

# REBUILDING THE SILK ROAD

ENCOURAGING  
ECONOMIC  
COOPERATION  
IN CENTRAL ASIA:

The Role of the Asian Development Bank

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## Central Asia—Population, Land Area and Border

	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan	Xinjiang, PRC
Total Area (sq. km.)	2,717,300	198,500	143,100	447,400	1,647,000
Population (1998 estimate in millions)	15.6	4.7	6.2	24.0	17.5
Land Boundaries	PRC, the Kyrgyz Republic, Russia, Turkmenistan, Uzbekistan	PRC, Kazakhstan, Tajikistan, Uzbekistan	Afghanistan, the Kyrgyz Republic, PRC, Uzbekistan	Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan	Kazakhstan, the Kyrgyz Republic, Tajikistan, Mongolia, Pakistan, India, Afghanistan
Coastline	Landlocked, but Kazakhstan borders the Caspian Sea	Landlocked	Landlocked	Landlocked The only double landlocked country in the world	Landlocked Urumqi, the capital, is the most distant large city from a seaport in the world

Note: Kazakhstan does border the Caspian Sea, but this is an inland body of water with limited transportation value.

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# REBUILDING

## ENCOURAGING

### I. INTRODUCTION TO THE REGION



Brakes creak and weary engines moan from the tedious lurching of more than 100 trucks worming their way through a checkpoint on the Kazakhstan border with the People's Republic of China (PRC). Pick a driver, almost any driver, and it's quite likely that a decade ago he was haltingly scraping by within some Soviet military-industrial complex or large company town.

The passengers in the long ribbon of trucks share similar repressed histories. Many might have once taught school in a Soviet-controlled system. With the collapse of the Communist domain, they, too, dropped that low-paying work to find better fortunes hauling bundles of clothing or electronics from the wholesale markets in the Xinjiang Uygur Autonomous Region of the PRC to the streets and bazaars of places such as Almaty, where demand is upbeat. Neither truck driving nor trading is easy work in this environment. A woman from Kazakhstan is likely to make the formidable 350-kilometer buying trip every other month; the driver does it as often as he can. But these people are among thousands of free-enterprise workers whose journeys through Central Asia are renewing the Silk Road, the fabled caravan route that for centuries bore the weight of goods and ideas traveling across the great Eurasian continent.

In their own way, they are helping to reconstruct Central Asia, helping it to move from its Soviet past to an integral part of the global marketplace. From their difficulties alone, it is evident that a greater spirit of cooperation needs to grow along the troubled Silk Road.

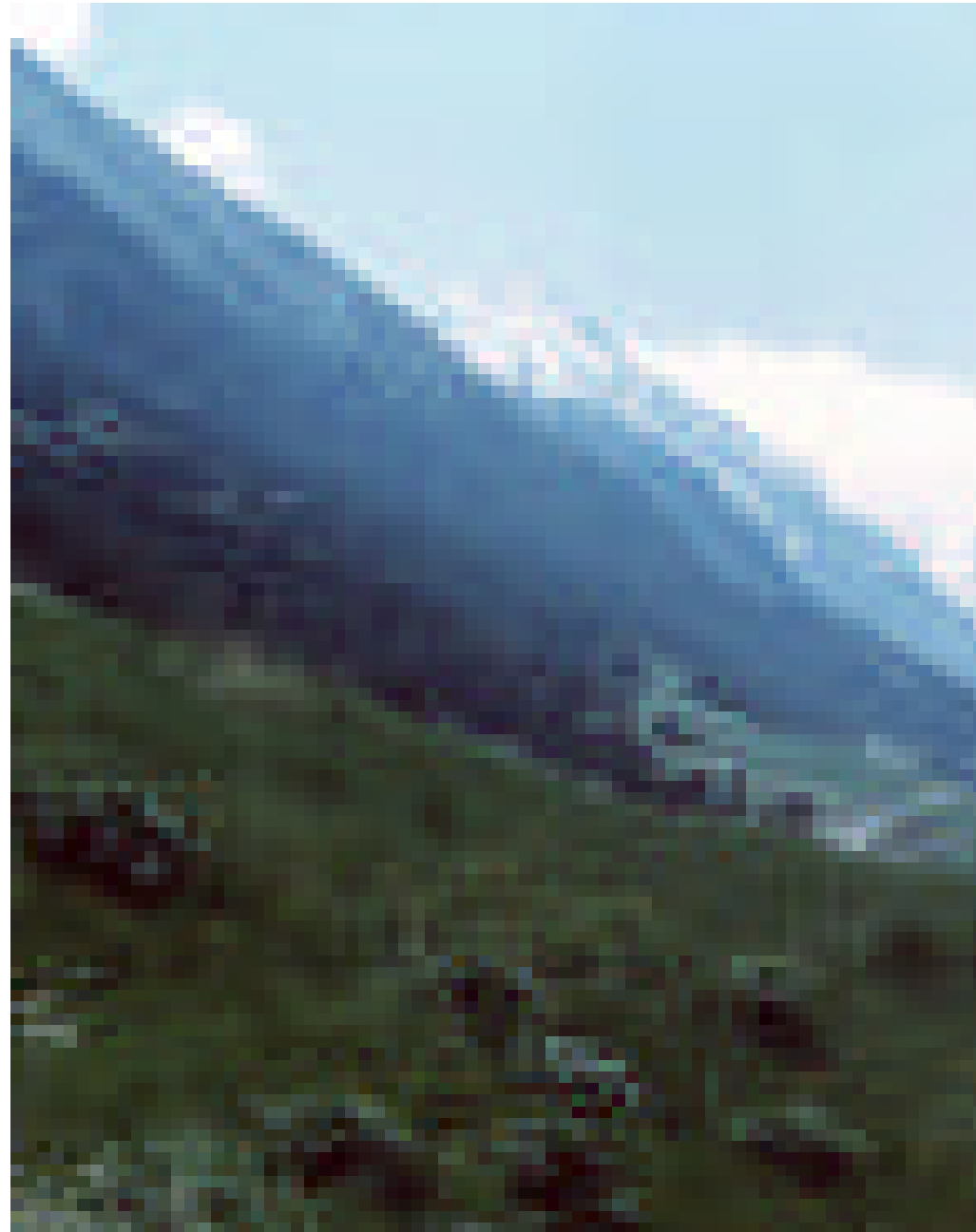
# REBUILDING

Central Asia's potential is immense. But it remains choked with complications and obstacles both geographical and political: Entry visas send travelers and investors through an eerie labyrinth of procedures; border crossings are treacherous; the terrain is rugged, the infrastructure is in disrepair and the transportation options are limited. Simply getting to Central Asia is hampered by a multitude of risks. Once there, visitors find a vast region struggling to move past the institutions developed under three generations of Soviet Communism.

After a decade of independence, Central Asia remains in a difficult period. It is a region in transition from a command economy to one that relies upon market institutions. To date the gains from the transition, in economic terms, are slim. *Without stronger links between the republics and new trading partners, and without dramatic improvement of infrastructure, its promise of richness and the aspirations of a brighter future in a new century may lapse the way of past glories.*

The leaders of the Central Asian republics are acutely aware of the need to revive the area's deeply rooted traditions of economic interaction. Unfortunately, the region's geopolitical history has been a big part of their problems. At the junction of several civilizations, the region's cultural diversity makes little wonder there are nationalist or religious sways that can at times be highly disruptive. Then there is the Soviet legacy. Co-opted early in the 20<sup>th</sup> century, the area was carved into different republics that were developed only as entities dependent on Moscow with little allowance for autonomy or regional self-sufficiency.

The deteriorating relationship between the Soviet Union and the PRC in the 1960s resulted in the closing of most border crossings. Critical economic transactions between the Soviet Republics of Central Asia and the western region of the PRC declined. Only with





the collapse of the Soviet Union and the opening of the PRC to trade did it become possible in the early 1990s to rekindle tradition and consider expanding economic linkages that can benefit all people in Central Asia.

The legacy of Soviet control left the republics unprepared for self-determination. A nationhood had to be built. Border policies suddenly became important. Trade and tariff policies had to be created to permit the flow of goods, services and people among the countries. National monies had to be invented. National monetary and fiscal policies had to be developed to deal with suddenly independent economies that were operating in a completely new environment. Without much experience or precedence to draw upon, they have had to establish new institutions, policies and skills to function in the modern world—a process made more difficult by the sudden and severe economic contraction associated with the break from the controlling Soviet apparatus in Moscow. It was during this dismantling period that some markets for Central Asia's raw materials and industrial products shrank or dissipated, and did so quickly.

The impact from that economic contraction alone was tremendous. The subsidies and central allocation systems that had artificially supported their economies disintegrated. Real gross domestic product fell by 30 to 50 percent; inflation reached beyond 1,000 percent per year; and unemployment, hitherto unknown, became common. The banking and financial systems were nascent and weak, and savings and investment dropped precipitously. Existing market realities were not hopeful. Because the former Soviet republics are sparsely populated and have very low per capita incomes, internal markets for domestically produced goods and services were, and remain, limited.



*Despite the setbacks and the challenges, most of the republics squarely faced the huge task of restructuring and rebuilding. Inflation has been reduced with monetary stabilization programs; gross domestic product has been slowly rising; and production and trade gradually are recovering, although still not to previous levels. Major industries and services are being privatized, which is laying a foundation for new investment and economic activity.*

On the eastern side of the region, the Xinjiang Uygur Autonomous Region has traversed a different path. Xinjiang has experienced steady economic growth for more than a decade from the reform programs and growth of the PRC as a whole. The Xinjiang region has shared in the growing markets in eastern PRC and the vast infrastructure investment program underpinning Chinese growth. *The lesson is clear: With appropriate policies and trade links to other markets, the sparsely populated Central Asian economies can also experience rapid, sustainable growth.*

Additional complications besieged the republics with the Russian economic crisis in 1998. The volume of merchandise trade, inflows of foreign investment, stability of exchange rates and external debt service obligations were severely affected. As a result, economic growth of the region has been dampened, the stabilization process has been complicated and structural reform made more difficult. Still, Central Asia's leaders have navigated onward through these choppy waves of change.

The difficult economic conditions among the Central Asian republics since independence in the early 1990s has stirred up many trade-related issues and highlighted troubling inconsistencies and irregularities, and thus, made apparent the need for economic cooperation within the region. In response, the republics have experimented with various ideas. Creation of the Interstate Council by Kazakhstan, Uzbekistan and the Kyrgyz Republic, and later joined by Tajikistan, as a forum for ongoing trade discussions and a joint

development agency, the Central Asian Bank for Cooperation and Development, funded by the same countries, are two notable examples. There have been negotiations and trade in oil, water, electricity and gas and cooperation concerning development and reconstruction of the environmental problems in the Aral Sea area.

But the inconsistencies and irregularities persist. Despite the progress with some policy reforms, practice at the lower official level, at the checkpoints and at the borders remains arbitrary, prejudicial and corrupt. And the infrastructure struggles with problems of further deterioration and maintenance. The steppes, deserts and mountain spirals that give the region's geography its majesty also give it many troubles as they can only be crossed along heavily frayed, dangerous, exploitative yet inefficient routes.

Economic growth for the region depends largely on the republics' ability to develop new industries to replace those that were sustained by the centrally planned Soviet economy. Continued reforms are going to be critical. Growth will also depend on new trading partners and transport links to markets in industrialized countries. The whole process would benefit from a regional vision rather than governments scrambling independently.

The Asian Development Bank is working to help the governments overcome the barriers to successful restructuring and reform. The ADB provides loans to address infrastructure limitations and technical assistance to analyze and adopt improved policies and procedures—to learn about alternative approaches to trade promotion, immigration, customs clearances, payments and reporting. *This document provides an overview of the ADB's program to encourage regional cooperation in Central Asia, especially the efforts to promote trade, investments in energy and transportation and ongoing initiatives in other areas.*



# Geographical and Historical Background

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In too many ways, Central Asia is not easy territory. Great ideas may have connected Eastern and Western civilizations by way of the Silk Road, which is actually a network of routes rather than a single byway, but the variegated terrain of Central Asia is as physically daunting as its history is legendary. From east to west, the region stretches nearly 4,500 kilometers and occupies a land area about the size of Europe, exclusive of the former Soviet Union. *This document covers only the countries that currently are members of the ADB and have been participating in the regional cooperation activities: Kazakhstan, the Kyrgyz Republic, Uzbekistan, Tajikistan and the Xinjiang Uygur Autonomous Region in the neighboring PRC.*

The combined population of this Central Asia region is more than 60 million. With a population density of about 13 inhabitants per square kilometer, the area is sparsely settled.

The salient geographic characteristic of the region is its remoteness—the four Central Asian republics and Xinjiang, PRC are all landlocked, except for the inland waterways they share, which have limited value in reaching the outside world.

Uzbekistan is the world's only double landlocked country: It and all of its immediate neighbors are landlocked. Urumqi, the capital of Xinjiang, is farther from a seaport than any other large city in the world. International trade in the region thus involves shipment of goods over long distances through neighboring countries.

The region's landscape is generally harsh and poses substantial barriers to transportation and communication. The terrain varies from the second-lowest point on earth, in the Turpan basin (154 meters below sea level), to mountain peaks that rise 7,400 meters in the Kyrgyz Republic and form the border with the PRC. Inhospitable deserts cover much of western Uzbekistan and



Kazakhstan. The Taklamakan Desert in southern Xinjiang was particularly dangerous to ancient travelers and continues to present great hindrance to modern trade and transit. The dry grass plains of Kazakhstan run into the towering mountains of the Tian Shan Mountains in the Kyrgyz Republic. More than 90 percent of Tajikistan is mountainous. The borders and the mountains have limited travel to only a few corridors and passes. Despite the roughness of the land, it has been populated for thousands of years.

As early as 3,000 to 4,000 years ago, nomadic tribes spread across the region, establishing early settlements and rudimentary trade patterns. Migrations and invasions from the earliest periods until the present have constantly changed the character of the region and provided a complex evolution of commerce and cultural ties.

The borders of the Central Asian republics were determined between 1924 and 1936 by authorities in Moscow in relation to the political and economic considerations of the day. These boundaries were based to some extent on linguistically distinct populations. When the Soviet Union disintegrated in late 1991, they remained as the borders of the new independent states.

With a few exceptions, these internationally recognized borders do not reflect the contours of natural geographic, ethnographic or economic divisions. The Kyrgyz Republic, Uzbekistan and Tajikistan jointly share the fertile Ferghana Valley—the agricultural center of the region. Highways and railroads created during the Soviet period also defy the national boundaries in the region. The major highway between Tashkent and Samarkand in Uzbekistan, for example, passes through Kazakhstan.