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Srinivasa Madhur[1]

Abstract

In pursuing the aspirations embedded in Vision 2050, this article identifies some key areas for individual and collective action by the Central Asian countries to pursue open regionalism and outlines the crucial elements of a regional agenda. Central Asia's open regionalism will be a multispeed and multitrack process, prioritizing and sequencing of which will not be easy. Given the time horizon that is being considered in this article, it is important to note that not all collective actions proposed in this article are to be achieved in the immediate future, nor even over the next decade or so, but over the next three and a half decades. Within this overall framework, the article takes stock of the state of play in terms of both intraregional and interregional integration, and addresses the imperatives, opportunities, and challenges in seven broad dimensions, not necessarily in order of relative priority: connecting countries and the region; integrating trade and production; cooperating on water and energy; cooperating on capital flows; managing migration; supporting regional institutions; and balancing national and regional interests—the leadership issue.

Keywords

Central Asia, regionalism, water, integration, regional institutions, cooperation, migration

A Vision for Regional and Global Integration of Central Asia 2050

If geography is destiny, then the greatest challenge for Central Asia is to turn that destiny into an opportunity. While the recent performance of Central Asian countries in regional cooperation has been mixed,[1] this article takes an aspirational approach in setting Central Asia's regional cooperation goals over the next few decades. A Vision 2050 for the region is thus articulated as follows: located at the crossroads of Asia and Europe, the region becomes open and integrated with unhindered flows of trade, investments, services, and people across its countries. Simultaneously, it remains open to the rest of the world becoming an important part of the global production networks and supply chains.

There are a wide range of domestic reforms and restructuring that will help Central Asian countries sustain strong growth and achieve broad-based and inclusive development over the next few decades. Even as they undertake these domestic reforms, continued integration of their economies with the rest of

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the world and their neighbors will enable them to reap additional benefits—from the scale economies of global markets; access to global capital, technology, and know-how; and worldwide best practices in trade, commerce, and finance.

Thus, the Vision 2050 for Central Asia envisages cooperation and integration at three mutually reinforcing levels: intraregional integration (greater cooperation and integration among the five Central Asian countries), interregional cooperation and integration (between the region and its neighbors), and finally, global integration (the region and the neighborhood becoming part of the larger, global space). The first level of integration (intraregional) is a necessary but not sufficient condition for the second (interregional) and the third (global) levels, while the first and the second are necessary for the third, given the landlocked nature of the region. A key feature of this vision is the concept of "open regionalism," under which Central Asian countries cooperate among themselves and with their neighbors, while also being open to do business with the rest of the world.

Currently, the region has "thick" borders across which movement of goods, services, capital, and people is difficult (Deichmann & Gill, 2008; Gill, Izvorski, Van Eeghen, & De Rosa, 2014; Rastogi & Arvis, 2014; World Bank, 2009). Vision 2050 foresees much "thinner" borders that make trade and factor movements easier which in turn would enhance growth and prosperity in the region.

Although difficult to quantify, a 2005 United Nations Development Programme (UNDP) study estimated that a comprehensive regional cooperation and integration program in Central Asia could raise the region's gross domestic product (GDP) by 50–100 percent over a 10-year period, and that these gains would be higher for the smaller and the poorer countries in the region (UNDP Regional Bureau for Europe, 2005). The same study estimated that if transport corridors were developed within the region, the region's trade volume could increase by as much as 160 percent—similarly, improved regional collaboration in water management could prevent a yearly loss of about 3.6 percent of the region's GDP (UNDP Regional Bureau for Europe, 2005). Encouragingly, the study also observed that

> these are likely to be conservative numbers—by considering major risks averted (such as civil wars and natural disasters), or the development of a highly dynamic regional economy that is fully integrated with its neighbors and the world economy, the cumulative and compounded gains from cooperation could be even greater. (UNDP Regional Bureau for Europe, 2005)

In pursuing the aspirations embedded in Vision 2050, this article identifies some key areas for individual and collective action by the Central Asian countries to pursue open regionalism and outlines the crucial elements of a regional agenda. Central Asia's open regionalism will be a multispeed and multitrack process, prioritizing and sequencing of which will not be easy. Given the time horizon that is being considered in this article, it is important to note that not all collective actions proposed in this article are to be achieved in the immediate future, nor even over the next decade or so, but over the next three and a half decades.

Within this overall framework, the article takes stock of the state of play in terms of both intraregional and interregional integration, and addresses the imperatives, opportunities, and challenges in seven broad dimensions, not necessarily in order of relative priority:

- connecting countries and the region;
- integrating trade and production;
- cooperating on water and energy;
- cooperating on capital flows;
- managing migration;
- supporting regional institutions; and
- balancing national and regional interests—the leadership issue.

Connecting Countries and the Region

Central Asia is one of the least connected regions in the world. Better connectivity in Central Asia and among its neighbors with better physical infrastructure ("hardware"), including information and communications technology (ICT), and with better policies and institutional arrangements ("software") are thus key to integrate Central Asian countries within the regional and global production networks and supply chains.

Hardware Connectivity

Following independence, all Central Asian countries focused on improving their within-border connectivity through rehabilitating the dilapidated internal network of roads and railways (ADB Institute, 2014b). As a result, regional cooperation on strengthening connectivity among the Central Asian countries and with their Eurasian neighbors was very limited in the first decade after independence (ADB, 2008; ADB Institute, 2014b; UNDP Regional Bureau for Europe, 2005), although it has improved in recent years.

In principle, both land and maritime connectivity[2] are important for Central Asia, as about 80 percent of current global trade is done through maritime routes. However, given Central Asia's land-locked location, improved land connectivity is critical: first, for connecting them to the nearest ports (improved maritime connectivity), and second, for connecting them to neighboring markets. On both counts, better overland connectivity is thus doubly important for Central Asian firms to integrate into "time-sensitive supply chains involving manufacturing production sharing, such as high-value components in the automotive and computer industries" (Rastogi & Arvis, 2014). In other words, better connectivity would enable the five Central Asian countries to integrate themselves better, and hence increase their combined local value added, into the regional and global value chains (GVCs).

The Central Asia Regional Economic Cooperation (CAREC) program initiated in 2001 and coordinated by the Asian Development Bank (ADB)[3] has been one of the earliest and to date most significant initiatives for improving connectivity in Central Asia. Although the CAREC program addresses other dimensions of regional cooperation as well, strengthening physical connectivity is a major plank of its agenda. In the first 10 years since its establishment, CAREC's physical connectivity projects were anchored on developing six transport corridors.[4] A recent assessment indicates that the corridors have cut transport costs and travel time, which, in turn, have encouraged greater trade and commerce (ADB, 2014).

In the second decade of the CAREC program spanning the 10 years up to 2020, the program will scale up these "transport corridors" into "economic corridors," by following a two-pronged strategy—building multiple corridor nodes for each transport corridor and linking these nodes across corridors and facilitating liberalization of at-the-border and behind-the-border restrictions. Such a scaling up is expected to enlarge the spatial interactions in and around the corridors which, in turn, would connect the participating countries to the regional and global production networks and supply chains (CAREC, 2011).

Extending the geographic coverage is another key future focus of CAREC:

> CAREC's first decade saw an initial focus on transport routes that took advantages of China's western borders opening following the collapse of the Soviet Union. Gradually, the CAREC program has begun to recognize the need to expand its geographic reach to Europe, the Caucasus, Russian Federation, the Middle East, East Asia, and South Asia to harness the full range of economic possibilities that these region's offer. (CAREC, 2011)

Some estimates suggest that if Central Asia were to carry out basic improvements in transport systems heading south just to reach Afghanistan, overall trade—exports plus imports—would increase by up to US$12 billion, representing an 80 percent growth (CAREC, 2011).

The other major connectivity program that has substantial potential for improving Central Asia's connectivity in the coming decades is the new Silk Road initiative recently announced by China.[5] The program consists of two complementary projects—the overland Silk Road Economic Belt (SREB) and the sea-based Maritime Silk Road (MSR)[6]—together being referred to as the "one belt, one road" initiative (Box 1).

Box 1. China's "One Belt, One Road" Silk Road Initiative

In Autumn 2013, China announced its Silk Road Economic Belt (SREB) initiative, an overland connectivity project that links China to Europe through Central and South Asia and the Middle East. It envisages a network of highways, railways, and other critical infrastructure beginning in the Chinese city of Xi'an and ending in Venice, Italy. In addition to SREB, China announced a sea-based connectivity project, the Maritime Silk Road (MSR). The latter entails building or expanding ports and industrial parks in Asia, the Middle East, Africa, and Europe (Brugier, 2014; Zhiping, 2014).

In early November 2014, China announced the establishment of a New Silk Road Fund and committed to contributing US$40 billion. The Fund—backed by some of China's big domestic financial institutions—is expected to finance the twin silk road initiatives but based mostly on "market-oriented principles" (EIU, 2015). It also hopes to gradually co-opt other partners—private or public—to contribute to the Fund. In addition, it is also likely that the US$50 billion Asian Infrastructure Investment Bank (AIIB)—a recently launched multilateral development institution led by China but now has a total of 57 countries from around the world as its members—would prioritize financing cross-border, regional infrastructure projects such as the SREB and MSR. The AIIB could in fact prioritize Asia's regional (cross-border) infrastructure development—an area that is underserved despite ADB's significant contribution (Madhur, Wignaraja, & Darjis, 2009). As of now, with the exception of Turkmenistan, all of Central Asia has signed up for AIIB's membership.

Some see the "one belt, one road" initiative as China's infrastructure diplomacy (Brown, 2014; Heath, 2014; Marat, 2014). Others see the twin Silk Road Initiative as China's Marshall Plan for Asia—that could foster a softer image for China even while boosting its regional and global influence (Tiezzi, 2014). For some experts, the twin Silk Road Initiative is low on specifics, especially on the intergovernmental arrangements that are crucial for getting the support and commitments from the many countries involved in the initiative (Brown, 2014). Others experts see the initiative more as a grand vision but grossly underfunded, as the total cost of implementing the initiative could be a whopping US$21 trillion (estimate quoted in Tiezzi, 2014). That said, it is possible that some of the countries that are likely to be connected through the twin projects, especially the smaller ones, are likely to be eager to get China's assistance in building critical infrastructure for their people.

Moreover, in countries that have several major power suitors vying for their attention and partnership (the Central Asian states, Indian Ocean states, and Eastern Europe in particular), China's largess may spark a sort of "bidding war" that encourages China's rivals to commit funding and diplomatic attention in ways they might not otherwise do (Tiezzi, 2014; Voloshin, 2014). It could thus be a "win–win" situation for the recipient countries. Silk Road Economic Belt could be seen as simply a tool for China to exploit Central Asian countries' energy resources and access their domestic markets—instead, it should help Central Asia's integration into the regional and global value chains (Zhiping, 2014). This is especially important for the success of SREB, since many countries bordering China are concerned about "China's clout, fretting that it will derive disproportionate benefits form the links" (*The Economist*, 2014 "The New Silk Road—Stretching the Threads"). Another limitation is the limited fiscal capacity of some of the Central Asian (and neighboring) countries, which would limit their ability to assume new debt and to fund the operations and maintenance cost of new infrastructure.

Silk Road Economic Belt could potentially enhance Central Asia's regional and global connectivity. However, to ensure synergies and coordination between this initiative and connectivity projects already being undertaken or contemplated under the CAREC program, Central Asian countries need to be active participants in SREB, perhaps using the CAREC forum in which all the Central Asian countries and many of its neighbors including China are members.

The traditional multilateral donors (particularly the ADB and the World Bank) can also play a key role through their individual country investments and with their support for the CAREC program. A major new player in the infrastructure space in Central Asia will be China's Silk Road Fund and the China-led Asian Infrastructure Investment Bank (AIIB), now in the early stages of being established (Box 1). While the details of AIIB's operations, funding priorities, and processes are yet to be finalized, AIIB could play a key role in providing additional financing for the SREB.

Under appropriate risk and revenue sharing arrangements, public–private partnerships may also emerge as possible sources of financing for physical connectivity projects in Central Asia. However, this will be a challenge under the present business climate and governance standards in the region. Additional challenges are the need to maintain prudent levels of public indebtedness and to address the limited fiscal and administrative capacity for operations and maintenance expenditures of the countries in the region. Notwithstanding these challenges, continued development of physical connectivity within and between the Central Asian countries remains a high priority for the region.

Software Connectivity

Effective connectivity depends not only on the physical transportation networks in place but also on the corresponding "software"—logistics and processes at and behind the borders and on the overall business environment and investment climate in the individual countries (Rastogi & Arvis, 2014). Indeed, one of the main lessons learnt from CAREC's transport corridor projects was that many of the benefits of those projects remained unfulfilled by the lack of simultaneous progress on "software" (ADB, 2014a).

World Bank's trade logistics indicators point to significant bottlenecks arising from poor connectivity software in Central Asia. With the exception of Kazakhstan, the composite trade logistics indexes for Central Asian countries are worse than for those of most of their Eurasian neighbors (Table 1). Moreover, although there are wide differences in openness to regional and global markets across the five Central Asian countries, most of them are at the bottom of the World Bank's Doing Business rankings on "trading across borders" (UNDP Regional Bureau for Europe, 2014). The burden of customs procedures weighs heavily on Central Asia's trade, with the number of documents required for both exporting and importing being one of the highest in the world. Outside Central Asia, only some of the African countries have comparably high number of documents required for trading across borders.

The World Bank's (2014) Doing Business Survey places the average cost (excluding tariffs) of getting a container of imports to Tajikistan from the nearest port close to US$10,000. The figures for other Central Asian countries are about half that of Tajikistan. Yet, even these figures are much higher than those for other landlocked countries, such as Laos in Southeast Asia or Nepal in South Asia (UN ESCAP, 2014). The average tariff equivalent of intraregional non-tariff trading costs[7] in North and Central Asia was as high as 144 percent—twice that of Association of Southeast Asian Nations (ASEAN) and thrice that of East Asia (EA-3)[8] and the European Union (EU) (EU-3)[9] (UN ESCAP, 2014). The same study estimates that extra-regional trading costs for North and Central Asia with almost any other regions in the world are much higher—400 percent with ASEAN, 270 percent with South Asia; 220 percent with the EA-3; and 166 percent with even the EU-3.

Table 1. With the Exception of Kazakhstan, the Composite Trade Logistics Indexes for Central Asian Countries are Worse than those of Most of their Eurasian Neighbors

	Logistics Performance Index, 1–5 (Worst–Best)	Burden of Customs Procedures, 1–7 (Worst–Best)	Number of Documents (Import)		Quality of Port Infrastructure, 1–7 (Worst–Best)
Country	2014	2013	2013	2014	2013
Kazakhstan	2.7	4	10	12	2.7
Kyrgyz Republic	2.2	3.2	9	11	1.3
Tajikistan	2.5	3.7	11	12	1.7
Turkmenistan	2.3	N/a	N/a	N/a	N/a
Uzbekistan	2.4	N/a	11	13	N/a
Russia	2.7	3.3	9	10	3.9
Turkey	3.5	3.8	7	8	4.3
China	3.5	4.2	8	5	4.5
India	3.1	3.8	7	10	4.2
Eurozone	3.6	4.9	4	5	5.3

Source: World Bank (2015).

Long transit routes, multiple border crossings, and long waiting times at the borders are the major factors behind poor trade logistics in Central Asia. In Central Asia, for a typical 500-km journey by a 20-ton truck, more than three-fourths of total stopping time, or 25 hours, occurred at border-crossing points (CAREC, 2011). Moreover,

> lack of containerization, coupled with protectionist measures (to benefit domestic trucking industries), creates the need to transload cargoes onto different licensed vehicles. This problem is further compounded by inefficiency attributed to a shortage of cargo handling equipment, the frequent malfunction of equipment that is on hand, and excessive paperwork when goods cross borders. (ADB, 2014a)

Complicated and time-consuming cross-border procedures and documentation, visa requirements, and inadequate and inefficient border facilities cause significant delays. These, in turn, encourage, and are compounded by, corrupt practices at and behind the borders, including traffic police stops and bribes required along national transport routes (UN ESCAP, 2014).

In addressing these software components of connectivity, streamlining procedures, simplifying documentation, automating processes, eradicating corruption, and, above all, ensuring transparency in business-related procedures are some of the key measures that are required at the national levels (Organisation for Economic Co-operation and Development, World Trade Organization, & The World Bank, 2014). At the regional level, Central Asian countries have to focus on harmonizing the trade- and business-related procedures and processes among them so that "multiple border crossing of goods and services"—an essential requirement of regional and GVCs—is made much more business friendly and the current "thick" borders become much "thinner." Effective regional arrangements are crucial to address the "multiple choke points" across borders and integrate Central Asian countries both within themselves and with the rest of the world.

Encouragingly, in recent years, countries in the region seem to be more willing to enhance cooperation between their border agencies. Kazakhstan and the Kyrgyz Republic, for example, began joint customs control and a single-stop inspection of vehicles, goods, and passengers at border crossings in August 2012 (UN ESCAP, 2014) and should ease very significantly with the imminent accession of the Kyrgyz Republic to the Eurasian Economic Union (EEU) (Kazakhstan already is). Future regional initiatives to improve connectivity software should be leveraged on much better access to ICT in support of harmonized and cost-effective border practices and trade logistics. Indeed, Central Asian countries should be able to cut their trade logistics costs and significantly gain in economic efficiency through even a moderate improvement in their broadband penetration (UN ESCAP, 2014).

A recent study has proposed a number of measures that could be taken over the medium term at the regional level to strengthen Central Asia's connectivity software in general and its supply-chain efficiency in particular (Rastogi & Arvis, 2014). Three broad sets of these recommendations deserve special mention: (i) more efficient container movement (establish alliances with international freight forwarders and railways, consolidate scheduled trains on fewer terminals, set up a continuous "track and trace" system for transit merchandise); (ii) greater role for private sector in logistics service provision (develop professional standards for truckers, define the role of freight forwarders, and align the regulation for customs brokers with international best practices); and (iii) better trade and transit facilitation (institute paperless customs declaration methods, interconnect the transit information systems across the countries in the region, and phase out existing obstacles to transit by trucks) (Rastogi & Arvis, 2014).

There is much merit in Central Asian countries undertaking these policy reforms—many of which would require broad regional-level agreements. Central Asian countries could anchor these regional agreements and their implementation on CAREC's future agenda on strengthening regional connectivity software. In particular, the experience gained under CAREC's "corridor performance monitoring" initiative[10] should be valuable in looking at future options for improving cross-border connectivity in Central Asia. In the immediate future, an effective implementation of the trade and transport facilitation measures already agreed under the CAREC program should be accorded priority.

Information and communications technology would be a key element of connecting the countries within the region, with the neighboring countries, and with the world at large. It would enable easier access to knowledge, best practices, and innovation, which would enhance local productivity. The ability to take advantage of this technology depends critically on how fast the Central Asian countries would be able to increase their broadband penetration. Bandwidth affects both the volume and speed of information transmission—similar to how the width of highways in road transportation enhances the volume and speed of traffic movement. Indeed, some estimates suggest that across Asia, on average, a 10 percent increase in broadband penetration is associated with a 1.34 percent increase in per capita income—in absolute terms, the gain in per capita income works out to about $50 (UN ESCAP, 2014).

Bandwidth expansion, however, depends to a certain extent on physical ICT infrastructure, particularly on cable and sometimes satellite services. Although ICT infrastructure has been expanding rapidly in Asia and the Pacific, bandwidth is still far lower than it is in North America or in Europe (UN ESCAP, 2014). Central Asian countries currently lag behind in electronic communications connectivity, including broadband penetration. Effective measures are needed to increase investments to upgrade the ICT infrastructure in Central Asian countries. Strategies to improve access to ICT should, however, be giving enough consideration to enhanced cyber security. National-level initiatives would benefit significantly from cross-border, regional, and interregional cooperation in improving access to ICT in Central Asian countries.

Integrating Trade and Production

Despite the huge connectivity bottlenecks, Central Asia's global links through trade have increased in the past decade or so. As a result, the region now has an average trade–GDP ratio of about 64 percent.[11] The Kyrgyz Republic has the highest trade–GDP ratio of about 112 percent, followed by Turkmenistan (73 percent), Kazakhstan and Tajikistan (67 percent each), and Uzbekistan (43 percent). However, Central Asian countries export mainly primary commodities—oil and natural gas in the case of energy-rich Kazakhstan and Turkmenistan, metals for all countries other than Turkmenistan, and agricultural commodities in the case of all countries. In exchange, they import consumer goods from the rest of the world (ADB Institute, 2014b; UNDP Regional Bureau for Europe, 2014). The share of primary commodity exports is more than 80 percent for Kazakhstan, Tajikistan, and Turkmenistan and about 60 percent for the Kyrgyz Republic and Uzbekistan. In terms of their imports, the share of manufactured imports is more than 80 percent for Kazakhstan and Turkmenistan, about 70 percent for Uzbekistan, and more than 50 percent for the Kyrgyz Republic and Tajikistan.

Geographically too, exports are concentrated in a small number of countries—China, the EU, and Russia—although in recent years, Central Asian countries are gradually reorienting their trade toward Turkey, Iran, and South Korea (ADB Institute, 2014b). Despite this gradual diversification, Central Asian countries are not well integrated into the regional and global production networks and supply chains. Traditionally, trade integration has been the bedrock of regional integration (ADB, 2008). Countries that are closer to each other—in terms of either distance between their major trading and commercial centers or geographical contiguity of their borders—tend to trade more among themselves than with other countries. There is also empirical evidence suggesting that increasing trade within a geographic region can be more conducive to export diversification, structural change, and industrial upgrading than trade with countries outside the region (Felipe & Kumar, 2010).

Geographic trade gravitation and its benefits, however, are contingent on the degree of cross-border barriers to trade (both tariff and non-tariff), flows of foreign investment, and transfer of technology. For most of the twentieth century, global trade integration had focused on lowering tariffs. As a result, tariffs are already quite low in most countries around the world. Along with liberalized foreign investment regimes, at-the-border restrictions on foreign investment have also fallen. Combined with ICT revolution of recent decades, international trade is increasingly revolved around production integration through regional, as well as global, value chains.

About 70 percent of global trade is currently linked to regional and GVCs (consisting of intermediate goods, machinery, and services), about double its share at the beginning of the twenty-first century (OECD et al., 2014). Such intra-industry trade is "business-to-business" deals, not the traditional "business-to-consumer" variety that focuses on domestic market share. Countries on both sides of this trade (and production) equation have to pay attention to align their investment climate, business environment, and even overall governance standards more generally with regional and global best practices (Box 2). What is more, the private sector has to be treated as an equal partner in public policy making rather than governments treating it as a passive "policy taker."

The package of reforms required for that extends far beyond the conventional trade policy reforms that focused on tariff and non-tariff trade barriers

> no one field of public policy or firm behavior can offer the "silver bullet" for a country or firm, as eliminating barriers in a single area may be insufficient to trigger investment or scaling up of existing activities if other policies or shortcomings continue to weigh the supply chain down with significant costs. (OECD et al., 2014)

Box 2. Twenty-first Century Trade Integration Issues

Except for agricultural commodities, market access negotiations are likely to be much less significant in the twenty-first century global trade regime than in the past. Reciprocal multilateral tariff reduction and market access negotiations of the kind—"I cut my tariffs if you cut yours" or "my market for yours"—are increasingly becoming less important for trade and production integration across countries (Baldwin, 2014). For both richer and poorer countries, trade and production integration in the twenty-first century is mainly about becoming part of the regional and global value chains.

The old distinction between "export promotion" and "import substitution" is also not relevant for countries pursuing industrialization through trade and production integration. Countries and companies in the twenty-first century are required to promote and facilitate both components of trade, exports, and imports—"the way that trade policy is conceived requires adjustment; it is necessary to value imports as well as exports, to reduce time delays as well as tariffs, and to look at 'behind the-border' regulatory measures as well as 'at-the-border' measures'" (OECD et al., 2014).

As it is already becoming clear, it is mostly about an integrated package of investment, technology (technical know-how), management practices, and marketing skills moving from higher wage, more industrialized countries, to lower wage, less industrialized ones. What the latter has to offer in return is not just cheaper labor but also a package of robust (preferably internationally benchmarked) infrastructure, investment climate, business environment, trade logistics services, and overall governance standards—many of which are behind-the-border parameters (Baldwin, 2014). "This outcome has many monikers—offshoring, fragmentation, vertical specialization, production sharing, global value chains, etc.…[unlike] 20th century trade, where all the sources of comparative advantage are immobile and the goods trade is the only way of exploiting comparative advantage" (Baldwin, 2014).

It is impossible to discuss GVCs without acknowledging the importance of services. The progression of the debate over services in the global economy has moved from one long period in which most services were dismissed as being "untraded" or "invisible," to a few decades in which they were widely seen as mattering solely to developed countries (which might more accurately be deemed post-industrial economies), to the current realization that the dividing line between goods and services is increasingly difficult to draw. Analysts are discovering that the services content incorporated in goods is not only large, but also rising. They are coming to appreciate how goods and services are blending together, a process that some call "servitization," "servicification," or the "manuservice" economy (OECD et al., 2014).

Moreover, an efficient services sector has become an indispensable ingredient for economies wishing to be part of the regional and GVCs.[12]

Given the many dimensions of the packages on both sides of the bargain, trade and production integration package deals are much more difficult to realize through multilateral negotiations than bilateral and regional agreements. Bilateral and regional initiatives are therefore likely to hold center stage in the twenty-first century's trade and production integration, even as the World Trade Organization (WTO)-led multilateral negotiations are pursued at a global level. While Central Asian Countries (Turkmenistan and Uzbekistan) who are not yet members should pursue accession to WTO, they will also have to design their trade and production integration initiatives against these imperatives of twenty-first century globalization.

This challenge is indeed formidable for Central Asian countries, particularly as some of them are not yet members of the WTO.[13] Expediting the process of accession to the WTO should be a priority for Uzbekistan and Turkmenistan. Even as they pursue WTO membership, Central Asian countries have to address the immediate challenge of reducing their unusually high trading costs both among themselves

Table 2. Today, Mean Tariff Rates in these Countries Range from about 3.3 Percent in the Kyrgyz Republic to about 11.4 Percent in Uzbekistan

Country	All Products		Primary Products		Manufactured Products		Share of Tariff Lines with Specific Rates
	Simple Average	Weighted Average	Simple Mean	Weighted Mean	Simple Mean	Weighted Mean	
Kazakhstan	6.3	3	5.7	0.9	6.4	3.6	18.1
Kyrgyz Republic	3.3	2.4	4.2	0.7	3.2	3.8	2.5
Tajikistan	5	5.2	4.5	1.4	5	7.3	1.4
Uzbekistan	11.4	5.1	10.7	2.2	11.4	6.6	9.6
Russia	7.1	5	7	4.6	7.1	5.1	19.5
Turkey	2.5	2.7	13.9	6.6	1.2	1.2	0.1
China	7.9	4.1	8.1	1.6	7.9	6.2	0.3
India	11.5	8.2	20	7.4	10.2	8.3	0

Source: World Bank (2015).

and with their Eurasian neighbors. As part of their trade liberalization measures, tariff barriers in Central Asia have already come down substantially in the last decade and a half. Today, mean tariff rates in these countries range from about 3.3 percent in the Kyrgyz Republic to about 11.4 percent in Uzbekistan (Table 2). These tariff rates are somewhat higher than in the Eurozone and Turkey, more or less comparable to those in Russia and China, and lower than in India. Except for Kazakhstan and the Kyrgyz Republic (along with Russia), the percentage of tariff lines subject to specific rates is negligible in the region. Some scope may exist for lowering tariffs further.

Yet, in the coming decades, reducing non-tariff trading costs (including those due to poor trade logistics and business procedures) will have to be high on the development policy agenda if Central Asian countries are to achieve meaningful trade and production integration both among themselves and with the Eurasian neighbors (as discussed in the section on connectivity).

Each of the five Central Asian countries has a bilateral free trade agreement (BFTA) with the other four. Yet, most of these BFTAs are somewhat shallow agreements—none of them cover services trade, they have highly ambiguous rules of origin, and many of them exclude large areas of merchandize trade (Das, 2012). In addition to the web of intraregional BFTAs, these countries also have many bilateral and multilateral free trade agreements (FTAs) with a number of their distant and not-so-distant neighbors.

In addition to these bilateral and multilateral FTAs, two of the Central Asian countries—Kazakhstan and the Kyrgyz Republic—have also joined Russia, Belarus, and Armenia to launch the EEU in January 2015.[14] This has made the current intraregional trade and commercial relations within Central Asia somewhat more complex. If Kazakhstan and the Kyrgyz Republic had not joined the EEU, a gradual consolidation of the BFTAs among the five Central Asian countries into a single Central Asian FTA (with a single rule of origin, a common list of excluded items, and expansion to cover services trade) would have been an achievable option for them. However, the bilateral economic integration between Kazakhstan and the Kyrgyz Republic is likely to go beyond the FTA stage with these countries joining the EEU.[15] This then complicates the realization of a single FTA among the five Central Asian countries.

Given the current situation, one option for further trade and production integration could be that Tajikistan, Turkmenistan, and Uzbekistan—either individually or together—join the EEU over time. That way, Central Asian countries would not only integrate their trade among themselves but also with

one of their large neighbors—Russia. That has the potential to bring significant gains to the Central Asian countries, especially since all of them have substantial cross-border labor movements with Russia. However, in recent years, Central Asian countries have had strong and growing economic links with China too. Moreover, over the next three and half decades, Central Asian countries could also benefit from integration with their other Asian neighbors—South Asian Association for Regional Cooperation (SAARC) countries, and Iran in particular.

Thus, irrespective of whether or not any of the three countries (Tajikistan, Turkmenistan, and Uzbekistan) join the EEU over the long term, Central Asian countries will have to work at better integrating their trade and production with their dynamic Asian neighbors. Only then will they be able to successfully integrate themselves with Eurasian and global production networks and supply chains.

This integration process with their Asian neighbors can be promoted through forging FTAs but Central Asian countries should simultaneously pursue working within the global multilateral framework. At the least, these countries must ensure that any regional or bilateral agreements do not discriminate against non-members—indeed, this is a critical requirement of "open regionalism." Irrespective of whether the FTA or the multilateral route is taken, in keeping with the imperatives of twenty-first century trade and production integration, Central Asian countries should be prepared to undertake the required package of reforms that extends far beyond the conventional trade policy reforms as discussed earlier.

Cooperating on Water and Energy

Water and energy are essential natural resources for Central Asia's long-term development. In managing these resources, there are two critical dimensions: managing efficiently and equitably the domestic production and use of water and energy and collaborating effectively among the countries in the region in sharing and transporting the resources across borders.

Sharing the Common Water Pool for Agricultural Use and Hydropower Generation

The region's water resources are predominantly transboundary in nature, with most of the region's surface water resources originating in the mountains of the Kyrgyz Republic, Tajikistan, and Afghanistan. These waters flow into the two main rivers to countries downstream—Kazakhstan, Turkmenistan, and Uzbekistan—which are a part of the Aral Sea Basin[16] (Global Water Partnership, 2014). Annual renewable surface water in the Aral Sea Basin is estimated at 116 km^3, of which more than two-thirds (79 km^3) flows through the Amu Darya river and the remaining through the Syr Darya river (37 km^3); more than two-thirds of the water flow from Amu Darya rises in Tajikistan and a similar share of the water flow from Syr Darya originates in the Kyrgyz Republic (Granit et al, 2010).

Water reservoirs built during the Soviet era modified the natural flow patterns of the Amu Darya and the Syr Darya rivers by storing and distributing water across the region throughout the year. The Kyrgyz Republic controls about 60 percent of the water reservoir storage capacity of the Syr Darya river, while a similar share of the water storage reservoir capacity of the Amu Darya river is controlled by Tajikistan, which also controls some of the reservoir capacity of the Syr Darya river (Granit et al, 2010). Post-independence, competing claims on this regional pool of water resources for agricultural and hydropower use have caused severe pressure points and potential for water conflicts among the Central Asian countries. Developing mechanisms for an efficient and equitable management of the region's water resources is thus crucial for Central Asia's socioeconomic development.

The current state of affairs in the development of water resources and hydropower in Central Asia is inextricably linked to the breakdown of the Soviet era water and energy sharing arrangement (which by all accounts was highly wasteful and inefficient). During the Soviet regime, the Kyrgyz Republic and Tajikistan provided water to Kazakhstan, Turkmenistan, and Uzbekistan in the summer and received Kazakhstani, Turkmen, and Uzbekistani energy supplies—coal, gas, and electricity—in the winter. Dams in the Kyrgyz Republic and Tajikistan collected and stored water in autumn and winter and released it in spring and summer to irrigate downstream crops. In exchange, Uzbekistan and Kazakhstan provided electricity from their thermal plants to the Kyrgyz Republic and Tajikistan during winter months, as well as other forms of energy, such as coal and gas (ICG, 2014).

However, with the dissolution of the Soviet Union, the newly independent states began to pursue energy sharing strategies from their national perspectives. Kazakhstan and Uzbekistan, for example, began to demand market prices for their hydrocarbon exports. The Kyrgyz Republic and Tajikistan, unable and unwilling to pay these prices, began using their water in winter to produce hydropower rather than storing it for use by others in the summer, leading to excess water flows and flooding in downstream countries in winter and downstream water shortages in summer. In recent years, China and Russia have also courted the two upstream countries for developing the latter's hydropower potential (Granit et al, 2010), and each country has developed ambitious plans to develop its hydropower capacity with the construction of major dams.

Herein lies a major dilemma—achieving the aspirations of Vision 2050 would require that the region successfully exploits its vast water resources which would inevitably require the development of large water storage reservoirs on the Amu Darya and Syr Darya rivers. Yet, the complex interconnectedness of the river systems of Central Asia leads to serious tension between upstream and downstream neighbors, especially between the Kyrgyz Republic and Tajikistan on the one hand and Uzbekistan on the other hand[17] on the equitable and efficient sharing of the water resources (GWP, 2014; ICG, 2014; Granit et al, 2010). The current deep divisions about the potential completion of Rogun dam, a major hydropower investment pursued by Tajikistan, serve as an example of the continuing tensions which may be generated in the decades to come if upstream and downstream countries do not find a way to cooperate with each other in sharing water resources (Box 3). This situation will be further exacerbated when Afghanistan starts to reclaim its traditional extraction of water from the Amu Darya.

As noted above, there are two key dimensions to the challenge of efficient and equitable management of water—one national and the other regional (World Bank, 2014 "From volume to value"). The national sources of weak water management refer to how water is managed by individual countries once diverted from the rivers. The regional sources of poor water management refer instead to how river flows across countries are shared among the five countries. Collective cooperative actions are critical to deal with this second dimension of water management. A recent World Bank study estimates that national actions to improve the efficiency of water use alone would bring in welfare gains of US$8.9 billion to the region and intraregional cooperation among the five Central Asian countries—most importantly, exporting hydropower to South Asian neighbors—would add a gain of another US$2 billion, or over 20 percent (World Bank, 2014).

As a matter of fact, the estimated 20 percent additional welfare gain is perhaps a conservative estimate of the benefits from intraregional cooperation on water sharing, as this does not take into account many of the benefits that would accrue from eschewing highly destabilizing cross-country diplomatic and political conflicts. Indeed, water-related cross-border conflicts could escalate and spill over to other economic, social, and political spheres, thus threatening the prospects of sustained growth and development in the coming decades (GWP, 2014; ICG, 2014).

Box 3. Rogun Dam

The Rogun dam project in Tajikistan, which was begun in Soviet times and—if completed—would be the world's highest dam, has been at the heart of the debate on water sharing between Tajikistan and Uzbekistan. In 2014, the World Bank completed a multi-year study on Rogun, which concluded that the project is technically, seismically, and environmentally feasible and could provide not only much needed power supplies for Tajikistan's own use, but also could facilitate efficient water storage and release from a river basin-wide perspective, including both the timing of summer water release for downstream countries and the possibility of inter-annual transfers from wet years to dry years (World Bank, 2014 "Key Issues for Consideration on the Proposed Rogun"). However, Uzbekistan has severely criticized the study and questioned key aspects of the technical assessment. Moreover, it does not trust Tajikistan to manage dam operations for the benefit of all riparians. Therefore, Uzbekistan remains opposed to any plans to continue construction of this dam. For now, the project appears to be stalled as international financing for its huge investment cost (US$3–5 billion) is not in sight, in view of the political dispute in the region and Tajikistan's weak implementation capacity. Similar, albeit somewhat less acrimonious, debates have surrounded the plans to construct other major dams in the region, for example, the Kambarata dams in Kyrgyz Republic.

What are possible means for Central Asian countries to come to an agreement on regionally beneficial hydropower investments? Four interdependent elements will likely be essential: (i) a full, technically sound, and independent assessment of benefits, costs, and risks; (ii) an effective mechanism which ensures that governments in the region commit to share the benefits and costs of the investments equitably among the countries; (iii) the establishment of a minimum element of trust among partner governments that none of them will renege on their commitments; and (iv) adequate financing from national and international private and public sources for what are major investments. One way to help establish these four key preconditions is the setting up of a consortium of partner governments in support of specific major projects, with the participation of international financial institutions, which would not only provide the independent technical assessment and help raise the needed financial resources, but could also help guarantee the adherence to intergovernmental commitments. The potential access to international climate change financing resources could serve as an additional element in bringing about an agreement. As long as the current lack of trust among key governmental players persists, the prospects for progress along these lines look bleak, but this is no reason not to continue the search for a cooperative solution, since the effective management of the regional water resources remains a key to achieving the aspirational vision of Central Asia 2050.

A recent study on global water management finds that Central Asia's "water cooperation coefficient"—a composite measure of cross-border water cooperation—is one of the lowest among 147 countries (SFG, 2013). The study shows, for example, that the water cooperation coefficient[18] between Tajikistan and Uzbekistan is below 33—a threshold level below which member countries run the risk of water war, potentially jeopardizing regional security. "Water is not only about development and health. Water is also about security of people and nation" (SFG, 2013). There is thus merit in avoiding cross-border water conflicts through cooperation, even as the five countries make concerted efforts at enhancing water management efficiency at the national level.

Central Asia's experience with intergovernmental arrangements on water sharing has been disappointing, so far. In the aftermath of the Soviet collapse, an Interstate Coordinating Water Commission (ICWC) consisting of all five Central Asian countries was created through a 1992 intergovernmental agreement (ICG, 2014). Unfortunately, "although the system is still in place, it has achieved little" (ICG, 2014). The key problem with the ICWC arrangement seems to be that it set country-level water quotas at more or less (plus or minus 15 percent of) the Soviet era levels, without an obligation for

downstream countries to supply energy in return. Upstream countries thus perceive such an arrangement as inherently unfair to them.

Numerous other agreements, of varying effectiveness, were layered over the 1992 Agreement, more than three dozen on the Syr Darya alone (ICG, 2014), but they have not effectively filled the systemic gap left by the breakdown of the system in place during the Soviet era (Granit et al, 2010). In particular, countries have been unable to collectively agree on how much of the water reserves should be used for irrigation as against electricity generation and at what price. Equally importantly, even when cross-border agreements have been agreed, they have not been effectively implemented. Cross-border water conflicts have thus continued in Central Asia (GWP, 2014; ICG, 2014; Mosello, 2008). Indeed, "for decades experts have been calling for a 'multifaceted regional approach…to address energy, agriculture, and demographic aspects of water use' in the region—an approach that requires taking account of multiple political, social, and economic factors" (ICG, 2002). So far, Central Asia has been unable to implement such a regional approach.

Some have suggested a two-track approach to regional water management—one track for water sharing from the Syr Darya river involving the Kyrgyz Republic and Uzbekistan and another for Amu Darya involving Tajikistan and Uzbekistan (ICG, 2014). While such a two-track approach has the benefit of disentangling the complex issues into more tractable halves, it runs the risk of developing divided regimes for water sharing within Central Asia. It may then be almost impossible to decipher and develop an integrated regional mechanism involving all five Central Asian countries. In addition, such bilateral arrangements would leave out Turkmenistan, which has to be an integral part of any regional water sharing arrangement. On balance, therefore, it is advisable for Central Asian countries to work toward an effective regional mechanism that covers the water sharing and management from both the rivers.

Strengthening the ICWC and its mandate is an option that Central Asia should consider seriously.[19] The biggest challenge here would be to empower ICWC to manage regional water in a transparent and fair manner. That, in turn, would require the member countries to delegate enough decision-making responsibilities from national governments to ICWC. As experience elsewhere shows, for example, in the decades-old cooperation between India and Pakistan on the Indus river (Linn & Pidufala, 2008), a fair amount of "learning-by-doing" will be involved in making ICWC a workable arrangement for the joint management of Central Asia's river water resources.[20]

Aside from developing regional institutions to manage regional water sharing arrangement, the development of a regional power market is also an important part of regional cooperation in Central Asia (Granit et al, 2010). CAREC's regional power trade master plan has already started identifying priority projects and initiatives for implementation during the second decade of CAREC. These corridor-based energy cooperation projects and programs will, among other things, focus on exploiting the potential for regional and interregional trade arising from different sources of power generation in different countries. To facilitate such regional power trade, the CAREC program is expected to promote an integrated regional transmission system[21] (CAREC, 2011). However, since the five countries together constitute a hydropower surplus region, the benefits from interregional cooperative arrangements with their Eurasian neighbors will be much larger than intraregional cooperation alone.

Cooperating on Oil and Gas

Central Asia has substantial oil and gas reserves, but no outlets to the open seas. It thus has only one option for its oil and gas production: pipelines. However, to transport gas from Central Asian countries to their final destinations in Europe or Asia, pipelines have to be unusually long. More seriously, they

have to transit through one or several countries to reach their ultimate markets, which creates additional transit risks and costs to projects which inherently have huge fixed costs to begin with. The volatile international oil prices add further risks to pipeline projects. Regional cooperation among the Central Asian countries can help to mitigate some of these risks and make pipeline projects viable for the countries involved—originating, transit, and destination.

Among the first pipelines built in the region was the Turkmenistan–Iran pipeline (in the 1990s), which transported gas from Turkmenistan to northern Iran. The distance covered was short, and no transit risks were involved. This was followed by a high-profile gas pipeline in 2009 from Turkmenistan through Kazakhstan and Uzbekistan to China's western region, in response to China's rapid growth of energy import demand and its quest to diversify the sources of its supplies. This project has been showcased as one of the best examples of Central Asia's interregional energy cooperation, with Kazakhstan and Uzbekistan benefitting from transit fees with the added advantage from the option of exporting some of their own gas through the pipeline (ADB Institute, 2014b).

To meet its huge and continuously growing demand for energy, China has expanded its joint gas pipeline development initiatives in Central Asia with four potential pipelines currently under consideration. Three pass (along the same pipeline corridor) through Uzbekistan and Kazakhstan and another traverses through Uzbekistan, Tajikistan, and the Kyrgyz Republic. However, China is not the only country keenly interested in Central Asian oil and gas sources. Many Eurasian neighbors have begun competing initiatives to develop gas pipelines and electricity transmission lines from Central Asia to their domestic destinations.

By some measures, Turkmenistan has enough gas to satisfy possible markets, including Russia, China, India, Pakistan, Iran, and Europe. However, transiting to those markets would include traversing several countries in Central Asia and the South Caucasus, the contested Caspian Sea, or some unstable regions in South Asia. The recent drop in international energy prices adds further complexities to these interregional pipeline projects.

Given these emerging factors, geopolitics rather than pure economic calculations are likely to decide how interregional energy cooperation for Central Asia will evolve in the coming decades. Currently, Russia controls the major pipeline networks for energy exports from Central Asia to Europe. The high dependence of Central Asia's states on energy exports and their inability to diversify energy export routes away from Russia has put them in a weak bargaining position vis-à-vis Russia in the past (Aminjonov, 2013; Xichao, 2014). However, India's renewed interest in connecting to Central Asia and the growing perception in recent years that China is dominating Central Asia through a range of initiatives (including the SREB) present Central Asian countries with more options to explore an effective multi-vector policy in the energy area and beyond.

Central Asian countries will have to strike an appropriate balance between economic imperatives and geopolitical compulsions. A coherent position by the five countries could help them in striking that balance. Once again, Central Asian countries could possibly use the CAREC forum for striking that balance.[22] Indeed, energy cooperation within the overall framework of the Strategy for Regional Energy Cooperation 2008 endorsed by the CAREC ministers is an important component of the CAREC program for the future. The program anchors the region's energy cooperation on five energy corridors: intra-Central Asia; Central–East Asia; Central–South Asia; Central Asia–Russia; and Central Asia–EU (CAREC, 2011).

CAREC's energy cooperation strategy has the potential to help Central Asian countries in forging stronger energy ties among themselves and with their Eurasian neighbors. However, the CAREC program focuses mainly on regional cooperation in the power sector and less so far on oil and gas. Moreover, the CAREC forum does not include Russia to the north, Iran to the southwest, and India to the south—three

key neighbors of Central Asian countries which are important partners in gas pipeline development for Central Asia. Given this, Central Asian countries will have to find practical ways of involving Iran, India, and ultimately, also Russia in developing CAREC's regional energy cooperation strategy.

Cooperating on Capital Flows

In 2013, capital inflows in the form of foreign direct investment (FDI) to the five Central Asian countries (without netting out intraregional flows among them) were about US$15 billion (World Bank, 2015).[23] Kazakhstan accounted for about two-thirds (or about US$10 billion) of the region's net FDI inflows. As a share of GDP, in 2013, FDI inflows were the highest for the Kyrgyz Republic (11 percent), followed by Turkmenistan (7 percent), Kazakhstan (4 percent), Uzbekistan (2 percent), and Tajikistan (1 percent). About half of the FDI to the region flowed into oil and gas—extraction and processing (25 percent), exploration (18 percent), and transportation (6 percent). More than half of the FDI comes from three economies—EU (31 percent), China (13 percent), and Russia (8 percent).

There is a wide variation in the sources of FDI across the Central Asian countries (ADB Institute, 2014b). About half of Kazakhstan's recent FDI inflows came from the EU (Netherlands alone accounted for 29 percent).[24] In Uzbekistan, Russia was the single most important source of FDI accounting for about 37 percent of the total.[25] In the other three Central Asian countries, China was the single most important source of FDI—accounting for 39 percent of Turkmenistan's[26] FDI, one-fourth of the Kyrgyz Republic's,[27] and 21 percent of Tajikistan's.[28]

Most of the FDI flows to Central Asian countries are seeking natural resources—for extraction, processing, and transportation of hydrocarbon and metals—and/or to capture domestic market share in sectors such as real estate (ADB Institute, 2014b). Extractive energy industries dominate in attracting FDI flows to Turkmenistan and Uzbekistan (nearly 80 percent in both countries) and Kazakhstan (about 50 percent). In the Kyrgyz Republic, FDI is a little more diversified, non-tradable sectors, especially real estate and consumer services account for about 37 percent of the total, followed by metallurgy (21 percent) and oil and gas (12 percent). Similarly, in Tajikistan, a large number of unclassified sectors attracted about 29 percent of total FDI, followed by mining (19 percent) and communications (18 percent).

As a share of GDP, the stock of inward FDI has increased significantly in the past decade and a half in all five Central Asian countries (Figure 1). In 2013, Kazakhstan had the highest share (about 60 percent) and Uzbekistan the lowest share (about 15 percent), with Turkmenistan and the Kyrgyz Republic's figures closer to that of Kazakhstan and Tajikistan's closer to that of Uzbekistan. Only Kazakhstan among the Central Asian countries has significant outward FDI stock—currently about 13 percent of GDP.

In 2013, portfolio flows to Central Asia were about US$18 billion or about 6 percent of the region's GDP. Most of these inflows were in the form of external investments in bonds and flows to the banking systems. These portfolio investments were somewhat comparable to the figures for India in that year, but much smaller compared to those for Turkey, China, or the Eurozone. Kazakhstan accounted for more than 90 percent of the portfolio inflows to Central Asia. The differences in the degree of portfolio inflows across countries largely reflect their varying stages of financial development. The nascent financial sectors outside of Kazakhstan—represented by inadequate access to banking services and the almost non-existent stock and bond markets—are the major reasons for the low portfolio capital inflows to these countries.

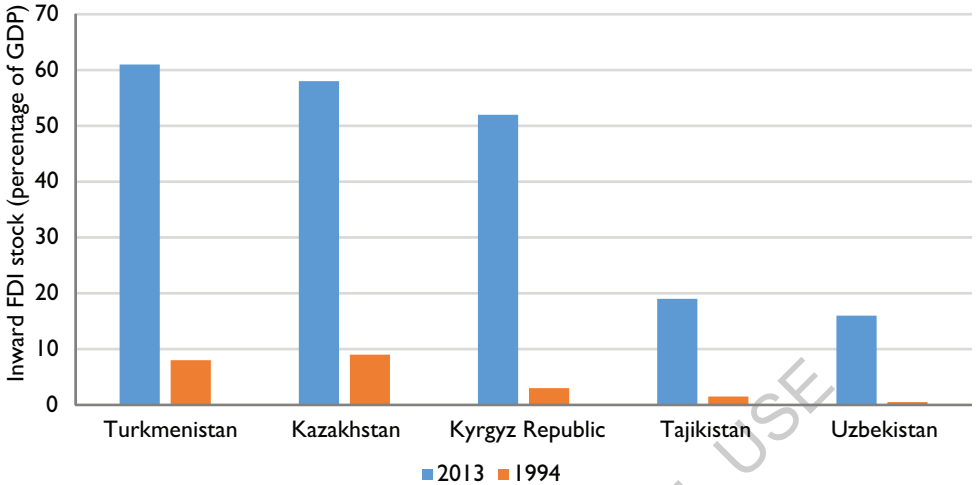

Figure 1. As a Share of Gross Domestic Product, the Stock of Inward Foreign Direct Investment has Increased Significantly in the Past Decade and a Half in All the Five Central Asian Countries

Source: World Bank (2015).

In terms of overall financial market development, World Economic Forum's 2014–2015 Global Competitiveness Report ranks the Central Asian countries among the bottom one-third of the 133 countries covered (Schwab, 2014). Intraregional capital flows—whether in the form of FDI or portfolio flows—are not large for Central Asia as a whole. To a large extent, this is as much a reflection of the low intraregional trade among the five Central Asian countries as of the underdeveloped states of Central Asia's financial sectors (Box 4).

However, as greater connectivity enhances trade and production integration in the future, Central Asia should see an increase in cross-border capital flows. That, in turn, would increase monetary–financial interdependence among themselves, as well as with their Eurasian partners. While such interdependence would help to better integrate them both intraregionally and interregionally, it could also lead to cross-border spillovers of macroeconomic shocks as happened in East Asia during the 1997–1998 Asian financial crisis.

Already, there is some evidence that the 2010 customs union among Belarus, Kazakhstan, and Russia has stimulated mutual cross-border penetration of Russian and Kazakhstan banks (ADB Institute, 2014b). Even without the 2010 customs union, net FDI inflows have fluctuated widely from year to year (Figure 2). Net inflows of FDI to some of these countries ranged from as low as 4.5 percent of GDP for Kazakhstan in 2005 to as high as 12.5 percent in 2008–2009 before stabilizing at about 7.5 percent in more recent years. With the exception of Uzbekistan, the range of yearly FDI flows as a proportion of GDP during these years has been even higher for the other Central Asian countries—from 5.2 to 22.5 percent for Turkmenistan, from ?0.3 to 12.0 percent for Tajikistan, and from 1.7 to 11.2 percent for the Kyrgyz Republic. As is to be expected, these fluctuations in capital inflows have also been reflected in movements of the real exchange rates of these countries—sharp appreciation during the boom and a reversal during the deceleration (ADB Institute, 2014a "Connecting Central Asia"). The more recent spillovers from the Russian recession and the ruble's fall, especially for Tajikistan and Uzbekistan—highlight the destabilizing effects of monetary and financial volatilities in the region.

Box 4. The Nexus between Trade and Capital Flows

Although the theoretical relation between trade and capital flows could be either positive or negative, there is robust empirical evidence indicating that counties that trade more among each other also experience larger capital flows across their borders (Antràs & Caballero, 2009; Kalemli-Ozcan & Nikolsko-Rzhevskyy, 2010; Taylor & Wilson, 2006). The key rationale behind this positive relationship is that trade tends to reduce asymmetric information across borders and hence enhances capital flows. It is thus possible that with more trade and production integration both within the Central Asian countries and with their Eurasian neighbors, they would witness an increase in capital flows.

Increased capital flows could lead to more macroeconomic and financial interdependencies across countries. Such interdependencies have the potential for macroeconomic and financial imbalances in one country to spillover to other countries, thus leading to cross-border financial contagion, as it happened for the Southeast and East Asian economies during the 1997–1998 Asian financial crisis. Increased capital flows thus need to be managed deftly so that they do not undermine financial stability. Often, capital flows tend to be pro-cyclical—rising during the upward phase of the recipient country's business cycle and falling during the downward phase. When it rains it pours, but then the rain often stops abruptly, causing a drought. Capital flows could thus not only induce undue exchange rate volatility, but also exacerbate domestic economic cycles, more often than not posing difficult challenges to macro-financial management in developing countries (Kose et al., 2009).

Countries need to advance thinking about taking on how best to manage volatility of capital flows, weigh whether or not capital controls should be included in the arsenal of Central Asia's policymakers' toolkit, and if yes, consider what types of policy tools they should be. Similarly, issues such as how to design countercyclical financial regulation, how best to complement conventional micro-prudential regulation with macro-prudential regulation, and how to design and implement regular stress tests for financial sectors are issues that would benefit from Central Asian countries taking a regional approach, not necessarily as substitutes for national policies and the global financial architecture, but as complementary to them.

True, arriving at anything close to a regional consensus on these issues will be challenging especially given that each Central Asian country is at a different stage of financial sector development from the others. For example, in designing any regional approach to macro-financial policies within Central Asia, these large country differences will have to be taken into account.

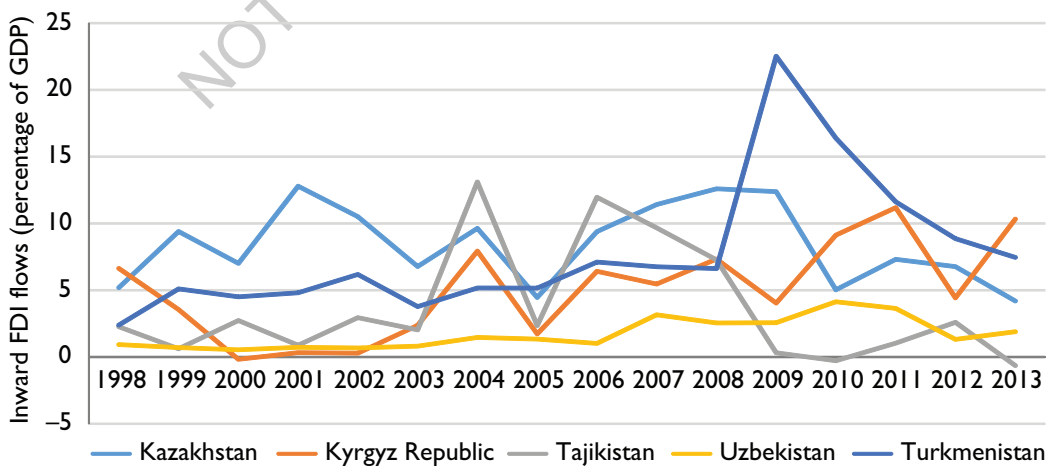

Figure 2. Even without the 2010 Customs Union, Net Foreign Direct Investment Inflows Have Fluctuated Widely from Year to Year

Source: World Bank (2015).

Table 3. There Are a Number of Ministerial Forums within the Central Asian Countries

Regional/Interregional Forums	Who Meets?	What Issues?
Eurasian Economic Community	Central Bank Governors	Monetary and financial
Council of International Schools	Finance Ministers	Economic crisis-related issues
Central Asia Regional Economic Cooperation	Finance Ministers	Trade, transport, and energy
Shanghai Cooperation Organization	Finance Ministers and Central Bank Governors	Macro-monetary and financial
Economic Cooperation Organization	Foreign Affairs Ministers	Trade, infrastructure, energy, and other sectoral Issues
Special Programme for the Economies of Central Asia	Foreign Affairs Ministers	Specific preselected issues
Central Asia, Black Sea, and Balkan Countries	Finance Ministers and Central Bank Governors	Macro-monetary and financial

Source: Author.

While such cross-border spillovers from capital flows might not be of significant concern in the near future, it would be prudent to not take such a situation for granted over the time horizon of this article. Macro-financial fluctuations arising from volatility in capital flows should thus be managed through appropriate national macroeconomic policies. Strengthening the national capabilities and resilience to do so should thus be a key priority. Simultaneously, the region should also gradually consider options of working toward some form of regional monetary–financial cooperation.

Given that regional monetary–financial cooperation initiatives take considerable time to design and agree on, let alone to implement, Central Asia could benefit from some amount of forward thinking on this issue, albeit gradually.

Fortunately, Central Asia has the advantage of learning appropriate lessons from East Asia. It also has the luxury to do the advance thinking on these issues during peacetime rather than as a rushed response to a crisis, as East Asia had to do. The five Central Asian countries do meet regularly at the ministerial levels in various regional and interregional groupings and forums, but their agendas are mostly focused on transport, trade, energy, or security (Table 3).

The forums that come closest to considering monetary and financial issues are the Central Banks Governors' Club of the Central Asia, Black Sea Region, and the Balkans and the Council of Central Bank Governors of the EurAsEc. The former, however, is too large and unwieldy a forum. With the recent dissolution of EurAsEc, its Council of Central Bank Governors is likely to be replaced by the central bank governors of EEU members. However, only two of the five Central Asian countries—Kazakhstan and the Kyrgyz Republic—are currently members of EEU. More importantly, only central bank governors, not finance ministers, are members of this forum.

Given the above situation, Central Asian countries may benefit from some advance thinking on the kind of regional monetary and financial cooperation. One option could be to gradually form a joint forum of finance ministers and central bank governors among the five of them.

Managing Migration

Central Asian countries have experienced substantial movements of people across their shared national borders. In a typical continental region as Central Asia, national borders tend to be highly porous, even if legal restrictions on cross-border movement of people are in place. In Central Asia, the situation is

Table 4. In Terms of the Stock of Migration, All Five Central Asian Countries Have Substantial Migration Rates

Country	Net Remittance as Percent of Gross Domestic Product	Stock of Emigrants as Percent of Population	Stock of Immigrants as Percent of Population	Top 3 Emigrant Destinations	Top 3 Immigrant Origins
Kazakhstan	3.1	23.6	19.5	Russia, Ukraine, and Uzbekistan	Russia, Ukraine, and Uzbekistan
Kyrgyz Republic	15.8	11.2	4	Russia, Ukraine, and Israel	Uzbekistan, Russia, and Ukraine
Tajikistan	38.8	11.2	4	Russia, Uzbekistan, and Ukraine	Russia, Afghanistan, and Uzbekistan
Turkmenistan	N/a	5.9	4	Russia, Ukraine, and Israel	Uzbekistan, Russia, and Kazakhstan
Uzbekistan	N/a	7	4.2	Russia, Ukraine, and Kazakhstan	Russia, Tajikistan, and Kazakhstan
Russia	–1.1	7.9	8.7	Ukraine, Kazakhstan, and Israel	Ukraine, Kazakhstan, and Belarus

Source: World Bank (2011).
Note: Figures are for 2009/2010.

exacerbated by the fact that borders of the former Soviet republics were of limited significance and in any case were drawn without much attention to ethnic divides. Hence, this is a region that has strong people-to-people connections intraregionally and with the neighboring countries, especially Russia and Ukraine. Managing migration both within the region and with Russia and Ukraine amicably would be beneficial to the Central Asian countries in the next few decades.

The latest available data show that all the five Central Asian countries have positive net emigration to the rest of the world. World Bank estimates that during the 5-year period 2010–2015, the net flow of migration (flow of emigrants minus the flow of immigrants) from Uzbekistan was about 200,000 people. The corresponding figure for the Kyrgyz Republic was 175,000, for Tajikistan about 100,000, for Turkmenistan about 25,000, and for Kazakhstan close to zero (World Bank, 2015).

In terms of the *stocks* (as different from the yearly *flows*) of migration too, all five Central Asian countries have substantial migrant populations (Table 4). This is not surprising given that these countries were all once part of the Soviet Union and significant portions of people originating in each of these parts of the former Union stayed back in the other parts, even after the breakup of that Union. Recent flows of emigrants and immigrants have only added to these existing stocks of migrants. The gross migration rate (stocks of immigrants plus emigrants as percent of a country's population) is the highest for Kazakhstan (about 43 percent) and the lowest for Turkmenistan (about 9 percent). In terms of net stock of migration (stocks of emigrants minus immigrants) also, Turkmenistan has the lowest figure and the Kyrgyz Republic and Tajikistan have the highest figures (about 7 percent each), with Kazakhstan and Uzbekistan in the middle (about 3 percent each).

Net external remittances (inflows from emigrants minus outflows from immigrants) constitute as high as 39 percent of GDP for Tajikistan but far less for Kazakhstan at about 3 percent of GDP. The Kyrgyz Republic stands somewhere in between, with a remittances-to-GDP ratio of about 16 percent. The recent Russian recession and the ruble's fall, however, seem to have made a significant dent in remittances to Central Asian countries, especially to Tajikistan and Uzbekistan.

All five Central Asian countries have strong people-to-people connections with Russia and to a lesser extent with Ukraine. There is thus merit in all five Central Asian countries cooperating both among themselves and with Russia in particular in working toward a system of freer cross-border migration of people and labor.[29] This should be beneficial for all the countries involved, as there is increasing global evidence that a freer migration of people across national borders is economically beneficial for both the sending and receiving countries (Box 5).

One of the covenants of the 2014 agreement establishing the EEU is that it will give citizens of all member countries equal access to education and employment across borders (UN ESCAP, 2014). This is a welcome initiative. Drawing on this initiative, those Central Asian countries that are not yet members of EEU—Tajikistan, Turkmenistan, and Uzbekistan—have the option to join the EEU and hence be part of the freer migration policies of the Union. Over time, as cross-border labor flows with other

Box 5. Cross-border Labor Mobility—The Fourth Freedom

Empirical evidence suggests that breaking the barriers to movement of people across national borders can generate overall economic gains ranging from 50 percent to 150 percent of global GDP—several times the gains that can be realized from the best package of global trade liberalization (Clemens, 2011; Lucci & Martins, 2013). Not only that, there is also enough evidence to show that a freer migration policy regime can make a strong dent in poverty in the emigrant countries (through remittances) and at the same time alleviate labor shortages in the host countries (Moraga & Rapoport, 2011). One does not need to go for a full liberalization of migration to realize modest gains. The World Bank estimates that the gains from even a small liberalization of labor migration could result in larger gains than by much more ambitious global trade liberalization (World Bank, 2006).

Some experts, therefore, consider freer movement of labor across national borders as the "fourth freedom" in any regional integration initiative without which the benefits from the other three freedoms—free movement of "goods, services, and money or capital"—would be vastly reduced (Trachtman, 2009). Almost four decades ago, some experts had wondered why there is such a contradiction—"migration is the oldest action against poverty…what is perversity in the human soul that causes people to resist so obvious a good?" (Galbraith, 1979 quoted in Lucci & Martins, 2013). Another expert expressed similar concerns almost two decades since—"if international policy makers were really interested in maximizing worldwide efficiency, they would spend little of their energies on a new trade round or the international financial architecture. They would all be busy at work liberalizing immigration restrictions" (Rodrick, 2001 quoted in Trachtman, 2009).

However, despite the overwhelming evidence that shows huge benefits from freer labor movements across borders, there is small political appetite at the global level for liberalizing labor movements. The lack of global appetite for any big moves to break the barriers to migration is also reflected by the absence of any multilateral institution or international forum (comparable to the WTO, IMF, or the G7) acting as a premier body that addresses cross-border migration issues. Whatever efforts are undertaken by international institutions, such as the International Labor Organization (ILO), the International Organization for Migration (IOM), or the Global Commission on International Migration (GCIM), the focus has been mainly on protecting the rights of migrant populations mainly by legalizing undocumented migrants rather than addressing the issue of liberalizing migration per se.

Given this predicament, freeing labor movements has generally taken the bilateral or multilateral regional route. The EU has undertaken the most comprehensive regional-level initiative at freeing cross-border movement of labor among its member countries. Outside of Europe, there have been regional- level initiatives at freeing, at least partially, cross-border labor movements in most of Latin America, the Caribbean, much of Africa, among the North American Free Trade Agreement (NAFTA) members, and in Asia among the ASEAN countries (Trachtman, 2009).

Eurasian neighbors increase significantly, Central Asian countries would benefit from entering into bilateral or multilateral agreements based on a freer movement of labor with those countries too but ensuring nondiscriminatory clauses with the rest of the world.

The most beneficial outcome would be if all the countries involved agree for free flow of all labor. More generally, Central Asia should avoid ASEAN-style regional labor market integration that involves "a freer flow of only certain kinds of skilled labor" as it is likely to vastly limit the benefits of labor mobility (Huelser & Heal, 2014). In particular, it could simply raise the relative wages of skilled labor, thus delaying the convergence of the less-developed economies in the region with their more developed counterparts. Administering the ASEAN-style labor market liberalization will also be a daunting task in practice, imposing huge compliance costs to both the richer and the poorer members.

Strengthening Regional Institutions

Regional integration is both a deregulatory and a re-regulatory process—deregulatory because it involves lowering cross-border economic barriers among the integrating countries and re-regulatory because as cross-country economic barriers come down, there is a need for region-wide cooperation to handle the cross-border spillover effects of national actions and policies (Hix, 2010).

As the previous sections outlined, such cross-border cooperation would need some kind of regional institutional framework. The key role of such a regional institutional framework is to enable countries to first agree on the common collective goals and subsequently ensure that member countries adhere to the national actions agreed upon to achieve those goals. How heavy or light Central Asian countries want the institutional arrangements will be for the countries to decide.

At one end of that spectrum are informal regional networks or forums (such as the CAREC or the Greater Mekong Subregion [GMS]), with little delegation of authority from their member countries—these networks and forums basically serve as regional platforms to facilitate member countries to act together on common issues that need collective actions. At the opposite end of the spectrum are supranational institutions (such as the European Commission and the EU Court of Justice) to which the member states confer significant decision-making powers—these institutions often have extensive mandates to enforce region-wide obligations on the member countries. In between these two kinds of institutions are institutions (such as Council of Europe, the Mekong River Commission, or ICWC, in the case of Central Asia) that are created by intergovernmental agreements but without the participating states necessarily giving up their ultimate right to either accept or reject the suggestions and decisions made by such regional bodies. However, in practice, since all the member states are signatories to the agreement establishing such institutions, the suggestions and decisions made by them have a better chance of acceptance by the member states (than perhaps the ones by informal networks and forums).[30]

Undoubtedly, a set of effective regional networks or forums and cooperative arrangements would be a significant support to achieving many of the "open regionalism" goals for Central Asia. It is also important to recognize that regionalism in a vast land-locked region, such as Central Asia, needs somewhat more cross-border cooperation than integration with sea-linked economies of, for example, East and Southeast Asia. Imports and exports from land-locked countries have to transit through many neighboring countries before reaching their final destination of regional and global markets. That in, turn, requires more cooperative arrangements among countries that share contiguous land borders.

The initiatives for improving Central Asia's connectivity are interregional in nature. As outlined in the section on connectivity, there is merit in the five Central Asian countries using the CAREC forum to come up with collective strategies and actions for their effective participation in the Silk Road Initiative.

Similarly, as the section on trade integration outlined, the CAREC forum could also provide the institutional framework for the region's energy cooperation over the next decades. That said, Central Asian countries have to creatively consider means of involving Russia, Iran, and India in their interregional energy cooperation, as these three countries are not yet members of CAREC.[31]

As for the trade and production integration objectives outlined earlier, irrespective of whether the Central Asian countries integrate with their Eurasian neighbors through forging bilateral or multilateral FTAs or through the global multilateral framework, it would not make significant fresh demands on them to build newer regional institutions.

As the section on trade integration highlighted, serious regional monetary–financial cooperation in Central Asia is not contemplated in the next decade or so; hence, for now, some advance thinking on a regional finance ministers and central bankers forum (that should over time include as many neighboring countries as would be needed, depending on the evolution of cross-border financial links with them) would be an appropriate starting point. How this process would proceed in the coming decades would also depend on the evolution of the EEU, particularly whether it would expand to cover all five Central Asian countries.

Moving over to the sphere of sharing the regional water pool, as outlined in the corresponding section, Central Asian countries would benefit from a stronger ICWC (already created through an intergovernmental agreement), but this would require more delegation of responsibilities and authority to it by the member countries. To be effective, ICWC needs more teeth, first in devising an efficient and fair water sharing arrangement and equally importantly in monitoring and enforcing the commonly agreed arrangements. As the section on migration highlighted, managing cross-border migration would also require some intergovernmental arrangements that would assist in mutual recognition of each other's labor standards, skill categories, and education qualifications. It is noted that ASEAN is planning to use such an arrangement in its economic community building effort[32] (ADB Institute, 2014a; Das, Menon, Severino, & Shrestha, 2013).

No doubt that strengthening the institutional base for regional cooperation would not be easy. The difficulties faced by the ICWC and the many layers of intergovernmental agreements introduced subsequently are a testimony to this. Yet, a minimum level of regional institutional framework cannot be wished away by the integrating member countries in any regional integration program (ADB, 2010). One option for Central Asia would be to use one or more of the existing regional networks and groupings as the platform for future regional institution building efforts.

Among the more important of these networks, CAREC and the Economic Cooperation Organization (ECO) have all the five Central Asian countries as members. CAREC, however, does not include Central Asia's three major Eurasian neighbors—Russia, India, and Iran. ECO, in comparison, has Iran (and Pakistan and Turkey) but none of the other three big Eurasian neighbors—China, Russia, or India. Moreover, ECO has not been very active for a long time now, not to mention that its main focus is on cultural issues and not economic issues. The Shanghai Cooperation Organisation (SCO) has both China and Russia as its members, but unlike CAREC, its major agenda is security cooperation. CAREC, with its trade, connectivity, and economic integration agenda thus seems to be a regional network more suited to serve as the platform for many of Central Asia's institutional strengthening efforts, especially in the areas of cooperation in connectivity, energy, trade, and production (Box 6).

CAREC also has close to a decade and a half of experience in Central Asia's regional cooperation and integration in many areas—transport, energy, trade policy, and trade facilitation. Since its inception in 2001, CAREC has been able to establish an informal yet effective institutional arrangement; its flexibility and pragmatism also seem to respond to the unique needs and circumstances of Central Asian countries. That said, Central Asia has to work with its Eurasian neighbors to calibrate CAREC's institutional

Box 6. CAREC—A Platform for Central Asia's Institutional Building?

The key constraint of CAREC playing the pivotal role in strengthening the institutional framework for Central Asia's regional integration is its exclusion of Russia, India, and Iran. However, it is encouraging to note that

> CAREC's first decade saw an initial focus on transport routes that took advantage of PRC's western borders opening, following the collapse of the former Soviet Union. Gradually, the CAREC Program has begun to recognize the need to expand its geographic reach to Europe, the Caucasus, the Russian Federation, the Middle East, East Asia, and South Asia to harness the full range of economic possibilities that these regions offer. The geographic shift will continue throughout the next decade. (CAREC, 2011)

It is thus conceivable that the membership of CAREC could be expanded to include Russia, India, and Iran, albeit gradually, in the next three and half decades. That said, managing the geopolitics of this membership expansion of CAREC would pose some very challenging issues.

Given the possibilities of CAREC's membership expansion over time, its guiding principles of result-oriented pragmatism, country ownership, and the 2+X principle are well suited to be the pivotal forum to develop an informal, flexible, yet effective regional institutional structure for Central Asian countries' integration among themselves and with their Eurasian neighbors. Indeed, the 2+X principle provides a highly practical process of regional integration, as it allows CAREC regional projects and initiatives to be kick-started by just two member countries while giving the option for other countries to subsequently join as and when they are ready and willing—"the flexibility and pragmatism that guide CAREC operations have worked well in allowing countries to proceed multitrack and multispeed" (CAREC, 2011).

The fact that most of the major multilateral development partners of Central Asian countries are partners in the CAREC program also ensures that it could be "a powerful platform from which to marshal financial resources through collaborative efforts of CAREC governments, multilateral institutions, and the private sector" (CAREC, 2011). Incorporating the newly launched AIIB, the New Development Bank (NDB), and the Silk Road Fund as the new development partners in the CAREC forum would further enhance the pivotal role of CAREC in Central Asia.

Moreover, CAREC already has an informal and flexible institutional structure with the Ministerial Conference setting the overall regional cooperation and integration strategy to guide the CAREC program, and with the Senior Officials' Forum carrying out its primary role as a recommendatory body to the Ministerial Conference—both these intergovernmental networks are supported by the multilateral development partners and the CAREC Secretariat. As the program matures and takes on initiatives requiring stronger political commitment, there is merit in member countries considering the convening of regular summits of their heads of state—"above all, it will also give credence to CAREC's vision and goal" (CAREC, 2011).

As the number of CAREC's member countries increase and regional integration intensifies, there would also be a need for continuously adapting the technical capabilities, financial resources, and location of the CAREC Secretariat, which is currently managed by ADB located in Manila. At the same time, relocating the CAREC Secretariat from the ADB headquarters in Manila to one of the CAREC member countries should be a crucial step that needs to be taken to give it more regional identity and ownership (Linn, 2012). Another key area that CAREC will have to address over the coming years and decades is in improving the implementation of its projects and programs—"implementation accountability has lagged behind joint declarations—a significant drawback…in the CAREC region…CAREC countries need to internalize the awareness that acting in concert will create synergies far greater than each individual country acting at its own pace" (CAREC, 2011).

framework—drawing lessons from experiences elsewhere but at the same adapting the institutional strengthening process to suit its unique geographic, demographic, economic, and above all political context.[33] In addition, the institutional strengthening process should not be seen as a one-shot event but more as a gradual "learning-by-doing process" that would also depend on and interact with the integration trajectory itself.

Balancing National and Regional Interests—The Leadership Issue

Striking a pragmatic balance between national interests and regional imperatives is at the heart of Central Asia's "open regionalism" strategy. As experience elsewhere demonstrates, such a balancing is easier said than done and robust and sensitive regional leadership is an enabling factor in grappling with this difficult balancing act. In Central Asia, who will take that regional leadership role? Three things, which enable countries, need to play a regional leadership role are: resources, legitimacy and acceptability, and willingness (Acharya, 2011; Madhur, 2012).

Within Central Asia, Kazakhstan is the geographically largest and the richest country. It accounts for about two-thirds of the region's land area and GDP. Its per capita income of more than US$11,000 (at market exchange rates) is marginally higher than Turkeys' and more than 80 percent of Russia's. Kazakhstan's per capita income is about two and half times the region's average, more than one and half times that of Turkmenistan—the next richest country. Thus, Kazakhstan has the most financial resource for the leadership role.

However, Uzbekistan has the largest population among the five Central Asian countries. It may, therefore, perceive itself as having more legitimacy for regional leadership. However, being much poorer than Kazakhstan and Turkmenistan, it is not adequately resourced to take up the commitments of regional leadership. Among the other three Central Asian countries, the Kyrgyz Republic and Turkmenistan have similar populations, but Turkmenistan is the geographically largest and the richest economy. Finally, Tajikistan has the largest population among the three countries but the smallest and the poorest economy.

However, economic or population size are only two (no doubt, relevant) factors to consider in devising leadership models. The five countries of the region must consider alternative options and modalities which suit them best. This is an issue which could be explored as regional cooperation and integration gets more traction among the countries. Indeed, much as the leadership issue is important from a long-term visionary perspective, it does not have to be settled one way or another in haste. It could and should evolve, as the regionalism process progresses over time. It should be treated as a process rather than an event and a one-off or once-and-for all decision.

Whatever regional leadership model evolves over time, the key challenge for the region would be to strike a better balance in their partnerships with their Eurasian neighbors. As one expert put it succinctly: "during the Soviet times, Central Asian economies were mostly oriented toward Moscow. Now they can increasingly look toward China, South Asia, Europe, and the Middle East to gain access to markets, while maintaining strong links with Russia" (Linn, 2012). Indeed, in its commercial and geopolitical balancing act in the next few decades, Central Asia would find it increasingly important to look toward India, Pakistan, and Afghanistan in the south and Iran in the west, even as its already established ties with Russia and China mature.

Some Early Confidence Building Measures

Undertaking the various measures as proposed above will undoubtedly be difficult, to varying degrees, and will take considerable good will, time, and effort on the part of all to be successful. However, two thematic areas may be suitable for immediate consideration:[34] These are (i) climate change and (ii) topics with a strong technical content.

Obviously, climate change cooperation is in the common interest and thus a win–win proposition for all the countries in the region. Cooperation on climate change could thus be a useful platform for

the leaders of the region to be seen taking on a common stance for the good of the region and the world at large.

The second area, involving cooperation on topics with significant technical content, requires considerable data gathering and discussions on technical issues which could hopefully more readily transcend the political rivalries within the region. Some such topics could be:

1. Hydrometeorology—surveys on current water basin catchment areas would be very helpful in devising future cooperation on water-related issues and the last one completed is already more than 7 years old;
2. Seed banks;
3. Disaster management—the region would benefit from some common protocols of mutual response and help in case of natural calamities;
4. Public finance management professional network—the region could benefit from a network of public finance professionals who could share knowledge of best practices and experiences;
5. And standardization of accounting and auditing practices—along the lines of the REPARIS system. This could be a major achievement in making the region more attractive to foreign investors.

The above list is by no means exhaustive but could be a good starting point—comparatively easy to agree on and implement and yet serve as important confidence building measures.

Conclusion

Realizing the 2050 vision of a Central Asia that cooperates and coordinates well at three different levels—intraregionally, interregionally, and globally—would require the five countries to pursue a strategy of open regionalism. As this article has argued, that strategy, while forging stronger ties among themselves and with their Eurasian neighbors, should not discriminate against the rest of the world. Implementing such a strategy requires a fine balancing act between national interests on the one hand and regional, interregional, and global imperatives on the other hand. This article has identified several issues and challenges that Central Asian countries will have to address in that multilevel balancing task. Whether it is in the sphere of connectivity, water and energy, trade and production, capital flows, or cross-border migration, the more they cooperate, the more will the countries and their people be able to achieve shared prosperity.

This article has outlined the strategic priorities and policy actions that countries will have to pursue to move the region in the direction of open regionalism over the next three and half decades, though different countries will pursue such a process on different tracks at different speeds. Implementation of the open regionalism strategy will thus have to follow a multitrack, multispeed process. The article has also emphasized the need for the countries to cooperate to build the necessary, albeit minimum, regional institutional framework to support open regionalism. It has also underscored the need for countries to work together on a range of issues relating to regional leadership for cross-country cooperation and integration.

No doubt, achieving the goal of open regionalism in the coming decades is a highly challenging task for the countries involved. However, evidence from what is referred to as the Golden Age of Central Asia shows that active cooperation between the countries of the region existed then and there is no reason to believe that it cannot exist in the future, notwithstanding the trials and tribulations of the immediate past and the present. Over time, Central Asian countries would be able to appreciate the stakes they have

in ensuring successful cooperation and economic integration of their economies both among themselves and with their dynamic Eurasian neighbors.

In many ways, the five Central Asian countries do form more of a region than just a collection of countries. To exploit the advantages of a regional agglomeration, national commitments for greater regional cooperation would be critical. The defining objective should be one of "regional initiatives with national ownership." Central Asian governments and their people at large need to appreciate that the payoffs from embracing open regionalism for them are huge, as it would greatly empower them to fully exploit the advantages of their unique location amidst some of the most dynamic economies in the world. Ultimately, the issue may not be whether the Central Asian countries can afford "open regionalism" for shared regional prosperity but whether they can afford not to pursue it.

Notes

1. See, for example, ADB (2008), ADB Institute (2014b), Das (2012), Linn (2011), and Pomfret (2014).
2. Even as Central Asian countries make progress in improving their overland connectivity, they would need to improve their access to ports, without which the benefits of better overland connectivity will be vastly reduced, since their access to global markets would remain limited.
3. Central Asia Regional Economic Cooperation is coordinated by the ADB with the World Bank, the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), the Islamic Development Bank, and the United Nations Development Programme (UNDP) as the other multilateral institution members. The country members are the five Central Asian countries plus Azerbaijan, Afghanistan, China, Mongolia, and Pakistan.
4. See ADB (2014a) for the country coverage and other details of these transport corridors.
5. A somewhat similar initiative proposed by the United States in June 2011—the New Silk Road Initiative (NSRI)—aimed to connect Central Asia over land to the EU, Russia, and Turkey to the northwest; China and East Asia to the southeast; and Afghanistan, India, Pakistan, and Iran to the southwest (Fedorenko, 2013). The NSRI has many components, one of which is building overland transportation that would connect Central Asia to South Asia through Afghanistan. However, the transport component of the NSRI has not made much progress, mostly for lack of funding.
6. From a historical perspective, the SREB and MSR date back to about 2,000 years ago, when ancient merchants traveled from China overland by camel caravans to Europe, India, and the Middle East, as well as by sea from China's eastern coast, passing Southeast Asia, the southernmost part of India and East Africa, all the way to the Persian Gulf and the Red Sea, thus strengthening economic ties and cultural communication in ancient times.
7. This composite index provides a comprehensive aggregate measure of all costs involved in trading goods across borders with another country (excluding tariff costs) relative to the costs of trading within the domestic economy. It therefore captures not only cross-border transport costs but also other costs associated with cumbersome import or export procedures and inefficient logistics and payment services. The composite cost index could be interpreted as tariff equivalent of all non-tariff trading costs (UN ESCAP, 2014).
8. EA-3 includes China, Korea, and Japan.
9. EU-3 includes France, Germany, and the United Kingdom.
10. This initiative, started a few years ago, introduced a process-based corridor performance measurement and monitoring modality under which several components of the performance of a corridor, mainly those relating to the time and cost of moving freight within the CAREC region, are measured and monitored regularly. Such monitoring is expected to help identify bottlenecks in moving freights within the corridors and address them effectively (ADB, 2014a).
11. Central Asia's trade–GDP ratio is higher than that of Turkey (49 percent), China (47 percent), Russia (43 percent), and India (42 percent) but somewhat lower than that of Eurozone (72 percent), but far lower than some of the most open Southeast Asian economies, say Vietnam (146 percent), Malaysia (140 percent), Cambodia (138 percent), and Thailand (130 percent).

12. The service content of exports now averages about 42 percent for the G20 countries, with that share being more than 50 percent for the United States, United Kingdom, India, and the EU (OECD et al., 2014).
13. Among the five countries, the Kyrgyz Republic (since 1998), Tajikistan (since 2013), and Kazakhstan (since 2015) are members of the World Trade Organization (WTO), while Uzbekistan has applied for WTO membership (in 1996) but has not yet acceded to it. Turkmenistan has not yet applied (UNDP Regional Bureau for Europe, 2014).
14. The EEU's founding treaty was signed in May 2014 by Russia, Kazakhstan, and Belarus. In October 2014, the trio was joined by Armenia and in December 2014, the Kyrgyz Republic became the fifth member of the EEU. The EEU has been an extension of a Customs Union that existed among Russia, Kazakhstan, and Belarus. Until October 2014, there was also a Eurasian Economic Community (EurAsEc) that consisted of Kazakhstan, the Kyrgyz Republic, Tajikistan, Russia, and Belarus, which was dissolved in October 2014 (Voloshin, 2014).
15. However, the details of the EEU are not yet known and how it would evolve over time is highly conjectural at this stage.
16. The main sources of water in Central Asia are the Syr Darya (2,200 km long) and the Amu Darya (2,540 km long) rivers. The two rivers account for 90 percent of Central Asia's river water and 75 percent of the water needed for its irrigated agriculture. Though the Kyrgyz Republic and Tajikistan are just 20 percent of the Aral Sea basin, 80 percent of the area's water resources flow from their territory. The Kyrgyz Republic control the downstream Syr Darya flow at the Toktogul dam and reservoir; Tajikistan continues to build, intermittently (for lack of funds), the Rogun dam on the Vakhsh, a major Amu Darya tributary. If completed, it will be the world's tallest dam. Another major dam, Nurek, about 75 km from Rogun, has been in operation since 1980, but its hydropower potential is diminishing due to silt; many experts think that silt may make it inoperative within the next 8–15 years (ICG, 2014). This would have major consequences for Tajikistan, the dam produces some 80 percent of the country's electricity. The rivers make the Kyrgyz Republic and Tajikistan, Central Asia's poorest republics, potentially world leaders in renewable energy. Currently, however, Tajikistan is unable to provide much of its population with more than one hour a day of electricity in winter (ICG, 2014).
17. There is mounting evidence that huge amounts of free water (50–90 percent) purportedly for Uzbekistani irrigation never reaches the crops due to poorly designed irrigation canals. Moreover, water has mobilized deep salt reserves, raised the water table, and waterlogged fields as a result of over-irrigation. In Turkmenistan, 95 percent of irrigated lands suffer from salinization. Approximately, 30 percent of Kazakhstan's agricultural lands are salinized, waterlogged, or at-risk. In Tajikistan, 16 percent of irrigated lands suffer from some degree from salinization. "These three countries—the Kyrgyz Republic, Tajikistan, and Uzbekistan—are at the heart of Central Asia's water problems. Although Kazakhstan and Turkmenistan are impacted by decisions made by the upstream states, the greatest risk of conflict arises from the tensions between these three" (ICG, 2014).
18. The water cooperation coefficient ranges between 0 and 100, the higher figures representing better cross-border water cooperation (SFG, 2013).
19. Since Afghanistan is another (upstream) country outside Central Asia, there is merit in the ICWC involving it in the regional water management deliberations, if not immediately, at least over time. One option is to make Afghanistan a member of the ICWC.
20. Some experts generally consider the Mekong water sharing and management arrangement as a success story. However, in recent years, the Mekong regional water management has come under severe pressure, with countries, such as Laos, taking unilateral actions to go ahead with construction of dams on the Mekong River, despite huge concerns over the environmental implications of its hydropower projects expressed by the neighboring countries. Similarly, the fact that China, a major upstream country on the Mekong River with just under half of the river's close to 5000 km length running in its territory, is not a member of the Mekong River Commission vastly reduces the Commission's effectiveness. What is even more important is that it is generally felt that China is not even sharing accurate information on the water levels in the many dams that it has built on the Mekong River (Clark, 2014).
21. That said, the discontinuation of CAREC's regional power grid project a few years ago and the later partial resurrection of that project point to the formidable challenges that CAREC will have to address in effectively implementing its energy cooperation strategy.

22. However, until now, CAREC has largely limited its role in regional power development and in the oil and gas sectors.
23. The volume of FDI inflows to Central Asia as a whole is a little more than the volume received by Turkey, about 50 percent of India's, about 20 percent of Russia's, 6 percent of the Eurozone's, and 4 percent of China's FDI inflows in that same year.
24. Followed by Switzerland (12 percent), China (8 percent), and Russia (7 percent).
25. Followed by South Korea (21 percent), the United States (9 percent), and ASEAN (7 percent).
26. Followed by Russia (16 percent) and Middle East countries (12 percent).
27. Followed by Canada (22 percent) and the United Kingdom (12 percent).
28. Followed by Russia (18 percent), the United Arab Emirates (17 percent), and the United Kingdom (16 percent).
29. Encouragingly, most of these countries have visa-free regimes with each other and with Russia and the majority of other post-Soviet countries. Visa regime exists only in Turkmenistan (for everybody) and in bilateral relations between Tajikistan and Uzbekistan.
30. How binding their recommendations or decisions are on member countries would depend very much on the specific covenants of the agreement, sometimes blurring somewhat the distinction between networks, intergovernmental agencies, and supranational institutions.
31. One option may be to gradually expand CAREC to include these three countries.
32. See ADB Institute (2014a) for an intermediate mechanism between mutual recognition and mutual harmonization for managing cross-border liberalization of labor movements in the ASEAN context.
33. See ADB (2010) and ADB Institute (2014a) for more detailed discussion of these issues for the cases of Asia and ASEAN, respectively.
34. As discussed at the 2010 Eurasian Emerging Markets Forum in Thun, Switzerland.

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