Afford," *Foreign Policy* 106 (Spring 1997), p. 100.

25. Starr, "A Greater Central Asia Partnership for Afghanistan and Its Neighbors," p. 12.

26. Curt Tarnoff, "U.S. Assistance to the Former Soviet Union," Congressional Research Service Report for Congress, March 16, 2006, <<http://www.fas.org/sgp/crs/row/RL32866.pdf>>, accessed on January 30, 2007.

for continental trade, this promises to harm the states' ability to provide functioning infrastructural services.

## Reasons for Optimism

### *Afghanistan as Landbridge: Effects of the U.S. Intervention and 9/11*

Despite the lack of a clear U.S. strategy for the region and Washington's inability to listen to the concerns of the Greater Central Asian states themselves, the U.S. intervention represents a quantum leap toward re-engagement with Afghanistan and with neighboring Central Asian countries.<sup>27</sup> Due credit should go to these efforts. Although not intended from the outset, the U.S. Afghan intervention set the stage for Afghanistan to act as a landbridge on the Eurasian continent. This promises to be one of the single most important determinants for the further development of regional and continental trade and Afghanistan's integration into this network. Although conditions in Afghanistan deteriorated in the first half of 2006, impeding emerging ties between South and Central Asia, an eventual stabilization will have positive effects on the regional economy, not least for the landlocked former post-Soviet states. For Central Asia this will mean access and transit through Afghanistan to ports in Pakistan at Gwadar and Karachi, and in Iran at Bandar Abbas and Chah Bahar, opening important outlets for their products to the world market through the Indian Ocean and Arabian Sea.<sup>28</sup> The key role that Afghanistan plays in linking Central Asia with South Asia makes U.S. success in Afghanistan of enormous importance for exploiting fully the potential of continental and regional trade.

Current efforts in constructing and restoring infrastructure are bringing significant progress, although much work remains. The bridges built over the Pyanj River by the U.S. in cooperation with other donor countries linking Afghanistan and Tajikistan are finally obliterating the remnants of the former Soviet border. Other projects are doing similar work. Highway upgrades by the Chinese in Pakistan along the North-South corridor together with new bypasses have reduced the distance from the ports in Karachi and Gwadar to Afghanistan and the Central Asian markets by 500 kilometers.<sup>29</sup> An arterial highway is also taking shape through Central Asia and the South Asian subcontinent from Almaty through Bishkek, Osh, Dushanbe, Kabul, and Kandahar and on to Pakistan. The assistance of Japan and the U.S. in reconstructing the ring road in

27. Starr, "A Greater Central Asia Partnership for Afghanistan and Its Neighbors," p. 8.

28. It should be mentioned, however, that the security situation in Pakistani Baluchistan may be a problem for the successful completion and use of this project.

29. Aftab Kazi, "Pakistan," in (forthcoming) *The New Silk Roads: Transport and Trade across Greater Central Asia*, ed. S. Frederick Starr (Washington, D.C.: Central Asia-Caucasus Institute and Silk Road Studies Program, 2007).

Afghanistan will also make the latter a nexus for the main transport corridors in the center of Asia while bringing enormous transit revenues to the country.<sup>30</sup> The further development of the ring road and its connections to rural markets in Afghanistan and neighboring states will pave the way for the country's farmers to sell their harvests abroad as well as domestically. This is especially so with the reconstruction of roads from Herat to the west and Iran; the road from Kabul north to Tajikistan and Uzbekistan; and the road from Kandahar to the southeast, terminating in the Indian Ocean by Gwadar.<sup>31</sup>

### Reengagement in the India-Pakistan-China Triangle

Improved relations between India-Pakistan and India-China have brought additional opportunities for continental trade. For the first time since the partition of British India in 1947 into India and Pakistan, the intrinsic interdependence between India on the one hand and Afghanistan, Pakistan, Iran, and the Central and Southeast Asian states on the other seems to be reemerging. Confidence-building measures between India and Pakistan across the Line of Control in Jammu and Kashmir have increased, even though a serious stalemate has existed in the wake of the Mumbai train bombings in 2006. Although the conflict is far from resolved, increased interaction in the movement of people and goods between India and Pakistan promises incremental progress toward a viable peace.

Trade between India and Pakistan is increasing; the countries have jointly reactivated the bilateral Joint Economic Commission and Joint Business Councils. Bilateral trade has increased from \$161 million in 2001 to over \$1 billion in 2006.<sup>32</sup> India has also extended most-favored-nation status to Pakistan. If the Indian and Pakistani governments were to allow foreign investment into Jammu and Kashmir and if local entrepreneurs can capitalize on the timber industry, fruit processing, and power generation, we could see a boost to the entire regional economy amid decreasing incentives for separatists.<sup>33</sup> Overall, the negative economic impact of the conflict over Jammu and Kashmir has hurt third parties as well, with the Line of Control acting as a significant barrier to Greater Central Asia's trade south of Pakistan.

Moreover, the war on terror has created closer ties, respectively, between India and China, Pakistan and China, and to some extent India and Pakistan.

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30. Norling, *First Kabul*, p. 22.

31. Starr, "Central Asia's Re-emerging Transport Network," p. 3.

32. "India, Pakistan, and Kashmir: Stabilizing a Cold Peace," Policy Briefing, no. 51 (Islamabad and Brussels: International Crisis Group, June 15, 2006), p. 4.

33. Wajahat Habibullah, "The Political Economy of the Kashmir Conflict," United States Institute of Peace, Special Report, no. 121 (June 2004), p. 11, <<http://www.usip.org/pubs/specialreports/sr121.pdf>>, accessed on May 20, 2007.

This has had a positive effect on trade ties. All three countries became implicated in the U.S. global war on terror in one way or another, and all have an interest in seeing the terror threat diminished. China endorsed and voted in favor of U.N. Security Council Resolution 1441 on terrorism adopted September 28, 2001, and actively supported the U.S. intervention in Afghanistan.<sup>34</sup> Pakistan hosted U.S. forces and functioned as one of its primary allies in defeating the Taliban. In addition, following the attacks on the Indian Parliament in December 2001, China pledged its support to Indian efforts in finding the perpetrators; Beijing and New Delhi also established an anti-terrorist dialogue mechanism. As Pakistan and India started to mobilize troops along their border, China acted as an intermediary, calling for restraint.<sup>35</sup> This increased confidence, if only marginal, is crucial for continuing trade among these three countries. A healthy relationship is also important for not harming trade relationships with third countries such as Afghanistan and the countries of Central Asia.

### China's Trade and Infrastructural Engagement with South and Central Asia

China has also demonstrated a commitment to regional trade and cooperation since the late 1990s by assuming a more prominent role in organizations such as the ASEAN+3 (Association of Southeast Asian Nations) grouping and the Shanghai Cooperation Organization (SCO), giving much hope for the future. China is expanding trading ties and making progress on the border disputes with India, where the agreement signed in June 2006 to reopen the trade route at the Nathu La Pass in the Himalayas—closed since the Sino-Indian war in 1962—was a breakthrough event. Moreover, the bilateral trade volume between China and India grew from \$200 million in the early 1990s to almost \$20 billion in 2005.<sup>36</sup>

China's trade with Pakistan is showing similar dynamics, with Pakistan representing 20% of China's total trade with South Asia in 2004.<sup>37</sup> From 2000 to 2004, their bilateral trade volume grew from roughly \$1.2 billion to more than \$3 billion.<sup>38</sup> Chinese investment in the Gwadar Port in Pakistan and restoration

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34. Randall G. Schriver, "The Effects and Consequences of an Emerging China: Testimony before the Subcommittee on East Asia and the Pacific, Senate Foreign Relations Committee," March 19, 2003, <<http://www.senate.gov/~foreign/hearings/2003/hrg030319p.html>>, accessed on January 30, 2007.

35. B. R. Deepak, "Sino-Pak 'Entente Cordiale' and India: A Look into the Past and Future," *China Report* 42:2 (April-June 2006), p. 146.

36. C. Raja Mohan, "India and the Balance of Power," *Foreign Affairs* 85:4 (July/August, 2006), p. 20.

37. "Pakistan, China to Set Up Free Trade Area," *China Daily*, December 26, 2004.

38. IMF, *Direction of Trade Statistics: Yearbook 2005*.

of the Karakorum Highway running from the Indian Ocean to Xinjiang will increase cargo trade volume at Gwadar from approximately 200,000 twenty-foot containers in 2005 to a forecast 295,000 by 2015.<sup>39</sup> In total, Gwadar will double the capacity of Pakistani oceanic trade.<sup>40</sup>

Other infrastructure investments such as the recent opening of bus service between Pakistan's northern areas in Gilgit and Kashgar in Xinjiang via the Khunjrab Pass will also facilitate people-to-people interaction and boost border trade. In addition, Pakistan has invested in roads and railways, which will help realize China's ambition for Pakistan to serve as a trade corridor. For example, Pakistan recently constructed the Torkham-Jalalabad road in north-western Pakistan and the Chaman-Kandahar railroad link in Baluchistan to bring Chinese goods to Central Asia via Afghanistan. These efforts have coincided with growing integration on the second Euro-Asia landbridge running from China's east coast to the North Sea.

If this landbridge is developed it will reduce the overload now carried by Chinese ports on the east coast, increase access for China's underdeveloped western regions into the world market, and balance the socioeconomic wealth gaps in China. Massive transit revenues could accrue to Greater Central Asia at the same time as additional outlets to world markets are opened. The development of infrastructure in Greater Central Asia will also open opportunities for trade with the Caspian and Caucasian regions, perhaps primarily in energy.

#### *Iran: An Important Node in Continental Trade*

Iran has also assumed a more positive posture toward regional trade since the death of Ayatollah Khomeini in 1989, and the dissolution of the Soviet Union brought a sea change in Iran's foreign policy. From having a closed economy and a low degree of interaction with its neighbors, Khomeini's death spurred in Iran a shift in policy concerns. Not only was closer integration with its neighbors necessary geopolitically as the balance of power shifted, but Khomeini's death brought to power more reformist forces seeing the economic rationality in regional integration and development of transport systems and infrastructure. The rapidly expanding trade volumes on the North-South corridor running from India and Pakistan via Iran, Azerbaijan, and the Caucasus up to Russia are perhaps the foremost evidence of this. The Russian Ministry of Transport estimates that the total volume of transport along this corridor could jump from 8–9 million tons in 2003 to 30–40 million tons by 2008.<sup>41</sup> These expanding ties and potential gains, it is hoped, will act as a moderator

39. Kazi, "Pakistan," p. 21.

40. John W. Garver, "Development of China's Overland Transportation Links with Central, South-west, and South Asia," *China Quarterly* 185 (March 2006), p. 8.

41. Taleh Ziyadov, "Azerbaijan" in (forthcoming) *The New Silk Roads*.



should tensions erupt in the region. The trade corridor will also give the Azerbaijanis a degree of leverage over their northern and southern neighbors in Russia and Iran.

With the end of the Khomeini era and the opening up of the Iranian economy, the Chinese also became interested in further engagement, especially as energy security slowly became an issue for them. China's railway ministry in 1992 signed a memorandum on cooperating in the establishment of new railway lines connecting the Central Asian with the Iranian railways. In May 1996, the Mashhad-Tejen railway connection running between Iran and Turkmenistan opened, making possible further transport through Central Asia and Xinjiang. Today, China is building a new railway line from the Pakistani port it helped develop in Gwadar to link with the Zahadan-Quetta railway line running between Iran and Pakistan;<sup>42</sup> the volume of China-Iran trade increased from \$700 million in 1993<sup>43</sup> to top \$9.2 billion in 2005.<sup>44</sup>

Altogether Iran, together with Azerbaijan, has perhaps been one of the countries most emphasizing development of continental trade, with a particular weight given to development of railroads. For example, constructing the flagship railroad connection from Kerman in Iran to the Pakistani border linked the Indian subcontinent by rail to Europe for the first time in history. The importance of Iran for its landlocked neighbors should not be underestimated. Should the security situation in Gwadar deteriorate further and jeopardize the entire project, which some argue is already happening,<sup>45</sup> the Iranian ports of Chah Bahar and Bandar Abbas will increase in importance for the Central Asian states and Afghanistan.

### Infrastructure Investment by Outside Powers: A "New Great Game"?

Although many view the current struggle over influence in Central Asia in terms of post-colonialism and a zero-sum game among outside players, there is a need for a nuanced approach to this issue. A great number of analysts have characterized the current development in Greater Central Asia in terms of a "new Great Game" among Russia, the U.S, China, India, Iran, and other actors. The truth of the matter is, however, that this "game" is also the key to Greater Central Asian countries' long-term development. As during the original Great Game in the 19th century, when the British and Tsarist Russian empires sought to gain dominance by building railroads to the region, the "new

42. Garver, "Development of China's Overland Transportation Links," p. 5.

43. Barry Rubin, "China's Middle East Strategy," *Middle East Review of International Affairs* 3:1 (March 1999), p. 48.

44. "Iran, China Trade Hits \$9.2 Billion in 2005," Mehr News Agency (Tehran), July 9, 2006.

45. Elizabeth Mills, "Pakistan's Port in Troubled Waters," *Asia Times*, August 9, 2006.

Great Game” also relates closely to infrastructure. Whether pipelines, roads, or railroads, this mode of development should give the Central Asian states options other than isolation and could be the essential component in reducing the harmful effects of being landlocked. On the other hand, whereas the Great Game caused conflicts of interest that “worked to ensure that Afghanistan remained underdeveloped,”<sup>46</sup> current efforts, if well coordinated, promise to give the Afghan people the economic development previously stolen from them by outside powers. For the first time since the 16th century, when cargo ships revolutionized transportation and challenged overland trade along the Silk Road, efficient continental trade crossing the Eurasian land mass is becoming a viable option.

Both the north-south transport and the opening of the BTC pipeline running from Azerbaijan to Turkey via Georgia have already generated unprecedented benefits. Azerbaijan, for example, registered a 26% growth rate in 2005, and the opening of the BTC pipeline is expected to double the country’s economy by 2008.<sup>47</sup> Azerbaijan’s trade with the EU also witnessed an unprecedented expansion between 1998 and 2004. Although Russia remains an important trading partner, the EU has far surpassed the latter in terms of trade volume: Azerbaijan-EU trade boomed from little more than \$390 million in 1998 to top \$3 billion in 2004.<sup>48</sup>

Kazakhstan, another regional success story, has registered double digit growth figures since the late 1990s and profited substantially from its energy resources. Opening doors to foreign companies like Chevron, ConocoPhillips, Exxon-Mobile, and BP while mitigating the sole Russian option is perhaps the foremost reason for this. Besides being a major target for foreign direct investment, Kazakhstan has emerged as an investor itself in the rest of Central Asia, most notably Kyrgyzstan.<sup>49</sup> Trading ties have expanded with China, the EU, Russia, and Iran, although Kazakhstan trade with South Asia is more or less nonexistent. From 1998 to 2004, the country’s total foreign trade with China increased from \$433 million to more than \$4.3 billion and with Russia from roughly \$3.3 billion to top \$8.2 billion. Trade with the EU reached \$11.7 billion from \$3.2 billion. Kazakhstan’s bilateral trade with Iran, in turn, grew from a meager \$77 million in 1998 to reach \$552 million in 2004, with a substantial Kazakh trade surplus of \$535 million.<sup>50</sup> But not even the best infrastructure could compensate for old thinking and the lack of regulatory frameworks. This is why WTO membership for the region’s countries becomes important.

46. Canfield, “Restructuring in Greater Central Asia,” p. 878.

47. Ziyadov, “Azerbaijan.”

48. IMF, *Direction of Trade Statistics: Yearbook 2005*.

49. Johannes Linn and David Tiomkin, “The New Impetus Toward Economic Integration between Europe and Asia,” *Asia-Europe Journal* 4 (April 2006), p. 37.

50. IMF, *Direction of Trade Statistics: Yearbook 2005*.

## WTO Membership: From Regionalism to Multilateralism in Eurasia?

WTO membership of the countries in the region would perhaps be the best institutional tool and regulatory framework to make full use of continental infrastructure. Only Kyrgyzstan among the Greater Central Asian states is a member, but WTO entry of the other states could boost their access to the world market. However, until now Russia has vehemently opposed WTO membership of the CIS states on the grounds that it would weaken Russia's bargaining position vis-à-vis these states even as Russia's own membership is being considered. This position was made clear when Russia resisted Kazakhstan's initial bid to join the WTO, taking the stance that no CIS country should be allowed to join until Russia had.<sup>51</sup> With Russia's bid likely to succeed in the near future, Moscow's position on the other CIS states will probably change, thereby transforming the current context of trade in Eurasia. This is particularly so for the Central Asian states whose two giant neighbors to the east and west would both be WTO members.

The benefits to be derived from WTO membership are threefold: it should promote a global and continental trade network rather than sub-regional trading blocks, encourage liberalization of trade policies, and provide adequate enforcement mechanisms to prevent states from deviating from agreed regulations. This, in turn, is expected to attract foreign direct investment and reduce risk of protectionism in export markets.<sup>52</sup> This is exactly what the Central Asian states need most, and WTO membership would be a welcome alternative to proposed trade agreements within the CIS framework such as the Eurasian Economic Community (Eurasec). A recent study by the ADB suggests that Kazakhstan, Kyrgyzstan, and Tajikistan would be particularly vulnerable if the Eurasec customs union should be implemented, because of the customs union's effect on extra-regional trade. For Kazakhstan the cumulative shortfall would reach almost \$10 billion, translating into a GDP 20.8% smaller by 2015 compared with the baseline scenario.<sup>53</sup> However, as Russia becomes a member of WTO, Eurasec will lose most of its relevance—even if Eurasec so far has achieved little by way of economic cooperation.

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51. Gael Raballand, "The Relations between Central Asian Countries and WTO, Symptomatic of Political Strategies," *Central Asia-Caucasus Analyst*, August 29, 2001, <[http://www.cacianalyst.org/view\\_article.php?articleid=73](http://www.cacianalyst.org/view_article.php?articleid=73)>, accessed on January 30, 2007.

52. Richard Pomfret, "Trade Policies in Central Asia after EU Enlargement and before Russian WTO Accession: Regionalism and Integration in the World Economy," Working Paper 2004-13, School of Economics, University of Adelaide, paper provided by EconWPA in its series Others with number 0502003, pp. 8-9, <<http://ideas.repec.org/p/wpa/wuwpot/0502003.html>>, accessed on January 30, 2007.

53. Dowling and Wignaraja, *Central Asia: Mapping Future Prospects to 2015*, p. 43.

All in all, there should not be any doubt that the WTO accession process will be demanding and require skilled negotiation teams as well as commitment on part of the Greater Central Asian governments. But even if these impediments and others still exist, most notably in infrastructure and transport, these are not insurmountable. Considering the rapidity of favorable political developments in the past 15 years, potential gains do not seem unreachable either.

### Potential Gains

Opening Greater Central Asia to continental trade in energy and goods would give countries in the region greater access to foreign technology and foreign exchange revenue, increase market access, and reduce the harmful effects of being landlocked. Forecasts about the positive effects of construction and restoration of road corridors suggest there could be enormous gains. For example, if 52 projected road corridors are built through Afghanistan on the north-south corridor connecting ports in Iran and Pakistan with Tajikistan, Uzbekistan, and Turkmenistan, total regional trade could increase by 160% and transit trade by 111% in Afghanistan by 2010.<sup>54</sup> Improved transport networks through Afghanistan could also benefit the export of cotton from the Central Asian states to India and Pakistan; assessments indicate that cooperation in this sector could be worth as much as \$100 billion.<sup>55</sup>

On the east-west corridor running from China to Europe, equal potential gains exist. Should transporters and forwarders choose to venture onto the second Euro-Asia landbridge, state incomes and GDP would be raised substantially for the Central Asian economies. Conservative estimates suggest that further development of these trade corridors and the ability to capture a larger share of the transit trade from Asia to Europe would raise GDP in Central Asia and Xinjiang by *at least* 2%–3% yearly as well as increasing the attractiveness of foreign investment.<sup>56</sup> However, estimates by the ADB and UNDP suggest that trade facilitation efforts in Central Asia would boost GDP by as much as 5% year-on-year.<sup>57</sup> Whatever figure one may use, it is clear that the benefits are substantial. This is not least so for Afghanistan, which would make the greatest relative gains if barriers to trade were to be removed. If the 3,657 kilometers of road corridors are built through Afghanistan, exports are expected to

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54. ADB, *Second Ministerial Conference Report on the Economic Impact of Central-South Asian Road Corridors* (Manila: ADB, March 2005), p. iii. These estimates should of course be treated with caution considering the deterioration of the security situation in Afghanistan that has occurred in the last two years, but nevertheless they suggest the potentials involved.

55. Kazi, "Pakistan."

56. Niklas Swanström, Nicklas Norling, and Zhang Li, "China," in (forthcoming) *The New Silk Roads*.

57. UNDP, "Bringing Down Barriers"; Dowling and Wignaraja, *Central Asia: Mapping Future Prospects to 2015*.

increase by 202% and imports by 54% over five years. This translates into a total gain of \$592 million in exports and \$1.318 million in imports. The road corridors would also entail a total GDP increase of 36% for Afghanistan, averaging 7.2% annually.<sup>58</sup>

A recent study on the economic effects of speeding up border crossings suggests enormous additional potential gains. During a pilot project on reducing slow waits at border crossings conducted by the World Bank in Albania, Bosnia-Herzegovina, Bulgaria, Macedonia, Croatia, and Romania, the following effects were revealed. With an 81% reduction in clearance time, Bulgaria saw its foreign trade volume grow by 2.14 times. The average for all countries during the period 2001–04 was a decrease of waiting time by 72% and a 92% trade increase.<sup>59</sup> The positive effects on Greater Central Asia, whose economic situation is much worse than in the Balkan pilot countries, would likely be even higher.

Potential gains in energy transit are also massive. Whether India's and Pakistan's energy needs are met by building the Turkmenistan-Afghanistan-Pakistan-India pipeline across Afghanistan or the Iran-India-Pakistan pipeline, transit states will benefit substantially. For example, it has been estimated that Pakistan would gain a total of \$14 billion in 30 years from building the Indo-Iran pipeline.<sup>60</sup> If the trans-Afghan pipeline is built, transit revenues of \$300 million yearly are estimated to benefit the Afghan economy in addition to the vast employment opportunities and support to local industries that would accrue.<sup>61</sup> Moreover, as the BTC pipeline becomes operational, transit revenues are expected to give Georgia roughly \$50 million a year in additional state income.<sup>62</sup> The electricity problem in Afghanistan could also be partly reduced by improving Uzbekistan's export of electricity through its existing 110 kilovolt transmission line between Termez and Mazar-i-Sharif and through Indian electricity exports. Kyrgyz and Tajik exports of hydroelectric power to Afghanistan have similar potential.

Supporting energy projects in the region and regional energy integration promises to have huge potential long-term payoffs; the BTC pipeline is a case

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58. ADB, *Second Ministerial Conference Report*, pp. 23, 26.

59. World Bank, *Infrastructure in Europe and Central Asia Region: Approaches to Sustainable Services*, June 2006, p. 79, <<http://siteresources.worldbank.org/INTECAREGTOPENERGY/Resources/flagship-main-june-1-06.pdf>>, accessed on January 30, 2006.

60. S. G. Pandian, "Energy Trade as a Confidence Building Measure between India and Pakistan: A Study of the Indo-Iran Pipeline Project," *Contemporary South Asia* 14:3 (September 2005), p. 314.

61. Teymur Huseynov and Hasanali Karasar, "Saving Afghanistan: From Poppy to Pipeline," *Central Asia-Caucasus Analyst*, April 20, 2005, <[http://www.cacianalyst.org/view\\_article.php?articleid=3237](http://www.cacianalyst.org/view_article.php?articleid=3237)>, accessed on January 30, 2007.

62. World Bank, *Infrastructure in Europe and Central Asia Region*, p. 74.

in point. The pipeline was feasible because of financial and political backing from the United States and Europe in a project most observers had doomed beforehand. This pipeline not only relieved Azerbaijan from dependence on Russia, but its construction also signified a long-term commitment from the West to Azerbaijan's future. This attitude spills over into neighboring states, whose trust in American and/or European long-term intentions is reinforced. Similar support should be given to projects of equal weight such as the proposed Turkmenistan-Afghanistan-Pakistan-India pipeline, which could act as a symbol and milestone in Greater Central Asia relations analogous to the BTC's provision of a "window to the West." Evidence from the BTC pipeline indeed suggests that Turkey, Azerbaijan, and Georgia have been more cautious about starting conflicts; if tensions arose they were solved quickly.<sup>63</sup> To put it bluntly, energy cooperation could promote interdependence and confidence in a region formerly dominated by isolation and distrust.

### The Current Situation in Afghanistan

Because Afghanistan occupies such a pivotal position in the Eurasian continental trade network, stabilization there is crucial to realizing the country's full potential. Without a stable Afghanistan, the links between South and Central Asia will remain underdeveloped, and the poor security situation will affect its potential to trade with its neighbors. The deteriorating situation in Afghanistan in 2006 affected the development of transport corridors through the country. One example is the India-sponsored construction of the Zaranj-Delaram road in southwestern Afghanistan, which is intended to link the Chah Bahar Port in Iran with Zaranj-Delaram and the Garland Highway, which connects with Central Asia. With the resurrection of the Taliban and concerted attacks against construction workers and equipment, the project has been delayed one year and cost estimates have grown from Rs 3,774.7 million (\$84 million) to Rs 6,820 million (\$152 million).<sup>64</sup>

Despite these delays, there should not be any doubt that significant progress has been made in restoring Afghanistan's infrastructure. Since the launch of Operation Enduring Freedom, 10,000 kilometers of roads have been constructed and restored. The importance that the International Security Assistance Force (ISAF), Operation Enduring Freedom, and the Afghan National Army and Police Force hold in ensuring that these investments are protected and used could scarcely be understated.

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63. Zeyno Baran, "The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey," in *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, ed. S. Frederick Starr and Svante E. Cornell (Washington, D.C.: Central Asia-Caucasus Institute and Silk Road Studies Program, 2005), p. 111.

64. Rajat Pandit, "Taliban Threats Jack Up Cost of Road Project," *Times of India*, December 7, 2006.

As more and more vehicles begin to use the roads, highways and roads will be perceived as safer from attack and the movement of people and goods will grow accordingly. As such, the coinciding interests of Europe and the U.S. in the region could not be more obvious, because they share responsibility for the counterinsurgency in Afghanistan. The North Atlantic Treaty Organization's (NATO) ISAF mission has now taken over command of most parts of Afghanistan, and together with Operation Enduring Freedom is fighting the Taliban insurgency. Some of the contributing ISAF states, e.g., Germany, must review and reconsider their national caveats about participating in the active part of the counterinsurgency, as such lack of commitment both risks undermining NATO's new important global role as well as the operation itself. If commitment is not improved in both the spheres of reconstruction and counterinsurgency, not only does Afghanistan risk devolution into a breeding ground for terrorism but the Afghan population will be shortchanged on its economic development once again.

### Conclusions

To make full use of the potentials that have opened on the Eurasian continent, there is a need to strengthen cooperative mechanisms and make sizable efforts in restoring infrastructure and reducing border inefficiency. The scope of activity cannot be limited to Central Asia alone, especially if the region is conceived as still belonging to the Soviet Union. Greater Central Asia has equal complementarity with the economies of South Asia and East Asia as with Russia and Europe. This enhanced interaction is also crucial for long-term success and the integration of Afghanistan into emerging continental trade networks. Although until now the balance of power in Central Asia has tilted toward Russia—following the U.S. failure to formulate a coherent strategy—a balance could possibly be restored if Washington emphasizes economic development as its main concern. Lessons learned from the Marshall Plan could be of use, especially the importance of demonstrating commitment and letting countries themselves, in cooperation with their neighbors, decide what is best for them.

WTO membership of the regional states could be one of the most important institutional tools to promote continental rather than regional trade policies. The ensuing economic development and financial stability promise to promote moderate forces in the region, rather than the populist and radical ones that constantly throw some of these states back to square one. Energy is one sector with the most potential for complementarity; cooperation on energy could serve as a confidence-building measure between states. This is in addition to the potential for energy to provide major geopolitical leverage, as testified to by the BTC pipeline and the Kazakh oil fields of Kashagan, Karachaganak,

and Tengiz. If states in the region, donor countries, and international organizations make serious efforts to remove trade obstacles, the potential gains could be substantial. GDP could increase annually by as much as 7.2% in Afghanistan and at least 2%–3% in Central Asia—possibly as much as 5%. The experience of the World Bank pilot countries in the Balkans suggests that addressing border inefficiency could potentially double foreign trade over a period of three to four years and reduce waiting time by as much as 80%. If the trans-Afghan pipeline is built, Afghan state income could increase by more than \$300 million yearly. The sheer size of these opportunity costs is sufficient reason for the states involved, donor countries, and international organizations to fundamentally redirect their policies: these should reflect current dynamics rather than hewing to wooden bureaucratic procedures.