

REGIONAL INSTITUTIONS IN CENTRAL ASIA: EVOLVING MODELS*

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Abstract

Central Asia has been characterized by regional disintegration over the last two decades. After 1991, policymakers in the new independent countries, faced with nation- and institution-building, were reluctant to accede to any organization that might impinge on their sovereignty. Three ***supra-structure institutions*** with origins in the 1990s exist (EurAsEc, ECO and the SCO), all with secretariats are located outside Central Asia, but since 2005 there is no specifically Central Asian regional institution of significance and the three supra-structure institutions remain marginal. Central Asia has shared problems (trade and transit issues, energy and water) that can be addressed by ***infra-structure institutions*** such as SPECA, CAREC or IFAS, but these too had little impact before the mid-2000s. Two decades after the Central Asian countries unexpectedly became independent, nation-building and transition from central planning have been completed. Differentiation became more marked in 1998-2008 as oil-exporting Kazakhstan emerged as the dominant regional economy. On balance these changes are favourable for regional cooperation (governments are less insecure about sovereignty and there is less competition for hegemony). CAREC has increased in importance because it provides an institution for addressing regional issues related to trade and transport with minimum threat to sovereignty. The role of Central Asia in broader Asian regionalism is peripheral.

Executive Summary

The Central Asian region is unique in Asia in that over the last two decades it has been characterized by regional disintegration. In the 1980s the Central Asian countries were part of a tightly integrated economic unit centred on Moscow. When the Soviet Union was dissolved with little advanced warning in December 1991, policymakers in the new independent countries were faced with nation- and institution-building (and cementing their personal positions) amid the collapse of central planning mechanisms and existing supply and demand links, all in a context of hyperinflation. The 1990s were an economically traumatic decade for the region. During this decade there were many attempts to maintain existing ties by regional agreements, but the trend was towards disintegration. As new nation states, they were quick to join the United Nations, but reluctant to accede to any organization that might impinge on their sovereignty.

Competing outside challenges for influence and competition for leadership within Central Asia perpetuated a proliferation of paper agreements but lack of sustained institutional development. In the expectation of struggles for influence by external powers, the Central Asian countries sought to maintain a balance between these powers. Three ***supra-***

* **Note:** the paper focuses on Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan, but not all regional institutions cover these five countries. CAREC, for example, includes Afghanistan, Azerbaijan, Mongolia and China, but not Turkmenistan.

structure institutions with origins in the 1990s exist, but each represents a different view of the "region" and all three secretariats are located outside Central Asia: the Eurasian Economic Community (EurAsEc), the Economic Cooperation Organization (ECO) and the Shanghai Cooperation Organization (SCO). All three have had a larger political than economic profile and their relative fortunes have varied, but none has had a major lasting impact on Central Asia. For the Central Asian countries these organizations have primarily been useful in counterbalancing the influence of external powers, and the corollary to these balance of power considerations was that no single supra-national institution (EurAsEc, SCO or ECO) has had the authority to develop as an important regional institution. Since 2005 there is no specifically Central Asian regional institution of significance.

Central Asia has a natural coherence and shared problems such as trade and transit issues, energy and water, that can be addressed by **infra-structure institutions**. The most prominent of these institutions have been facilitating institutions sponsored by multilateral institutions such as the United Nations Special Programme for the Economies of Central Asia (SPECA) or Central Asia Regional Economic Cooperation (CAREC). The most glaring failure of regional action has been in arresting the desiccation of the Aral Sea, one of the world's greatest ecological disasters, which requires agreement among the five Central Asian countries on sharing the waters of the Amudarya and Syrdarya Rivers that flow into the Aral Sea. However, competition for limited water resources and competing interests in water use have provoked conflict rather than cooperation, and these conflicts are becoming more severe as the downstream nations become thirstier for water and as the upstream nations seek to implement more ambitious hydroelectricity projects. The energy price increases up to 2008 highlighted the benefit to the Kyrgyz Republic and Tajikistan of developing their hydroelectric resources, while resistance in the downstream countries to explicit pricing of water exacerbated the difficulty of maintaining pre-existing water/energy swap agreements.

Nevertheless, shared history, culture and geography remain strong forces for regional cooperation, and there are areas where cooperation is clearly desirable (trade and transport, energy and water, and perhaps also security and the drugs trade). CAREC has gradually increased in importance because it provides an institution for addressing regional issues related to trade and transport with minimum threat to sovereignty. CAREC has been less successful with respect to energy, because governments have preferred to operate bilaterally or to cooperate on an ad hoc basis, as with the Turkmenistan-China pipeline or a common negotiating position vis-à-vis gas sales to Russia in 2009. The International Fund for Saving the Aral Sea (IFAS) continues to exist because the net costs to the region from not addressing the Aral Sea problem are recognized to be large, even though progress is stymied by lack of agreement on how to share the costs of increasing the flow of water reaching the Aral Sea. In these areas of desirable regional cooperation, the challenge moving into the five countries' third decade of independence is to devise institutional structures that facilitate regional cooperation without unacceptably compromising their sovereignty.

Two decades after the Central Asian countries unexpectedly became independent the domestic situation has evolved. The initial nation-building and transition from central planning have been completed, albeit with differing market-based economic systems and political systems centred on powerful presidents differing in personal traits. Differentiation became more marked in the decade 1998-2008 as oil prices surged, and Kazakhstan emerged as a major oil exporter and the dominant regional economy. On balance these changes are favourable for regional cooperation, reflected in the greater achievements of CAREC after about 2007, but they remain unstable. The governments are less insecure

about sovereignty than in the 1990s and there is no longer Uzbek-Kazakh competition for hegemony, but personal antipathies still matter and catalysts for discord, especially over water, remain.

The evolution of regional institutions in Central Asia is unique in Asia due to the degree to which the huge disintegration of the 1990s still casts a shadow. Russia remains the largest external influence and in this respect there is some similarity to the Pacific sub-region which is also oriented towards a historic "big brother" (Australia, or for some islands New Zealand, France or the USA), but has connections to the larger Asian region (e.g. Papua New Guinea has a land border with Indonesia as Central Asia does with China). There are also similarities with South Asia in the combination of antagonistic large powers and smaller countries, although no Central Asian country is as predominant as India is in South Asia and the competition between Uzbekistan and Kazakhstan has been far less violent than that between India and Pakistan.

The role of Central Asia in broader Asian regionalism is peripheral. Central Asia is not part of the economic networks that link the ASEAN+3 countries. If Asian regionalism is defined more broadly than ASEAN+3, then Central Asia is as linked to the region as Australia, New Zealand or India, although none of the Central Asian countries has the global weight of India or Australia. Economic ties so far have been bilateral (e.g. energy and trade links to China, or investment by individual Japanese or Korean companies) rather than on a regional basis, and concern trade or direct foreign investment in final goods rather than integration into Asian value chains.

The Central Asian region is unique in Asia in that over the last two decades it has been characterized by regional disintegration. In the 1980s the Central Asian countries were part of a tightly integrated economic unit centred on Moscow. When the Soviet Union was dissolved with little advanced warning in December 1991, policymakers in the new independent countries were faced with nation- and institution-building amid the collapse of central planning mechanisms and existing supply and demand links, all in a context of hyperinflation (Pomfret, 1995). The 1990s were an economically traumatic decade for the region. During this decade there were many attempts to maintain existing ties by regional agreements, but the trend was towards disintegration (Linn, 2004).

Since 2005 there is no specifically Central Asian regional institution of significance. Three supra-structure institutions with origins in the 1990s exist, but each represents a different view of the "region" and all three secretariats are located outside Central Asia. The first section analyses the evolution of the supra-structure institutions, with detailed accounts of the Eurasian Economic Community, the Economic Cooperation Organization and the Shanghai Cooperation Organization. All three have had a larger political than economic profile and their relative fortunes have varied, but none has had a major lasting impact on Central Asia.

Central Asia has a natural coherence and shared problems such as trade and transit issues, energy and water, that can be addressed by infra-structure institutions. The most prominent of these institutions have been facilitating institutions sponsored by multilateral institutions such as the United Nations Special Programme for the Economies of Central Asia (SPECA) or Central Asia Regional Economic Cooperation (CAREC), which involves six multilateral institutions. The most glaring failure of regional action has been in arresting the desiccation of the Aral Sea, one of the world's greatest ecological disasters, which requires

agreement among the five Central Asian countries on use of water. The evolution of specific infra-structure institutions is analysed in the second part of the paper, with detailed accounts of CAREC, SPECA and the International Fund for Saving the Aral Sea.

The final section analyses how and why institutions for regionalism in Central Asia have evolved over the last two decades, highlighting their origins and context, and focussing on what factors have promoted or hampered their institutionalization. Some comparisons to other Asian sub-regions are also suggested.

1. Supra-structure Institutions

Through the 1990s and early 2000s there were many attempts to recreate the Soviet economic space within the context of the Commonwealth of Independent States (CIS) and to create a regional organization to cover Central Asia. Neither of these initiatives succeeded. It became a commonplace for political leaders to contrast the large number of paper agreements and statements of intent with the absence of concrete actions.

The fundamental reason for the institutional failure was the political divisions within the CIS. By the end of the 1990s this was formalized in the division between the Russian-led Union of Five (Russia, Belarus, Kazakhstan, the Kyrgyz Republic and Tajikistan) and GUAM, an alternative axis established by Georgia, Ukraine, Azerbaijan, and Moldova in 1996. The fault line ran through Central Asia, with Kazakhstan, the Kyrgyz Republic and Tajikistan in the Russian-led camp, Uzbekistan disputing regional hegemony with Kazakhstan and becoming a close ally of the USA by the end of the decade (and briefly a member of GUUAM), and Turkmenistan declaring itself neutral.¹

There were more or less continuous attempts to set up a Central Asian economic community, but little progress was made (Pomfret, 2009). In April 1994, after the collapse of the ruble zone, the presidents of Kazakhstan, the Kyrgyz Republic and Uzbekistan signed an agreement to create an integrated economic space. This evolved into the Central Asian Economic Community (CAEC), which Tajikistan joined in 1998, and was renamed the Central Asian Cooperation Organization (CACO) in 2002. Despite some achievements in tax harmonization and elimination of double taxation, the CAEC/CACO had little impact on intra-regional trade. Apart from the political conflicts, the five Central Asian countries were following different economic strategies. The Kyrgyz Republic was the most rapid reformer in the CIS and in 1998 became the first Soviet successor state to join the WTO, with low bound tariffs. At the other extreme Uzbekistan and Turkmenistan were pursuing import-substituting industrialization strategies, and when revenue from their major export fell Uzbekistan in 1996 and Turkmenistan in 1998 introduced strict foreign exchange controls. Under these diverse conditions, plans for a customs union or a Central Asian development bank were doomed, even if there had been political will.

The Central Asian countries did become members of regional organizations promoted by neighbouring powers, although the economic content of all of these arrangements has been minor. The Union of Five became the Eurasian Economic Community (EurAsEc) in 2000 and, when Uzbekistan joined EurAsEc in 2005, this marked the end of a separate Central Asian organization (at an institutional level the Central Asian Cooperation Organization merged with EurAsEc). However, EurAsEc has made limited progress towards economic integration. Despite the announcement of a customs union, the original five members have not harmonized their tariffs on all commodities.² For both the Kyrgyz

¹ In 1996 President Karimov was warmly received by President Clinton in Washington and on several occasions Uzbekistan was one of only two countries voting with the USA at the United Nations. Uzbekistan withdrew from the CIS Collective Security Treaty in 1998 and formally joined the four GUAM countries in 1999, although Uzbekistan effectively left the alliance in 2002, and withdrew *de jure* in May 2005. Turkmenistan obtained recognition of its neutrality by the United Nations in 1995, and, although nominally a CIS member, Turkmenistan ceased to even provide statistics to the secretariat and President Niyazov stopped attending CIS summits (Pomfret, 2008).

² The 2000 customs union agreement envisaged establishment of a common external tariff by 2005, but by 2005 only 6,156 of the 11,086 tariff lines identified in the union's classification system had been harmonized

Republic and Kazakhstan aligning their tariffs to Russia's higher tariffs would be welfare-reducing, as they would suffer both trade diversion and trade destruction (Tumbarello, 2005) and the Kyrgyz Republic would have to renege on WTO commitments on bound tariffs. A January 2008 agreement to form a customs union among Belarus, Kazakhstan and Russia by 2010 is unlikely to meet its target date, but if successful it would create two-tier integration within EurAsEc. The Eurasian Development Bank (EDB), established in 2006 by Russia and Kazakhstan, has close ties to EurAsEc, but is an independent institution with different membership. The security counterpart to EurAsEc is the Collective Security Treaty Organization (CSTO) established in 2002, with the five EurAsEc members plus Armenia, and joined by Uzbekistan in 2006.³ Uzbekistan, never comfortable in the Russia-led camp (to which it had only turned in 2005 when faced by western concerns about human rights and by economic sanctions), announced in October 2008 that it was suspending its EurAsEc membership. The varying membership of EurAsEc, the CSTO and EDB - with Belarus in all three and Armenia in the last two, but Turkmenistan in none and Uzbekistan now absent - suggests that they are coalitions of countries aligned to Russia rather than institutions to bind Central Asia.

In 1992 the new independent countries of Central Asia, together with Azerbaijan and Afghanistan, joined the Economic Cooperation Organization (ECO). ECO aspired to be a regional trading arrangement and the three founding members (Iran, Pakistan and Turkey) offered preferential treatment on trade in a very small number of commodities. Although ECO was trumpeted as an institution bringing together almost all of the non-Arab Muslim countries west of India, its impact has been limited. In part this is because the ten countries' economies are competing rather than complementary, all specialized in a small group of primary products (oil, gas, minerals and cotton), and the Central Asian countries' trade with their southern neighbours has expanded from a low base much more slowly than many observers expected.

A third overlapping organization, originally dubbed the Shanghai Five, arose from a 1996 meeting of China, Russia, Kazakhstan, the Kyrgyz Republic and Tajikistan aimed at demilitarizing borders between the former Soviet Union and China. In June 2001 Uzbekistan joined the group which was renamed the Shanghai Cooperation Organization (SCO). In 2004 the SCO announced some economic measures, principally loans and credits from China to the Central Asian countries, but there has been no move towards creating a preferential trading arrangement. In 2005 the SCO established the Regional Anti-terrorist Structure (RATS), headquartered in Tashkent, but "the absence of coordination between member states is patent, the willingness to exchange information restrained, the financial means way too few, and the bureaucratic structure weak" (Laruelle and Peyrouse, 2009, 36).⁴ More generally Laruelle and Peyrouse conclude that the SCO's regional influence remains weak

(Tumbarello, 2005, 9), and presumably these were the uncontroversial cases where the members had similar national tariffs.

³ The CSTO replaced the CIS Collective Security Treaty, signed in 1992 but weakly implemented. Creation of the CSTO was one of the most visible signs of the reassertion of Russian authority in its "near abroad" after the 2000 election of President Putin. Nikitin (2007) argues that Russia hoped to establish the CSTO on a par with NATO and to oblige the CSTO members to confer with Russia before entering into any military initiatives with Western powers. However, all five Central Asian countries have arrangements allowing the USA military transit or overflight rights in supplying Afghanistan. An additional source of discomfort is the obligation to provide military assistance if a fellow CSTO member is attacked; Kazakhstan, for example, would be unwilling to take sides with Armenia in a war between Armenia and Azerbaijan.

⁴ Bailes et al. (2007) also conclude that the SCO's security role is minor. Fels (2009) refers to the SCO as a "powerhouse", but he is primarily concerned with the SCO's geopolitical potential and whether it is an anti-Western organization or a neutral force for regional peace..

“due not only to the conflicts of interest between its member states, but also to generally preferred alternative structures”, by which they mean EurAsEc in economic spheres and the CSTO for security.

The common feature of EurAsEc, ECO and SCO is that they reflect the geopolitical importance of Central Asia. Western powers have encouraged the Central Asian countries to adopt open market-based economies and more democratic political systems and have used bilateral ties to promote their interests with respect to energy exports, trade in narcotics and war in Afghanistan.⁵ Russia seeks to limit this alien influence in its “near abroad” and China, Iran, Pakistan and Turkey all have ties of geography, culture or religion to the region. On top of this, the surge in energy prices from 1999 to 2008 led to a scramble for influence over oil and gas pipeline routes from Central Asia to major markets; the scale economies of pipelines mean that routes are to some extent mutually exclusive and pipeline politics may be a zero-sum game.⁶ These geopolitical struggles have generally worked against regional integration within Central Asia, while distracting attention from processes such as WTO accession which would strengthen the countries' participation in the global economy.

From the perspective of Central Asian leaders constructing new nation states, there has been little political will to give up any economic sovereignty to regional organizations. Kazakhstan has been careful to maintain good relations with Russia, given its long common border and the large Russian population in northern Kazakhstan. Tajikistan was indebted to Russia for military assistance during the civil war which lasted for most of the 1990s and since then has been heavily dependent on remittances from the hundreds of thousands of Tajik workers in Russia. The Kyrgyz Republic's economy has become closely tied to that of Kazakhstan and also relies on remittances from Kyrgyz workers in Russia. So, all three of these countries have been in the Russian-led EurAsEc and CSTO, but have been careful to avoid binding commitments on, say, forming a customs union. Uzbekistan has generally sought to distance itself from Russian influence and in the late 1990s was one of the USA's most loyal allies at the United Nations. This relationship faltered in 2005, when the US was asked to leave the Karshi-Khanabad airbase (Gleason, 2006), but in 2008/9 Uzbekistan was again courting the West. Turkmenistan pursued a policy of active neutrality under its idiosyncratic President, Turkmenbashi the Great, but is turning to more normal international relations since Turkmenbashi's death in December 2006.

Institutions like EurAsEc, ECO and SCO could be seen as *supra-structure institutions* aiming to promote a regional identity that encompasses Central Asia, but each has a different view of the scope of the ‘region’, corresponding to the interests of powers to the north, east and southwest of the core Central Asian countries. Within the five Central Asian countries there has been little interest in pursuing such institutional development whether led by outsiders or among the five countries themselves. National sensitivities, heightened

⁵ The USA championed the Baku-Ceyhan oil pipeline and Baku-Erzurum gas pipeline, which opened in 2005 and 2006 respectively and reduce Central Asian energy producers' dependence on Russia for transit. The EU's main assistance to Central Asia is through the border management and drug control program (BOMCA/CADAP). Both the USA and EU moved closer to Uzbekistan after the 2001 invasion of Afghanistan and distanced themselves from the Uzbek regime after the May 2005 deaths in Andijan. In 2008-9, as Pakistan became less stable and the northern supply route to Afghanistan became important, US ties with Uzbekistan and other Central Asian countries were strengthened.

⁶ For oil exports rail and boat across the Caspian are alternatives to pipelines, but for natural gas exports from Central Asia there are no alternatives. Advances in gas liquefaction technology will benefit producers with ocean port access such as Qatar or Australia and damage the competitive position of the Central Asian gas producers.

by competition for regional hegemony between Uzbekistan and Kazakhstan, have stymied serious institution-building.

1.1 The Eurasian Economic Community (EurAsEc)

In December 1991 Russia, Belarus and Ukraine created the Commonwealth of Independent States, membership of which was open to any Soviet republic. When eight other republics, including all five from Central Asia, joined the CIS, this marked the end of the Soviet Union.⁷ The CIS Charter was adopted in 1993 and ratified by ten countries; the exceptions were Ukraine and Turkmenistan. The CIS Collective Security Treaty was signed in May 1992, by Armenia, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan and Uzbekistan, and by Azerbaijan, Georgia and Belarus in 1993. When the Treaty came up for renewal in 1999, Azerbaijan, Georgia and Uzbekistan refused to sign. This reflected the deep divide that had arisen among the former Soviet republics with Georgia, Azerbaijan, Moldova and Ukraine distancing themselves from the Russian-led CIS.⁸ Turkmenistan adopted a position of neutrality which was recognized by the United Nations in 1995, and played no part in the CIS, formally changing its status to an associate in 2005.⁹ The history of the CIS in the 1990s was a downward path from an initial position where all but the Baltic republics wanted to maintain some form of regional institution covering the space of the former Soviet Union, to a situation where the group was deeply split and intra-CIS borders were increasingly monitored and passage of goods and people restricted.¹⁰

The countries wishing to retain close economic ties – Russia, Belarus and Kazakhstan – announced in December 1994 that they would form a customs union, although in practice they continued to pursue autonomous trade policies. They were joined by the Kyrgyz Republic in 1996 and by Tajikistan in 1999, when the group became known as the Union of Five. In 2000 the five countries' presidents signed the treaty establishing the Eurasian Economic Community. In 2002 the EurAsEc Secretariat was established in Moscow and the blue, yellow and gold flag was adopted.¹¹ Moldova and Ukraine were granted observer status in 2002 and Armenia in 2003. Initial high aspirations for regional integration, including monetary union,¹² appeared to stall in 2003-4, but EurAsEc received a boost when Uzbekistan applied for membership in 2005 and formally acceded in January 2006. In October 2008, however, Uzbekistan announced its intention of leaving EurAsEc.

⁷ Georgia joined the CIS in 1993. The three Baltic republics did not join. In 1992 the non-Baltic former Soviet republics acted as a group, for example in competing as the Unified team in the 1992 Olympics and other sporting events.

⁸ Cooperation between Georgia, Ukraine, Azerbaijan, and Moldova started with the GUAM consultative forum, established on October 1997. In 1999 Uzbekistan joined the group, which was renamed GUUAM, and at a 2001 summit the signing of GUUAM's charter formalized the organization. In 2002, however, Uzbekistan announced that it planned to withdraw from the organization, and it subsequently ignored GUUAM summits and meetings. Uzbekistan finally gave an official notice of withdrawal from the organization in May 2005.

⁹ Turkmenistan, when it introduced visas in June 1999, was the first member to formally restrict entry by citizens of other CIS countries (Olcott, Åslund and Garnett, 1999, 19). Others soon followed, most importantly Russia, where many Central Asian migrant workers became illegal, without civil rights and threatened with deportation.

¹⁰ Sakwa and Webber (1999) and Webber (1997) provide general accounts of the CIS in the 1990s. The assessment of Olcott, Åslund and Garnett (1999, v) concluded that the CIS "has been a failure by almost any measure". Russian weakness in dealing with its own secessionists, especially in Chechnya, and in the economic sphere, culminating in the 1998 debt default, played a large part in emboldening the GUAM countries to break away from Russia's sphere of influence.

¹¹ Blue as the colour of Europe, yellow as the colour of Asia, and gold as the colour of prosperity.

¹² Grigori Marchenko, Governor of the National Bank of Kazakhstan, claimed that "preliminary procedures for the introduction of a single currency might take only five to seven years" (quoted in the *International Herald Tribune*, sponsored section, 24 April 2002). Later in 2002, Russian Prime Minister Kasyanov advocated adoption of the Russian ruble as the EurAsEc currency (Pomfret, 2006, 187).

The institutional structure was strengthened from the less formal arrangements of the Union of Five, and EurAsEc holds frequent meetings at various levels. The highest body, the Interstate Council, defines strategy, guidelines and prospects for integration and adopts decisions aimed at implementing the goals and objectives of EurAsEC. The Interstate Council convenes at the level of the Heads of State at least once a year,¹³ and at the Heads of Government level at least twice a year. The Interparliamentary Assembly, which considers matters related to harmonizing national legislation and bringing it into conformity with EurAsEC treaties, is formed from parliamentarians delegated by the parliaments of member countries: 28 parliamentarians from Russia, 14 each from Belarus and Kazakhstan, and 7 each from Kyrgyzstan and Tajikistan. The Secretariat of the Interparliamentary Assembly is located in St. Petersburg. The 40-20-20-10-10 division applies to EurAsEc voting and funding, so that Russia generally needs the support of at least one other country to implement new measures, and on "major policy issues" requiring a two-thirds majority Russia has veto power but needs the collaboration of at least two other members to obtain a positive decision.

The Court of Justice ensures uniformity in the way the contracting parties apply the Treaty on the Establishment of the Eurasian Economic Community and other operative Community treaties and decisions adopted by EurAsEC bodies. The Court also examines disputes of an economic nature arising between EurAsEC members over the implementation of decisions of EurAsEC bodies or provisions of Community treaties. The seat of the Court of Justice of the Community is Minsk, Belarus.

In January 2006 Presidents Nazarbayev and Putin signed an agreement establishing an interstate bank, the Eurasian Development Bank (EDB). The agreement was ratified by the Kazakhstani and Russian parliaments, with charter capital of USD1.5 billion (2/3 paid in by Russia, 1/3 by Kazakhstan). The headquarters was opened in Almaty in June 2006, and representative offices in Moscow and in Astana later in 2006. In November/December 2006 the first three loans were approved.¹⁴ In late 2008 a branch was opened in St. Petersburg.¹⁵ In December 2008 the EDB Council approved admission of Armenia, Belarus and Tajikistan, with full membership contingent on deposit of their capital contribution.¹⁶ Although established as an independent institution, the EDB works closely with EurAsEc; EDB officials attend all EurAsEc events and sit on major EurAsEc working groups, and in October 2008 the EDB received official Observer status in EurAsEc. The EDB has an active research and information program, including publication of sectoral and more academic papers and hosting EDB round tables on regional integration. The scope of the publications is usually the EurAsEc space and occasionally the CIS, but rarely just EDB members.¹⁷

¹³ The summits have been: 2002 Moscow, 2003 Dushanbe, 2004 Astana, 2005 Moscow, 2006 Sochi and St. Petersburg, 2007 Dushanbe, 2008 Moscow.

¹⁴ These were for developing Zerechnoye uranium deposits, the Voskhod chromite mine and a power station refurbishment. The first three projects were considered to be infrastructure projects boosting mutual trade and investment; all are located in Kazakhstan with Russian partners.

¹⁵ The Almaty office is by far the largest. In September 2009 the EDB had 120 staff in Almaty, 25 in Moscow and 15 in St. Petersburg. Further branches are being opened in Dushanbe and Minsk.

¹⁶ Armenia became a full member in April 2009. An application from the Kyrgyz Republic is under consideration, and one from Mongolia appears to be imminent.

¹⁷ The research papers have been collected in 2008 and 2009 editions of *EDB Eurasian Integration Yearbook*, edited by Evgeny Vinokurov; the 2008 edition contained 12 papers plus other materials and the 2009 edition 18 papers. The *Journal of Eurasian Economic Integration* publishes papers in Russian. Examples of sector reports are the March 2009 report *The EurAsEc Transport Corridors* or the April 2008 report on *The CIS Common Electric Power Market* - available at <http://www.eabr.org/rus/publications/AnalyticalReports/> since February 2009.

The EDB has a twofold mandate: to facilitate sustainable development and to promote regional integration among members. The latter is addressed by calculating the amount of mutual trade and investment that would be generated by a project, and on the basis of these calculations assigning a priority level; highest priority projects are more likely to receive funding, and if they are funded they pay a lower rate of interest on their loans. There are four priority investment sectors: electric power, water and energy complexes, transport infrastructure and high tech, although loans have been made to other sectors such as mining, agriculture and chemicals. By September 2009 the EDB loan portfolio stood at USD1,045 million, with an estimated USD2 billion in the pipeline.

In sum the EDB is a development bank with two charter members and some incoming members, whose mandate includes promotion of regional integration. Regional integration is promoted by explicit prioritization of projects estimated to increase trade and investment among members and by the EDB's active research and dissemination program on integration within the CIS and more specifically within EurAsEc. However, despite close links to EurAsEc, its membership is not the same as EurAsEc's (e.g. Armenia is in the EDB and the Kyrgyz Republic is not).

Several treaties to form a customs union have been signed by EurAsEc members. The February 2000 customs union agreement envisaged establishment of a common external tariff by 2005, but the deadline was not met. A fundamental problem was that a common external tariff consistent with the Kyrgyz Republic's low WTO bound tariff obligations would be unacceptable to the other countries. The January 2008 agreement signed by Belarus, Kazakhstan and Russia envisions full tariff harmonization among the three countries by 2010, but even this limited customs union is unlikely to become operational because it is not in Kazakhstan's interest to raise tariffs to Russian levels and it is unlikely that Russia (or Belarus) will soon reduce the high levels of protection enjoyed by powerful domestic producers.

EurAsEc's original treaties did not envision redistribution or assistance to poorer members, but the 1998-2008 energy boom widened income gaps among EurAsEc members as Russia and Kazakhstan enjoyed rapid economic growth. At a meeting in Moscow on 4 February 2009, EurAsEc members endorsed creation of a \$10 billion fund to help soften the impact of the global financial crisis; the fund will be financed largely by Russia and Kazakhstan. Itar-Tass news agency quoted Russian presidential aide Sergey Prikhodko as saying that "The fund will provide sovereign loans to the participating countries to overcome the negative effects of the global financial crisis, to provide stabilization loans to the participating countries with low incomes, to lend to foreign trade transactions in mutual trade of the EurAsEC, and most importantly -- to finance the interstate investment projects."

Proposals for a EurAsEc common currency continue to be floated, although without follow-up. In March 2009 President Nazarbayev of Kazakhstan proposed creation of a common currency, the *yevraz*, to help insulate EurAsEc members from global crises.¹⁸ This

¹⁸ Reported in the *Moscow Times*, 12 March 2009 <http://www.moscowtimes.ru/article/600/42/375212.htm>. Signs of tension also arose in spring 2009 after Russian Prime Minister Putin proposed that Belarus, Kazakhstan and Russia should accede to the WTO as a group (presumably after completion of their customs union). A few days later Russian President Medvedev contradicted this position, advocating a coordinated accession. Kazakhstan seemed confused but happier with Medvedev's more flexible version. Putin's proposal, while hardly serious given the much greater distance of Belarus from WTO accession, could be interpreted as evidence of Putin's desire to control neighbouring states' policies and his low priority to multilateral institutions.

may, however, have been a response to Russian pressure to use the ruble as the EurAsEc currency rather than a push towards economic integration.

EurAsEc had a solid historical foundation insofar as it built upon the still strong economic links among former Soviet republics. EurAsEc's periods of greatest strength were its early years (2000-2) with the reestablishment of Russia's prestige after the 1998 default and 2005-6 when EurAsEc was reinvigorated by Uzbekistan's return to the Russian sphere of influence. Both of these periods were, however, short-lived. Plans for a customs union centred on Russia are unacceptable to the Central Asian countries because they would suffer from trade diversion to support uncompetitive Russian producers, and circa 2003 EurAsEc had nothing else to offer. The boost from Uzbekistan's accession lay in the geopolitical and security areas (symbolized by Uzbekistan joining the CSTO in 2006), and was reversed when Uzbekistan announced its withdrawal in 2008. Even for the remaining Central Asian EurAsEc members security cooperation with Russia, while useful, has its limits; the Kyrgyz Republic maintains its links to the West (notably the US military base near Bishkek), Tajikistan has strengthened links to China, and President Nazarbayev has been promoting Kazakhstan's non-Russian connections.¹⁹ Ultimately, while EurAsEc may be beneficial to its Central Asian members as a forum for promoting trade with Russia and providing a security guarantee (through the CSTO) in an emergency, the institution is too clearly under Russian control to be embraced by Central Asian countries still sensitive of their recently acquired sovereignty and aware of factions in Russia resentful of the loss of empire.

Any country failing to abide by Community rules can be expelled. There is no allowance in the treaty for a member to leave the Community. In October 2008 Uzbekistan announced that it was suspending its membership, citing concerns about the organization's effectiveness.²⁰ At the December 2008 Moscow summit the Interstate Council suspended Uzbekistan's participation, but only in 2009 was Uzbekistan's departure formally accepted by EurAsEc.

1.2 The Economic Cooperation Organization (ECO)

Outside the CIS, cooperation with Central Asia's southern neighbours, Iran, Pakistan and Turkey, moved fastest because the three countries already had a functioning regional organization and that organization was eager to welcome the Islamic republics of the former Soviet Union as new members as soon as they became independent countries. Iran, Pakistan and Turkey had founded the Economic Cooperation Organization (ECO) in 1985 to promote economic, technical and cultural cooperation. ECO was the successor organization to Regional Cooperation for Development (RCD), which was functional from 1964 to 1979 and whose charter, the 1977 Treaty of Izmir, remains the basic document of ECO.²¹

¹⁹ Kazakhstan's oil wealth allowed it to become more assertively independent from Russia, reflected in a highly publicized meeting with President Bush in Washington in September 2006, in Kazakh investment in Georgia in 2006-8 (Daly, 2009), and in lack of support for the independence of South Ossetia and Abkhazia in 2008.

²⁰ The timing of Uzbekistan's entry and exit was influenced by relations with the West. The application to join came soon after western countries imposed sanctions in the wake of the May 2005 Andijan events. The decision to withdraw followed an easing of sanctions, e.g. the lifting of EU restrictions on travel by Uzbek officials, and renewal of military discussions between Uzbekistan and the USA; the residual EU sanctions were lifted in November 2009. Gleason (2008) cautions that external links should not be exaggerated and that Uzbek doubts about the efficacy of EurAsEc should be taken at face value.

²¹ RCD was the economic and social arm of the Central Treaty Organization (CENTO), whose origins lay in the 1955 Baghdad Pact, a counterpart of NATO and the Southeast Asia Treaty Organization, with the primary goal of limiting the expansion of Communism. When Iraq withdrew in 1959, the Pact was renamed CENTO. Iran and Pakistan withdrew in 1979, CENTO was disbanded, and the RCD became dormant. In 1985 the RCD was revived as ECO, a trilateral organization of Iran, Pakistan and Turkey to promote multi-dimensional regional cooperation

After the death of the Ayatollah Khomeini in June 1989 the Iranian leadership, as part of a general policy of liberalizing international economic relations and reintegrating Iran into the wider community, led initiatives to boost ECO's activities. The only real outcome was the 1991 Protocol on Preferential Tariffs, whose implementation after 1993 would be disappointing, but it was in this period that the ECO members' northern Islamic neighbours became independent. The accession to ECO of the five Central Asian countries, plus Azerbaijan and Afghanistan, followed quickly after the dissolution of the Soviet Union.²²

The enlargement of ECO from three to ten members, ratified in November 1992, gave the organization new impetus. The accession of Afghanistan, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan gave ECO a cultural cohesion, incorporating all non-Arab Islamic countries of western and Central Asia.²³ The enlarged group contains 325 million people spread over almost eight million square kilometres. In 1993 ECO gained observer status at the United Nations General Assembly, and it was later accorded observer status at the World Trade Organization. ECO provides a forum for discussion of regional disputes and for peaceful cooperation among the original members and the newly independent member countries, including the Central Asian countries.

The Council of Ministers, composed of the Ministers of Foreign Affairs, is the highest policy and decision making body of ECO. It should meet at least once a year by rotation in the territories of member states.²⁴ The Council of Ministers may propose the convening of meetings of other Ministers for the formulation and recommendation of plans and projects in their respective fields. The Council of Permanent Representatives is composed of member states' ambassadors accredited as representatives to ECO and meets as often as necessary. In 1996 the Council of Ministers approved a restructuring, which included the establishment of a permanent ECO Secretariat in Tehran; the Secretariat moved into a new building in 1997 and by early 1999 had a staff of over fifty.

Annual meetings of senior officials and ministers underpin the (supposedly) biennial summits. ECO summits are intended to bring together heads of state or heads of government, although attendance from some members is not always at the highest level.²⁵ The ECO summits in the 1990s typically included declarations which did not lead to substantive action.²⁶ Without denigrating the importance of talking shops or information sharing, the concrete achievements of ECO during the 1990s were modest.

with a view to creating conditions for sustained socioeconomic growth in the member states. After revision of the Treaty of Izmir in 1990, ECO was fully launched in 1991.

²² For historical background on ECO, see Jägerhorn (1993), Haider (1994), de Cordier (1996), Pomfret (1999) and Afrasiabi (2000).

²³ The Turkish Muslim Community of Cyprus is not a member of ECO, but its representatives attend ECO meetings.

²⁴ The Regional Planning Council (RPC), composed of the Heads of the Planning Organization or the equivalent ministry of member states, should meet prior to the annual meeting of the Council of Ministers and evolve basic strategies/policies and plans in accordance with the objectives and principles of regional cooperation laid down in the Treaty of Izmir, as well as policy guidelines and directives of the Council of Ministers.

²⁵ The venues have been: 1992 Tehran, 1993 Istanbul, 1995 Islamabad, 1996 Ashgabat, 1997 (extraordinary summit) Ashgabat, 1998 Almaty, 2000 Tehran, 2002 Istanbul, 2004 Dushanbe, 2006 Baku, 2009 Tehran. The 2009 summit in Tehran was attended by seven presidents, the Prime Minister of Kazakhstan, the Speaker of the Senate from Uzbekistan and a First Deputy Prime Minister from the Kyrgyz Republic.

²⁶ At the 1993 summit in Pakistan, ECO members adopted the "Quetta Plan of Action". An Istanbul Declaration later in 1993 envisaged the "ECO Long Term Perspective". At the second summit in 1994, the "Almaty Outline Plan for the Development of the Transport Sector in the ECO Region" was approved. At the third summit in Islamabad in 1995, the "ECO Transit Trade Agreement" and the "Agreement on Simplification of Visa

Application of the May 1991 Protocol on Preferential Tariffs, by which the signatories agreed to offer a ten percent preferential tariff reduction on selected items, was disappointing; the lists of items were extremely limited, and even after national implementation began in May 1993 there were doubts that the preferential treatment was actually being applied. The ECO Committee on Preferential Tariffs met several times between 1993 and 1995, but was unsuccessful in persuading the signatories to extend their lists or to offer more substantial preference margins. The new members showed no interest in acceding to the preferential tariff arrangements. After little progress had been made on this front by 1996, the ECO Secretariat took the initiative in trying to reorient attention to include discussion of the implications of the Uruguay Round and the World Trade Organization for the ECO region. This initiative was formalized in the Almaty Declaration at the 1998 ECO summit when all members were urged to take steps towards WTO membership. In effect, the organization had abandoned regionalism in favour of multilateralism so far as trade policy is concerned.²⁷

The ECO members committed themselves to establishing nine regional institutions: a trade and development bank, a reinsurance company, an ECO shipping company, an ECO airline, an ECO Chamber of Commerce and Industry, an ECO Consultancy and Engineering Company, ECO Supreme Audit Institutions, and a news agency. After long negotiations, agreement was reached in January 1995 that the ECO Trade and Development Bank would be based in Istanbul, and the minutes of the Committee meeting included a strong statement of intent that the ECO reinsurance company should be based in Pakistan (now agreed to be based in Karachi). The time-consuming negotiations illustrated the difficulty in reaching agreement on regional institutions, both with respect to their functions and with respect to location. Agreements on the first four institutions were signed at the Third ECO Summit in Islamabad in March 1995, but they were not implemented.²⁸ ECO also has three specialized agencies: an ECO Cultural Institute, an ECO Education Institute and an ECO Science Foundation, based in Tehran, Ankara and Islamabad respectively.²⁹ The history of the ECO regional institutions and specialized agencies is of grand plans and limited commitment, and the location of those which have got past the drawing board reveals the lack of interest on the part of any Central Asian country in being a host.

ECO probably had greatest potential in the area of trade facilitation, but here too statements of intent outran practical achievement. The Almaty Outline Plan, often referred to as one of ECO's basic documents, is a project-oriented plan for transport and

Procedures" were adopted. At the 1998 Almaty summit, a "Memorandum of Understanding on Cooperation against Smuggling and Customs Frauds" and a "Transit Transport Framework Agreement" were approved, and a "Program of Action for ECO's Decade of Transport and Communication (1998-2007)" was endorsed. The 2000 Tehran summit focused on energy development.

²⁷ An ECO Trade Agreement (ECOTA) signed in July 2003 envisioned further preferential tariffs, but met with little positive response.

²⁸ The shipping company operated two leased multipurpose cargo vessels in the Persian Gulf and some ships plying the Caspian Sea, but despite being the sole profitable ECO project the shipping line ran into financial difficulties due to some ECO members' failure to make their contributions to the capitalization fund (Afrasiabi, 2000, part 2). The Trade and Development Bank and ECO Reinsurance Company are still described in 2009 as being brought into operation! Other institutions such as the ECO Consultancy and Engineering Company exist (it has four constituent companies, two from Turkey and one each from Iran and Pakistan), but it is difficult to find information about actual operations. The ECO website also refers to an ECO College of Insurance in Tehran which has been functioning since 1992, but the weblink is broken.

²⁹ Of these only the Cultural Institute seems at all active, translating children's books, putting together monthly magazines in English, Persian and Russian and a quarterly cultural research bulletin, as well as maintaining a website www.ecieco.org

communications development on a regional basis. At the 1995 ECO Summit the heads of state signed the ECO Transit Trade Agreement and an Agreement on the Simplification of Visa Procedures for the Businessmen of ECO Countries, but the transit agreement was only signed by eight countries, and the two non-signatories, Uzbekistan and Afghanistan, straddle important crossroads in the region. At the Fifth ECO Summit in Almaty in May 1998, Uzbekistan again refused to sign a much watered down transit agreement. A decade later establishment of the ECO Trade Promotion Organization, headquartered in Tehran, met with a lukewarm response in Central Asia.³⁰

The achievements of ECO have been modest. Some of the ECO summits, notably that of 1996 where the main debates featured disputes between Uzbekistan and Iran and delegates left a day earlier than planned, have been divisive. Such disputes highlighted the disparity between statements of cultural unity (an association of non-Arab Islamic countries west of India) and the differences between the Islamic Republics of Iran or Pakistan and more secular Islamic states of Central Asia. As with the CAEC/CACO, a fundamental obstacle to economic integration within ECO was the similarity of the member countries' economies, which all tend to be specialized in a small group of primary products (oil, gas, minerals, and cotton). In the twenty-first century ECO leaders and ministers continue to meet at irregular intervals and make declarations of progress, but there is little evidence of actual achievements or of significant commitment to the institution by Central Asian countries.

1.3 The Shanghai Cooperation Organization (SCO)

Borders between the USSR and China were never fully delimited. In 1992 Russia, Kazakhstan, Kyrgyzstan and Tajikistan began to negotiate with China on a bilateral basis. From 1992 to 1995 the five parties held 22 rounds of negotiations. On 26 April 1996 the five presidents held a summit in Shanghai and signed the Agreement on Confidence Building in the Military Sphere in the Border Areas. The group thenceforth became known as the Shanghai Five. On 24 April 1997 the five leaders met in Moscow and signed the Agreement on the Mutual Reduction of Military Forces in Border Areas. Thus, the initial purpose was deepening military trust and reducing military forces in border regions. The actual border delimitation was negotiated on a bilateral basis, and resolution of disputed areas was reached in 1999 with Kazakhstan and the Kyrgyz Republic and in 2002 with Tajikistan.

The Shanghai Five also had a shared interest in addressing terrorism/extremism and secession/splittism. Within Central Asia there were fears of Islamic extremism, especially in the Ferghana Valley which is shared between Uzbekistan, the Kyrgyz Republic and Tajikistan; Tajikistan's bitter civil war only began to wind down in 1997. Kazakhstan had ongoing concerns about the loyalty of the large Russian population located near its northern border. A spate of Uighur-inspired bombings within and outside China in 1997 underlined China's fears of unrest in Xinjiang Autonomous Region, especially as China believed the organizations were supported by exile groups based in Central Asia.³¹ Russia was concerned about separatism in Chechnya and elsewhere. The Shanghai Five's approach to these matters involved implicit agreement not to meddle in members' internal disputes.

³⁰ The ECO Trade Promotion Organizations Portal (<http://www.eco-tpo.net/>) reported that the first meeting of heads of ECO Trade Promotion Organizations, held in January 2009 in Tehran, was attended by Afghanistan, Azerbaijan, Iran, Pakistan, Turkey and Turkmenistan - indicating that four of the Central Asian countries did not bother to attend.

³¹ Hu (2005) argues that China has four main interests in Central Asia: (1) maintaining stable peaceful borders, (2) cutting off international links of Uighur separatist forces, (3) diversifying and securing access to energy sources, (4) extending China's influence beyond the region to strengthen China's global geopolitical position.

At a 2001 summit in Shanghai Uzbekistan was admitted as a sixth member, and the group's name was changed to the Shanghai Cooperation Organization. The Declaration of the SCO aimed to transform the Shanghai Five to a higher level of cooperation, focussing on (1) regional stability and opposition to the three evils (embodied in the Shanghai Convention on the Crackdown on Terrorism, Separatism and Extremism), (2) economic cooperation, and (3) potential strategic cooperation.

The Council of Heads of State meets once a year: 2002 St. Petersburg, 2003 Moscow, 2004 Tashkent, 2005 Astana, 2006 Shanghai, 2007 Bishkek, 2008 Dushanbe and 2009 Yekaterinburg. The Council of Heads of Government also meets once a year, and is particularly mandated to take decisions on economic matters and to approve the SCO budget. The Council of Foreign Ministers usually meets one month before the Heads of Government. All meetings operate on the principle of consensus; if any member opposes a decision, then it is not adopted. The SCO also has working groups, currently more than twenty, which prepare materials for ministerial meetings.

The SCO Charter was signed by the six members at the 2002 St. Petersburg summit. Two permanent bodies opened in 2004: the SCO Secretariat in Beijing and the SCO Regional Anti-Terrorist Structure (RATS) based in Tashkent. In 2004 the SCO announced some economic measures, principally loans and credits from China to the Central Asian countries, but there was no move towards creating a preferential trading arrangement. The first Observer, Mongolia, was admitted at the 2004 Tashkent summit. At the 2005 Astana summit India, Iran and Pakistan were admitted as Observers. A US application for Observer status was rejected in 2005. The 2005 summit also focussed on plans for cooperation in energy.

July 2005 saw greater Russian and Chinese assertiveness towards the USA.³² Uzbekistan gave the USA notice to vacate the Karshi-Khanabad air base which it had used since 2001 for missions in Afghanistan; US forces left the base in November 2005. The SCO set a deadline for the withdrawal of US forces from Central Asia, although the US continued to operate out of the Manas airbase in the Kyrgyz Republic. With promises of generous Russian aid, the Kyrgyz government finally gave the US six months notice to vacate the base in February 2009. China and Russia conducted major joint military operations in the Vladivostok and Shandong areas in August 2005. In August and September 2006 China and Kazakhstan and China and Tajikistan conducted joint anti-terrorist military exercises, and in 2007 all six SCO members conducted joint exercises in Russia. Iran applied for membership in March 2008.

The energy emphasis reflected the rising economic significance of oil and gas as energy prices climbed to record highs, as well as China's wish to diversify its energy suppliers. China's energy deals with Kazakhstan and (non-SCO-member) Turkmenistan were, however, bilateral, with ad hoc arrangements for transit. China's involvement in hydro projects in Tajikistan was also bilateral, and unpopular with Russia which controlled the energy pipeline networks and with Uzbekistan which was in disagreement with Tajikistan over use of water from the shared Amudarya River.

³² Cohen (2006) provides an assessment of the SCO as of mid-2006, emphasising security aspects and implications for the USA.

In sum, in the years 2005-8 the SCO focussed on security issues, forming a common front against involvement in the region by the USA. The 2003 US invasion of Iraq, the colour revolutions in Georgia in 2003 and Ukraine in 2004, and the Andijan events in Uzbekistan in May 2005 encouraged the authoritarian SCO regimes to stick together and discourage any external military intervention in the region.

August 2008 saw the most serious divisions in the SCO.³³ At the Dushanbe SCO summit Russia sought SCO backing for the independence of Abkhazia and South Ossetia following Russia's recent war with Georgia. The SCO communiqué, however, expressed "grave concern" and urged Russia and Georgia to resolve their differences through dialogue. The declaration also emphasised the importance of territorial integrity, one of the issues that had brought Russia and China together a decade earlier (over Chechnya and Xinjiang).

There were signs in 2008-9 that some Central Asian countries were seeking a rapprochement with the USA and distancing themselves from Russia. US forces were once again allowed to operate in Afghanistan via Uzbekistan, and in October 2008 Uzbekistan announced its intention to withdraw from EurAsEc. Meanwhile, despite the formal notice to the USA to leave, the Kyrgyz Republic prevaricated over the status of the Manas airbase and the US military continued to make long-term contracts with suppliers to the base.

At the 2009 Yekaterinburg summit, Sri Lanka and Belarus were admitted as Dialogue Partners. This was a quid pro quo between China and Russia to make a positive gesture towards respective allies, but it had little relevance to Central Asia.

In summer 2009 the divisions widened. In June the Kyrgyz Republic, against the wishes of Russia and China, renewed the US lease on the Manas airbase.³⁴ Uzbekistan also seemed to be renewing ties with the West, and the other Central Asian countries while keeping a lower profile granted overflight or transit rights for the USA to supply Afghanistan.³⁵ In July, riots in Xinjiang threatened the agreement between China and Central Asian countries not to support secession; a Turkish boycott of Chinese goods highlighted the sense of solidarity among Turkic-speaking peoples that may become difficult for Kyrgyz or Kazakhs to ignore.³⁶ In August the Kyrgyz Republic agreed to rent to Russia a military base near Osh, a decision strongly opposed by Uzbekistan which feared having a Russian military presence a few kilometres from its border.

The SCO assumed pre-eminence in the early 2000s as a regional organization that brought together four of the Central Asian countries and their two largest neighbours. The SCO's highest profile was in 2005-8 when the USA seemed over-extended militarily, Russia and China sought to reassert their major power status, and Uzbekistan was shunned by the West after Andijan. Soaring energy prices highlighted the value of Central Asia's oil, gas and hydro potential, but despite reference at SCO summits to cooperation in energy nothing happened under the SCO aegis in this area.

³³ Katz (2008) points out several sources of increased tension even before August. By early 2008 US forces were again operating from Uzbekistan. China, which had been Russia's best arms customer since the turn of the century sharply reduced its purchases and Russia was not pleased to find that China was exporting Su-27 fighter aircraft that it produced under licence supposedly for its own use.

³⁴ In June 2009 the USA and the Kyrgyz Republic reached an accord on the use of the airbase at Manas by the US military. The annual rent for the base was more than tripled, to \$60 million. The USA will also invest in the country's infrastructure, set up a development fund and provide money to fight drug traffickers and terrorism.

³⁵ The supply situation had deteriorated due to conditions in Pakistan, but the striking feature was that the US bid to establish a northern supply route to Afghanistan elicited a positive response in all Central Asian countries.

³⁶ Most ethnic groups in Central Asia speak Turkic languages, as do the Uighurs. The principal exception is Tajik.

The Secretariat professional staff of about 30 people (distributed roughly in proportion to each member's budget contribution: China and Russia 24%, Kazakhstan 21%, Uzbekistan 15%, Kyrgyz Republic 10%, and Tajikistan 6%) mostly have diplomatic backgrounds. Thus, when they become involved in economic matters, it is usually in providing a framework for economic activity, e.g. the transport facilitation agreement being negotiated since 2004. In brief, the SCO has had no direct economic impact.

The SCO has been more active as a political organization, but the situation was unstable because Russia and China have as many disagreements as agreements and the Central Asian countries want to maintain Western involvement in the region as a counterweight to Russian and Chinese influence. The Georgian War in 2008 highlighted the gap between Russia and China, as the former completely underestimated the strength of China's distaste for secession. Meanwhile, the Central Asian countries sought to play off Russia and China against each other, especially as markets for oil and gas, and have to varying degrees resisted Russian and Chinese efforts to exclude other powers from the region.

For the Central Asian countries the SCO has the attraction over EurAsEc of including China as a counterweight to Russia, but the SCO suffers from having little else to offer. As supra-national regional institutions, neither EurAsEc nor SCO is acceptable to the Central Asian countries because they are jealous of their recently gained independence and none is anxious to accept the hegemony of a large neighbour.

2. Infra-structure Institutions

Despite the lack of progress over the last two decades, there are forces for regional cooperation in Central Asia and pressures for institutions to facilitate such cooperation. The shared problems that could be addressed by *infra-structure institutions* include trade, water, energy and perhaps security (although security has been part of broader institutions such as the CSTO or SCO/RATS, rather than of Central Asian institutional arrangements).

Trade in the region is in practice carried out on a multilateral basis, as the countries have not seriously implemented the many proposals for preferential trading arrangements. The region's major exports cotton, oil and minerals are sold in active global markets and in some cases (notably cotton and gold) are easily transportable; the sole major exception is gas, which is provided under long-term contracts with customers determined by the pipeline network. The most important institutional counterparts are global, especially the WTO (although membership negotiations have progressed slowly in all but the Kyrgyz Republic, and Turkmenistan has not even lodged an application yet) and World Customs Organization. Nevertheless, there is scope for regional arrangements to facilitate trade. The five Central Asian countries are landlocked and still linked by transport networks from the Soviet era that do not respect the new national boundaries. Early attempts to guarantee transit arrangements (as in ECO) or to coordinate infrastructure projects broke down, but cooperation under the UN Special Programme for Central Asia (SPECA) or within Central Asia Regional Economic Cooperation (CAREC) remains ongoing. In these programs the multilateral agencies largely act as "honest brokers" to reduce the coordination costs of bringing national governments together for mutually advantageous agreements and projects.

SPECA was established in 1998 by the five Central Asian countries, with the United Nations Economic Commission for Europe (UNECE) and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) jointly providing support to the activities under the programme. Initially, five Project Working Groups (on transport, water and energy, trade, statistics and information technology) were established, each under the chairmanship of one of the member countries. However, their activities were limited, in part due to the lack of committed funding. Azerbaijan joined SPECA in 2002 and Afghanistan in 2005, but there seemed to be a lack of direction. In 2004 the UN Secretary General tasked the UNECE and UNESCAP to reinvigorate and strengthen the Programme, and the reform of SPECA was launched at a conference in May 2005 in Astana. Even with the new members and the relaunch, SPECA struggled to make an impact. At the December 2006 meeting of the SPECA Coordinating Committee in Dushanbe, the member countries demanded better coordination between SPECA and other regional institutions, first of all CAREC.

CAREC had origins in the Asian Development Bank in the late 1990s, but its evolution was gradual and it operated at a lower political level than the presidential launch of SPECA. In 2001 CAREC was established with a defined institutional framework and Azerbaijan, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, Uzbekistan and China as charter members.³⁷ CAREC's six multilateral institution partners are the ADB, which hosts the Secretariat, the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), the Islamic Development Bank (IsDB), the United Nations Development Programme (UNDP) and the World Bank. CAREC operates by consensus and in the early 2000s visible achievements were minor, but meetings promoted a process of confidence-building and networking among officials who had rarely spoken to their counterparts in other countries. By 2005-6 CAREC had established its credentials as an infra-structure institution and began to identify projects, especially in transport and trade facilitation; the explicitly regional focus of the CAREC corridors identified in 2007-8 was accepted by the member countries and guided ADB funding in the region.

Even more important is the pressure to cooperate on economic and environmental aspects of the water-energy nexus.³⁸ The five countries are united by their dependence on the two great rivers, the Amu Darya and Sir Darya, that flow into the Aral Sea. The desiccation of the Aral Sea is one of the world's great environmental disasters and it can only seriously be addressed by concerted action. The major conflict is between the poor upstream countries, the Kyrgyz Republic and Tajikistan, who wish to use the water for hydropower, and the three downstream countries which are dependent on water flows for their irrigated agriculture. Until 1991 these interests were balanced by agreements imposed from Moscow, and since 1991 there have been ad hoc agreements under which the downstream countries provide energy to the upstream countries in winter in return for them keeping the water flowing when it is needed for irrigation. These agreements are, however, tenuous in some years, especially between Uzbekistan and Tajikistan, which suffered major energy shortages during the harsh winter of 2007/8. The five countries are founding

³⁷ China's participation was focused on the Autonomous Region of Xinjiang, but participation in CAREC meetings was by the national government.

³⁸ For background on the water/energy nexus see Micklin (2000) and Horsman (2001). Central Asia faces other cross-border environmental problems, such as the consequences of Soviet and Chinese nuclear testing at Semipalatinsk and Lop Nor or the creeping desertification which has intensified with the droughts of recent years, but as Horsman 2001, 69) observes, "riverine water, particularly when linked with irrigated land, is perhaps the only regional environmental issue that demonstrates a probable linkage between environmental degradation and the outbreak of violent civil or interstate conflict".

members of the International Fund for Saving the Aral Sea (IFAS), but that institutional framework has yet to provide a useful forum for finding a sustainable solution.

Related to energy and to transit is the pipeline issue. Kazakhstan has become a major oil exporter with large discoveries in the Caspian Basin. Turkmenistan is a major gas exporter and Uzbekistan a potentially important gas exporter. Until the turn of the century almost all of the oil and gas flowed through Soviet-era pipelines which went north to Russia. Kazakhstan's oil began to have alternative routes with the completion of the Baku-Ceyhan pipeline to the Mediterranean in 2005 and construction of a pipeline to China in 2008. Gas prices are not determined on a world market and rose more slowly than oil prices during the energy price boom, but by 2005/6 China and the EU were both looking to obtain a share of Central Asian gas. This will require cooperation, e.g. exporting Turkmen gas to China involves a pipeline transiting Uzbekistan and Kazakhstan (now under construction). At the same time, the Central Asian countries have begun to negotiate jointly with Russia in setting gas prices. These important economic decisions appear to be cultivating a more positive approach to regional cooperation, at least among Kazakhstan, Turkmenistan and Uzbekistan.

2.1 Central Asian Regional Economic Cooperation (CAREC)

CAREC traces its origins to a regional technical assistance project approved by the Asian Development Bank (ADB) in 1996 and implemented in 1997. The project focussed on transport and communications, energy, regional payments and trade, and initially covered Kazakhstan, the Kyrgyz Republic, Uzbekistan and Xinjiang Autonomous Region of China.³⁹ In 1998 Tajikistan was included in the regional cooperation program. In 2000 the ADB established the Central Asian Regional Economic Cooperation Unit (CARECU). The most important ADB-supported project in this period was the \$70 million loan to Kazakhstan and the Kyrgyz Republic to rehabilitate the Almaty-Bishkek road.

In 2001 CAREC was established with a defined institutional framework. A Ministerial Conference would provide strategic direction, while a Senior Officials' Meeting (SOM) would ensure effective implementation. Coordinating committees were set up to deal with sectoral issues, and project-specific Working Groups were set up in the priority sectors of transport, trade and energy. National focal points coordinate CAREC activities within the participating countries. The ADB provides technical and administrative support. The first CAREC Ministerial Conference took place in March 2002. Initial membership included Azerbaijan, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, Uzbekistan and Xinjiang Autonomous Region of China, and six multilateral institution partners (the ADB, EBRD, IMF, IsDB, UNDP and World Bank). In 2005 Afghanistan joined CAREC. Russia and Turkmenistan were also invited to participate, but have not done so. At the 2008 summit China's Autonomous Region of Inner Mongolia was included in the geographical definition of CAREC.

In its early years CAREC was primarily about confidence-building and encouraging communication among officials. Emphasis was on decisions by consensus, which hindered fast progress but facilitated acceptance of the multilateral institutions, and especially the ADB, as honest brokers. At the 5th Ministerial Conference in October 2006 a Comprehensive Action Plan was adopted, which guides the CAREC program. The overarching goal is

³⁹ A report *Regional Economic Cooperation in Central Asia*, under the technical leadership of David Green with administrative support of Isabelita Alba was published by the ADB (ISBN: 971-561-179-6) in July 1998. At that time Kazakhstan, the Kyrgyz Republic, Uzbekistan and China were ADB members. Tajikistan joined the ADB in 1998 and Turkmenistan joined in 2000. Azerbaijan, which joined the ADB in 1999 and shares many of the economic characteristics and problems of the region, is excluded from the present report

development through cooperation, guided by the long-term vision of “Good Neighbors, Good Partners, and Good Prospects”. Adoption of the Comprehensive Action Plan marked CAREC’s transition to a results-oriented program with tangible targets and outputs, based on country ownership, pragmatic approaches and mutual accountability. The focus was to be on four key areas of cooperation: transport, trade facilitation, trade policy and energy.

The CAREC Transport and Trade Facilitation Strategy approved at the 6th Ministerial Conference in Dushanbe in November 2007 identified six priority transport corridors, potentially linking Central Asian countries with each other and with their neighbours from China to Europe, and from the Indian Subcontinent to Russia (CAREC, 2007). The Action Plan identified a set of priority investment projects and technical assistance initiatives to be implemented over the next decade to improve the multi-modal transport network and border crossing, transit and logistics management along the priority corridors, and also envisaged monitoring of transport cost and time along the corridors in order to ensure that the investments actually secured the intended benefits. Financing, estimated at \$21 billion for investments and \$69 million for technical assistance, was to come from countries’ own resources, from loans and grants by the multilateral institutions, and from other external financing.⁴⁰

Action plans for trade policy and energy have also been approved, at the 7th Ministerial Conference in Baku in November 2008, but these are less striking. CAREC members generally have low tariffs and few quantitative trade restrictions. Beyond affirming the desirability of WTO accession for those CAREC countries which are not yet members, CAREC has little to offer in this area. The CAREC Energy Sector Strategy lays out the rationale and principles for cooperative development of energy resources and identifies priority investment projects (over \$20 billion), technical assistance initiatives (\$13 million) and institution building requirements. Key investments under the strategy that are in an advanced stage of preparation include the Central Asia-South Asia 1,000 KWh power transmission line, which is expected to permit electricity exports from Kyrgyz Republic and Tajikistan to Afghanistan and Pakistan. However, most energy issues are being settled bilaterally or in ad hoc cooperation rather than through CAREC.

The November 2008 Ministerial Conference endorsed a work plan for the CAREC Institute, a proposal to convene a CAREC Partnership Forum and the establishment of a CAREC Business Forum. The “virtual” CAREC Institute will operate initially under the auspices of the CAREC Secretariat, with a small office in CAREC’s Almaty centre, and contract with regional and international academic and professional institutions to provide training, research and outreach in the principal areas of CAREC’s engagement. The work plan envisages a number of priority activities for the next three years, including a leadership development initiative for senior officials, training in support of CAREC sector committees, research on structural change and economic diversification, and a competitive program to fund small research projects by researchers in the region. Recognizing that CAREC needs to reach out to other partners with an interest and engagement in regional cooperation and integration initiatives in Central Asia, including Central Asia’s neighbours, bilateral donors, and other Central Asian regional organizations, the 7th Ministerial Conference endorsed the

⁴⁰ This paragraph is based on Linn (2008). An example of the kind of investment to be funded is the multi-billion dollar investment in CAREC Corridor 1b, linking Kazakhstan (and other Central Asian countries) with China to the East and with Russia and Europe to the West. Planning for this corridor is far advanced with financing from ADB, EBRD, Islamic Development Bank, Japan International Cooperation Agency and World Bank.

establishment of a CAREC Partnership Forum, which will bring together senior officials from CAREC countries and from principal non-member partners once a year to explore common interests, programs and initiatives in one of the principal areas of CAREC's engagement. The first CAREC Partnership Forum, to be held in 2009, will focus on transport and trade facilitation. The CAREC Business Forum will also meet for the first time in 2009, in Urumqi.

CAREC has established itself as a significant institution for regional cooperation in Central Asia, by adopting a gradual strategy, encouraging ownership by member countries, and with substantial financial and human resources support from the ADB. It has been flexible in moving from an à la carte menu of sectoral activities to homing in on a focus on transport and trade facilitation. This is an area with potential win-win outcomes for member states, especially if CAREC can generate significant external funding and expertise.

By gaining member countries' trust CAREC has also been able to diversify into related areas of training, outreach and private/public partnerships, although these initiatives are all at an embryonic stage. Indeed, the challenge for CAREC in the coming years is to prove that it can be an effective instrument for developing the corridors at the heart of its Transport and Trade Facilitation Strategy, and more fundamentally to prove that provision of hard and soft infrastructure along the corridors can contribute to more trade and higher living standards.⁴¹

CAREC's success in establishing itself in a functional area makes it a classic infrastructure institution. It presents no serious threat to sovereignty, and membership of a large neighbour such as China is welcomed rather than feared. Although the ADB is the lead institution and has devoted substantial resources to its Secretariat role, the presence of other major multilateral institutions is valuable, not only in bringing in potential donors (in contrast to SPECA's impecunious situation) but also in alleviating fears of domination by an outside body.

2.2 The United Nations Special Programme for the Economies of Central Asia (SPECA)

The United Nations Special Programme for the Economies of Central Asia (SPECA) was launched in 1998 by the presidents of Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan in 1998 to strengthen subregional cooperation in Central Asia and its integration into the world economy. Azerbaijan joined it in 2002 and Afghanistan in 2005. The United Nations Economic Commission for Europe (UNECE) and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) jointly provide overall support to the activities under the programme. Five working groups were established, each headed by one of the SPECA member countries: industrial restructuring and competition (Uzbekistan), technical assistance with energy pipelines (Turkmenistan), energy and water resource management (the Kyrgyz Republic), attracting direct foreign investment (Tajikistan), and transport (Kazakhstan).

In 2004 the UN Secretary General tasked the two Regional Commissions to reinvigorate and strengthen the Programme. The reform of SPECA was launched at the

⁴¹ Related issues are whether any investment claimed by CAREC would have taken place without CAREC and whether investment actually promotes regional integration. The China-Russia-Europe Transport Corridor 1b has attracted attention and commitment of funding from multilateral agencies, but road construction will all be in a single country, Kazakhstan, and the route involves a new road to cut out that part of the existing Almaty-Shymkent road that currently passes through the Kyrgyz Republic, i.e. reducing unnecessary visa and other complications for through traffic but perhaps hurting the economy of this part of the Kyrgyz Republic.

International Conference on Strengthening Sub-Regional Economic Cooperation in Central Asia and the Future Role of SPECA in May 2005 in Astana. The new governing structure (the Governing Council attended by deputy prime-ministers and the Coordinating Committee attended by deputy foreign ministers) provides strategic guidance to the six Project Working Groups on Transport, Water and Energy, Trade, Statistics, ICT for Development and Gender and Economy.

The SPECA Economic Forum, a one-day event co-organized with the Governing Council, is a venue of strategic discussions and the source of new ideas and proposals for the Programme. The 2006 Economic Forum in Baku addressed the theme "The Energy Dividend: spreading the growth impulse for prosperity and stability in the SPECA region". The 2007 SPECA Economic Forum, dealing with trade and investment links between Central Asia and its most important partners in Asia and Europe, consisted of two meetings: the first in May 2007 in Almaty as part of the UNESCAP Asia-Pacific Business Forum and the second in November in Berlin, jointly organized with the Government of Germany. The Berlin meeting was intended to offer an opportunity to discuss implementation plans of the new Central Asia Strategy of the European Union, including potential contributions by SPECA.

At the December 2006 meeting of the Coordinating Committee in Dushanbe, representatives of member countries demanded better coordination between SPECA and other regional programmes and organizations, first of all CAREC.

The five Central Asian countries joined the United Nations in 1992, and the UN quickly established missions in each country. Today, of all multilateral institutions, the UN has the largest presence in Central Asia; many UN specialized agencies have officers and projects in the region, and the UNDP is a prominent deliverer of economic assistance.

However, SPECA has had minimal impact, a conclusion reflected in the repeated reassessments and relaunchings of the programme and in member countries' unflattering comparison to the relatively more effective CAREC. The timing of SPECA's launch was unfortunate, coinciding with the nadir of disintegration in Central Asia, and unlike the ADB's approach the UN commissions did not pursue a strategy of gradual confidence-building. Combined with a lack of financing and absence of dedicated SPECA offices in either UNECE or UNESCAP this was a recipe for institutional failure.

The United Nations sponsors through the UNDP the Silk Road Area Development Programme, whose focus is on transport and trade between China and Central Asia. The UN Regional Centre for Preventive Diplomacy opened in Ashgabat in 2008. Neither of these regional initiatives has had a significant impact. In sum, the United Nations is active in Central Asia, but its work is effectively country-based and UN regional initiatives have had little impact.⁴²

2.3 The International Fund for Saving the Aral Sea (IFAS)

After the dissolution of the Soviet Union, an Interstate Commission for Water Coordination (ICWC) replaced the Moscow-based central management of water flowing into the Aral Sea. The ICWC has two River Basin Organisations (BWDs), for the Amudarya and Syrdarya respectively, plus a scientific arm called the Scientific Information Centre (SIC ICWC) to support technical needs. All of these institutions were based in Tashkent. (IFAS) was

⁴² An institutional reason for this is the autonomy of the UN Resident Representatives in each country. The UNDP office for the region, Europe and the CIS, is in Bratislava, which is far from Central Asia.

launched by Kazakhstan, Tajikistan, Kyrgyzstan, Turkmenistan and Uzbekistan in January 1993 in an effort to finance joint actions and programs to save the Aral Sea and improve the ecological situation of the basin. IFAS is headed by the five presidents.

In 1997 the structure of IFAS was formalized, with a rotating Chair and administrative headquarters. The IFAS governing body is an executive board composed of deputy prime ministers and environment ministers from the five countries. The ICWC Secretariat has no legal enforcement powers, and mainly acts as an information dissemination centre for research conducted by the ICWC Scientific Information Centre.

The initial proposal was for IFAS to be financed by contributions of one percent of GDP from each of the five Central Asian countries, plus international donations. The contributions were subsequently reduced to 0.3% of GDP for Kazakhstan, Turkmenistan and Uzbekistan and 0.1% for the Kyrgyz Republic and Tajikistan, but even these reduced targets have not been met. The World Bank opened a dedicated office in 1994 to manage the Aral Sea Basin Program, which disbursed some \$60 million in aid, but the office was closed in 1997 when coordination of the renamed Aral Sea Project was transferred to the UNDP regional office.⁴³ In total the First Aral Sea Basin Programme (ASBP-1) which ran from 1994 was financed by \$47.7 million in grants and about \$278 million in loans. However, due to very poor project management in which projects were not completed and money disappeared multilateral donors lost interest and funding began to dry up. A second programme (ASBP-2) was approved by the heads of state in 2003, but attracted little external funding.

Initially the location of the Secretariat was supposed to rotate every three years and the Chair every two years, but the rotations were not consistent. The administration was located in Kazakhstan (1994-1996), Uzbekistan (1997-1999), Turkmenistan (1999-2002), and Tajikistan (2002-2005). In 2005 the IFAS was in a poor state, and there was a delay in arranging the rotation to the Kyrgyz Republic.

In autumn 2008 the Secretariat relocated to Almaty in anticipation of Kazakhstan assuming the Chair for 2009-11. This was seen as an opportunity for a fresh start, and external donors such as Germany began to take a more active interest. In December 2008, the UN General Assembly adopted a resolution to grant status of observer to the IFAS, which enables member countries to take steps to inform the world of Aral's problems and to attract donor funds to ease the ecological situation and help people living near the Aral Sea. An IFAS summit in Almaty in April 2009 was attended by the five presidents, a rare occurrence, although reports about the level of agreement were mixed. Kazakhstan, Turkmenistan and Uzbekistan appear to have joined forces to obstruct the Kambarata and Roghun hydroelectric projects, which the Kyrgyz Republic and Tajikistan are intent on pursuing, with financial assistance from Russia.⁴⁴

The early history of IFAS represented a wasted opportunity insofar as the international community was aware of the Aral Sea disaster and willing to fund projects to improve the situation. However, the Central Asian governments had more immediate

⁴³ Other donors that have provided funding for projects related to the Aral Sea include the UN Global Environment Facility, the ADB, NATO, OCSE, the EU Tacis programme, USAid, Canada's CIDA, Germany's ZEF and the Swiss aid agency.

⁴⁴ See, for example, "Uzbek Overtures to Kazakhstan on Water Dispute", *Institute for War and Peace Reporting*, 27 April 2009 (<http://www.iwpr.net>) and "Kazakhstan: Central Asian Leaders clash over Water at Aral Sea Summit", *Eurasia Insight*, 29 April 2009 (<http://www.eurasianet.org>).

priorities than long-term environmental problems.⁴⁵ The location of the technical bodies in Tashkent, and largely staffed by Uzbek nationals, fostered a sense among other members that the ICWC/BWDs were run by Uzbeks in Uzbekistan for the benefit of Uzbekistan. Lack of oversight and of acceptance of the seriousness of the problem also created an environment in which management of the projects of ASBP-1 was lax and corruption rampant - a situation which rapidly alienated external donors.

Nevertheless, IFAS continues to exist because the magnitude of the water problems in the Aral Sea Basin is undeniable, and the situation is deteriorating. The Aral Sea itself no longer exists; in its stead are two lakes, of which the southern one continues to shrink. Increasing demand from downstream countries is sharpening tensions, especially as the upstream countries seek to increase their hydroelectricity potential.⁴⁶ Maintenance problems in the poor upstream countries may have exacerbated the problem and highlighted its regional dimension.⁴⁷

From a strictly water management perspective, IFAS should not be necessary. The organization could be slimmed down to the technical bodies (ICWC) reporting to an executive board, turning IFAS into a technical infra-structure institution for Central Asia and perhaps Afghanistan. Currently, however, water issues have such high profile (and potential to trigger interstate conflict) that they need to be addressed at the highest level and IFAS is a forum in which the presidents can meet on water issues. The long term goal should be to depoliticise the management of water, which means removing presidential forums from the water management sector.

Sharing waters that cross boundaries is difficult and a source of political conflict in jurisdictions as diverse as Australia or the Middle East. To defuse the conflict a mutually acceptable framework for determining water allocations is essential, but the countries of the Aral Sea Basin have scarcely addressed the matters of principle. There is, at last, some recognition that the water/energy nexus is connected to agricultural policies, but agriculture remains tightly controlled and a significant source of government revenues in Uzbekistan and Turkmenistan. Pricing water would provide a pathway out from contentious arguments over the quantitative allocation of water, but only the Kyrgyz Republic has adopted water pricing; many in the downstream countries see water as a gift of nature, for which pricing is immoral. Any improvement in the water situation will impose costs unequally across and within countries, and there needs to be political agreement on either the objective function which technical bodies fulfil under supervision or a grand bargain by which the heaviest losers receive some form of compensation; neither of these approaches is yet on the radar because governments continue to oppose any change that might increase their own immediate or longer-term costs.

⁴⁵ One roadblock in the 1990s was the Central Asian countries' insistence on restricting Aral Sea actions to water management, while donors such as the World Bank increasingly saw the problem as a faulty interdependent system of agriculture, energy and water arrangements. In the harsh economic conditions during the transition from central planning, none of the countries was willing to compromise its ability to produce cotton, a valuable and easily exportable crop upon which of the rural population in the southern part of Central Asia was dependent, but also an inappropriately water-intensive crop for desert regions.

⁴⁶ They have been encouraged in this by outside powers who appear to have not fully considered the ramifications within Central Asia. Russia is financing the two major hydro projects and the USA is encouraging export of electricity from Tajikistan to Afghanistan to support economic reconstruction.

⁴⁷ In spring 2009, for example, water management problems at the Toktugul reservoir in the Kyrgyz Republic led to power and water shortages in south-west Kazakhstan, including in the country's largest city, Almaty.

There are promises in 2008-9 that the necessity for serious regional cooperation is being accepted, and IFAS is the pre-existing institution where this can be acted upon. However, the April 2009 summit indicated that water issues still have greater potential to divide than to unite Central Asian leaders; even if the downstream countries appeared to be acting in unison, they were pursuing independent national policies with little indication of shared views on how to resolve the problems.

3. Conclusions

Since 1991 Central Asia has moved from tight regional integration to a region with weak and unstable regional institutions. The five Central Asian countries had no prior history as nation states, and in 1992 there was doubt over their survival or territorial integrity. Avoiding inter-state war should itself be considered an achievement, and only Tajikistan had significant internal strife. The main concerns of the Central Asian leaders in the 1990s were nation-building and securing their own position. As new nation states, they were quick to join the United Nations, but reluctant to accede to any organization that might impinge on their sovereignty.

Competing outside challenges for influence and competition for leadership within Central Asia perpetuated a proliferation of paper agreements but lack of sustained institutional development. In the expectation of struggles for influence by external powers, the Central Asian countries sought to maintain a balance between these powers. While Russia's historic influence was strong, and especially so in Kazakhstan, the Kyrgyz Republic and Tajikistan, all three of these countries as well as Uzbekistan used the USA and later China as a counterbalance. Relations with Turkey and Iran have been weaker, but provide a minor counterweight emphasising religious and linguistic ties.⁴⁸ Turkmenistan, with its principled neutrality, played no part in regional institution-building after 1995. The corollary to these balance of power considerations was that no single supra-national institution (EurAsEc, SCO or ECO) has had the authority to develop as a significant regional institution.

Political developments hampered construction of specifically Central Asian regional institutions. All five countries established autocratic super-presidential regimes in which authority is concentrated in the office of the president and where elections are predictable and term limits not respected.⁴⁹ Personal animosities influenced international relations; e.g. the icy relations between presidents Karimov and Niyazov precluded cooperation between Uzbekistan and Turkmenistan, despite their countries having many shared problems. Centralization inhibited local initiatives, especially in border areas. This effect has been most dramatic in the densely populated Ferghana Valley, which is shared by Uzbekistan, the Kyrgyz Republic and Tajikistan; e.g. after bombings of political targets in Tashkent in 1999

⁴⁸ Tajik is closely related to Farsi (Persian), while the other four countries' national languages are Turkic. Relations with Iran have been mixed because all of the Central Asian presidents, while recognizing their societies' Islamic heritage, have promoted secularism and cede no power to a religious establishment; none of the countries' are officially called the Islamic Republic of . . .

⁴⁹ The only changes in leadership were associated with the Tajik civil war which ended in 1997, the Tulip Revolution which overthrew Kyrgyz President Askar Akayev in 2005, and the death of President Niyazov of Turkmenistan in 2006. The successor presidents established centralized regimes with little or no independent power for the legislature. Several political scientists (e.g. Martha Brill Olcott or Susan Collins) stress that nation-building in Central Asia has not succeeded in creating polities that recognize individual rights, and Tajikistan is often characterized as failed state.

Uzbekistan planes bombed areas of its two neighbours to prevent infiltration of "extremists" and the border was heavily mined and fenced with barbed-wire.⁵⁰

The five countries are tied together by geography, sharing the waters of the Amudarya and Syrdarya Rivers that flow into the Aral Sea. However, competition for limited water resources and competing interests in water use have provoked conflict rather than cooperation. These conflicts are becoming more severe as the downstream nations become thirstier for water and as the upstream nations seek to implement more ambitious hydroelectricity projects.⁵¹ The energy price increases up to 2008 highlighted the benefit to the Kyrgyz Republic and Tajikistan of developing their hydroelectric resources, while resistance in the downstream countries to explicit pricing of water exacerbated the difficulty of maintaining pre-existing water/energy swap agreements.

Nevertheless, shared history, culture and geography remain strong forces for regional cooperation, and there are areas where cooperation is clearly desirable (trade and transport, energy and water, and perhaps also security and the drugs trade). CAREC has gradually increased in importance because it provides an institution for addressing regional issues related to trade and transport with minimum threat to sovereignty. CAREC has been less successful with respect to energy, because governments have preferred to operate bilaterally or to cooperate on an ad hoc basis, as with the Turkmenistan-China pipeline or a common negotiating position vis-à-vis gas sales to Russia in 2009. IFAS continues to exist because the net costs to the region from not addressing the Aral Sea problem are recognized to be large, even though progress is stymied by lack of agreement on how to share the costs of increasing the flow of water reaching the Aral Sea. In these areas of desirable regional cooperation, the challenge moving into the five countries' third decade of independence is to devise institutional structures that facilitate regional cooperation without unacceptably compromising their sovereignty.

Two decades after the Central Asian countries unexpectedly became independent the domestic situation has evolved. The initial nation-building and transition from central planning have been completed, albeit with differing market-based economic systems and political systems centred on powerful presidents differing in personal traits. Differentiation became more marked in the decade 1998-2008 as oil prices surged, and Kazakhstan emerged as a major oil exporter and the dominant regional economy. On balance these changes are favourable for regional cooperation, reflected in the greater achievements of CAREC after about 2007, but they remain unstable. The governments are less insecure about sovereignty than in the 1990s and there is no longer Uzbek-Kazakh competition for

⁵⁰ The borders remain open to some trade because corrupt customs officials facilitate passage for a fee. One of the biggest bazaars in Central Asia, near the Kyrgyz city of Osh, caters to customers from across the border in Uzbekistan, although the traders' situation is precarious as trading conditions may be tightened or eased at the whim of Uzbekistan's government. In 2006-8 border tensions were eased with Uzbekistan's accession to the CSTO, but as Uzbekistan distanced itself from Russia in 2009 a decision by the Kyrgyz government to allow a Russian military base near Osh heightened tensions between the Kyrgyz Republic and Uzbekistan.

⁵¹ Poor maintenance of irrigation facilities, population growth and inadequate non-agricultural job creation underlie increasing demand for water to maintain the rural sectors in Turkmenistan and Uzbekistan. Afghanistan also has a claim to the waters from the Amudarya River, which could become an issue if reconstruction leads to investment in irrigation projects and increased demand for electricity. The two major new hydro projects are (1) in the Kyrgyz Republic, the Kambarata-1 and Kambarata-2 dams on the Naryn River, a major tributary of the Syrdarya River which flows through Tajikistan, Uzbekistan and Kazakhstan and already dries up before reaching the Aral Sea, and (2) in Tajikistan the Roghun dam on a tributary of the Amudarya River, which runs through Uzbekistan and Turkmenistan supplying the Karakum Canal on which much of Turkmen agriculture depends.

hegemony, but personal antipathies still matter and catalysts for discord, especially over water, remain.

The evolution of regional institutions in Central Asia is unique in Asia due to the degree to which the huge disintegration of the 1990s still casts a shadow. Russia remains the largest external influence and in this respect there is some similarity to the Pacific sub-region which is also oriented towards a historic "big brother" (Australia, or for some islands New Zealand, France or the USA), but has connections to the larger Asian region (e.g. Papua New Guinea has a land border with Indonesia as Central Asia does with China). There are also similarities with South Asia in the combination of antagonistic large powers and smaller countries, although no Central Asian country is as predominant as India is in South Asia and the competition between Uzbekistan and Kazakhstan has been far less violent than that between India and Pakistan.

The role of Central Asia in broader Asian regionalism is peripheral. Central Asia is not part of the economic networks that link the ASEAN+3 countries. If Asian regionalism is defined more broadly than ASEAN+3, then Central Asia is as linked to the region as Australia, New Zealand or India, although none of the Central Asian countries has the global weight of India or Australia. The scale has meant that ties so far have been bilateral (e.g. energy and trade links to China, or investment by individual Japanese or Korean companies) rather than on a regional basis.

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