TITLE: THE INTEGRATION OF CENTRAL ASIA: ECONOMIC DIMENSIONS AND PROSPECTS. PART 2.

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The Integration of Central Asia: Economic Dimensions and Prospects

Research Paper for the National Council for Eurasian and East European Research

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Table of Contents

Introduction .......................................................... 1

Part One ......................................................................... 5
  Summary ................................................................. 5
  The Significance of Intraregional Trade in Central Asia ....... 7
  The Central Asian Union: Economic Cooperation ............. 17

Part Two
  Introduction ............................................................ 1
  Summary ................................................................. 3
  Turkmenistan and Tajikistan: Non-Members of the Central Asian Union and the
    Process of Regional Economic Integration ..................... 5
    Turkmenistan ........................................................ 5
    Tajikistan ............................................................ 10
  Common Water Resources: A Situation Pregnant with Conflict 13
  Transportation as an Integrating Factor .......................... 20
  Is the Economic Integration of Central Asia Realizable? ......... 25
Introduction

This is Part 2 of a two-part report which, together, represent a condensed version of the results from research conducted within the framework of a project bearing the same title and funded by the National Council for Eurasian and East European Research. The research was conducted from February through November 1997. In a more extended version, this subject will be treated in a book to be published in early 1998 by M.E. Sharpe and entitled Central Asia: the Cost of Independence.

The post-Soviet realm finds itself (and will continue to do so) in a position of instability and uncertainty. The centrifugal tendencies that initially prevailed after the collapse of the Soviet empire have since given way to tendencies toward integration. A multitude of ideas for integration have appeared, amidst a broad discussion of plans for federations, confederations, a Eurasian Union, and other forms of association. But until now, all these have been still-born. And this is because political motivations and interests prevail over economic realities. The process of regionalization in the post-Soviet space has only begun, although one must assume that the political map of Eurasia has already assumed its final form.

From the moment that the Soviet empire collapsed, the idea of creating a Central Asian regional union came to the fore. This notion arose as a counterpoint to the “Slavic Union” and as a reaction to the supercilious attitude of the three Slavic leaders, who had not seen fit to invite the leaders of Central Asia to Belovezhskaja Pushcha and to give them a voice in the liquidation of the USSR.

During the first stages of post-Soviet transition in the Central Asian states, it was widely believed that the shift to a market system could be coordinated or, at least, closely tied to integration at the regional level. The small scale of national markets, the lack of direct access to sea transportation, the cooperative links inherited from the old Soviet system—all this, it seemed, would impel these states to embark on intensive mutual cooperation and to coordinate their economic policies. Moreover, as specialists from the German Foundation for Economic Development (who prepared a specialized study of regional integration in Central Asia) concluded, in the early 1990s the states here still shared a number of common characteristics that, in principle, should have served to facilitate large-scale cooperation. Specifically, they identified the following common features:

- a single Soviet past, whereby the experience of the Soviet era could serve as the basis for economic and social development in Central Asia;
- Russian language, as the lingua franca for all the countries of this region;
- similarities in the economic situation: despite considerable differences in details, none of the Central Asian economies had a higher level of competitiveness, and all the states find themselves at approximately the same stage of development;

Part 1 was distributed by the National Council on January 8, 1998.
• the core of all the Central Asian economies is the production of primary goods for immediate export abroad; the creation of capacities to process these raw materials would help facilitate the process of market transition;
• the integrationist efforts in Central Asia could draw upon a common historical experience.³

The idea of integration has been supported by political steps as well. In addition to participation in the CIS, which many post-Soviet leaders regarded as an intermediate step toward large-scale integration, three Central Asian states — Kazakhstan, Kyrgyzstan, and Uzbekistan — established the “Central Asian Union” in 1994. The main goal of the latter was to proclaim the creation of a single economic space for the participating states. In 1996, Tajikistan accepted the status of observer in this process. In the course of the entire post-Soviet era, there has been a steady stream of declarations; innumerable documents have been solemnly signed; and many regional summits have been convened. But thus far the upshot of all this has been more symbolic than practical. The complex interweaving of factors (from political interests to the use of natural resources), some dating back to the remote past and others only emerging in the post-Soviet era, has been a central element in this general stasis and apparent inability to resolve basic problems and rebuild elemental structures.

This paper examines the problem of economic cooperation of the Central Asian states in terms of practical realities. It deals with a complex of interrelated questions: what factors determine the need for cooperation among these states and what are the practical results of this cooperation? What tendencies dominate in the Central Asian economic zone—centrifugal or centripetal? To what degree is each state dependent upon its neighbors? And, most important, to what degree can regional integration (more precisely, regional economic cooperation) become a catalyst for economic growth in Central Asia?

This study consists of two main parts. The first presents an analysis of the current situation and dynamics of intra-regional commercial relations and the realities for economic cooperation by Kazakhstan, Uzbekistan, and Kyrgyzstan within the framework of the Central Asian Union. The second part considers the inclusion of the other two Central Asia countries — Turkmenistan and Tajikistan — in the intra-regional economic relations of this region; it also analyzes the role of geographic factors in intra-regional relations (specifically, the common use of water resources) and the transportation network (a factor of great significance for integration).

Part Two

Summary

The differences in the economic potential of the various Central Asian countries are enormous. By tapping their own mineral resources, Kazakhstan, Uzbekistan, and Turkmenistan are essentially capable of becoming self-sufficient. Tajikistan and Kyrgyzstan, by contrast, are much poorer and have far less potential. Both countries have significant reserves of mineral resources and enormous hydroelectric capacities at their disposal; hence they too have some prospects for economic growth. However, for the present and foreseeable future, Tajikistan and Kyrgyzstan simply cannot survive without substantial assistance from their neighbors.

Of the five countries in the region, two—Turkmenistan and Tajikistan—are not members of the Central Asian economic union. Turkmenistan possesses natural gas, oil, and cotton; it also occupies a special place in the post-Soviet division of labor in Central Asia. As in the Soviet era, its main export continues to be natural gas. The leadership of Turkmenistan is clearly taking the route of maximizing gas exports to earn hard currency (i.e., through exports outside Central Asia and the CIS). An exceptional situation has come to prevail in Tajikistan. At present, this country is not even a unified state, but actually consists of several distinct zones; its central government is primarily sustained by economic and military assistance from Russia. Of all the Central Asian countries, Uzbekistan is the primary economic partner for Tajikistan.

Water resources play a particularly salient role in the relations among the states of Central Asia, one of the most arid zones on the entire planet. Despite the existence of vast reserves of oil and natural gas, the task of resolving the region’s water problems is the most important factor in determining the economic development of this region. Intensive development of irrigated agriculture, the growing needs of industry, and the demand for hydroelectric power all mean that water flows must be carefully ordered and regulated. A peculiar feature of Central Asia is the dominance of reservoirs for hydroelectric power stations, which in turn operate in accordance with the demand schedule for electricity. The result is an incessant conflict between the hydroelectric and agricultural sectors. This situation, moreover, is fraught with serious political implications. In the Soviet era, decisions on water allocation were centralized in Moscow; the dissolution of the USSR has devolved the politics of water in Central Asia to the national level. Water distribution and management remain a state function and are handled at the inter-state level. The absence of adequate international organizations to adjudicate disputes over water virtually ensures that, at some point in the near term, this most ancient regional issue might well ignite serious conflict in the region.

It is difficult to expect any major breakthrough toward regional integration. The foregoing factors lead one to conclude that Central Asia, as yet, does not possess the objective basis for
achieving fundamental, broad-based economic integration. This does not mean that economic cooperation is doomed to disappear entirely; on the contrary, such cooperation will develop within the framework of the single economic system inherited from the USSR as well as in certain new areas and spheres. The elements bequeathed by the former Soviet Union include an integrated, highly interdependent system of energy, oil and gas pipelines, transportation, and water systems. But this is an obligatory form of cooperation, based mainly on the simple lack of alternatives.
Turkmenistan

This republic holds a special place in the post-Soviet and Central Asian division of labor. As in the Soviet era, natural gas continues to be its main item of export. Moreover, the earlier pipeline system serves to make Turkmenistan, for the time being, totally dependent on Russia. In practice, Turkmenistan does not have the opportunity to act independently in shipping its natural gas to end users.

Cooperation with Uzbekistan and Kazakhstan is significant for Turkmenistan mainly because the pipelines that deliver natural gas to the Russian system (and, subsequently, to Europe) pass through the territory of these two Central Asian states. In addition, both countries (but especially Kazakhstan) are still rather large-scale users of Turkmenistan's natural gas. However, in the coming years, Turkmenistan will apparently continue to pursue a policy of reducing deliveries to those countries that have a limited capacity to pay for the natural gas.

It is thus no accident that the share of Central Asian countries in Turkmenistan's aggregate exports plummeted from 21.5 percent in 1994 to 8.6 percent in 1995. Almost all of this export goes to the members of the Central Asian Union; only an insignificant share goes to Tajikistan. It is important to note that, in 1994–95, Turkmenistan reduced the absolute volume of exports to the Central Asian region by nearly three fold. The exports to Uzbekistan showed a particularly strong decrease, and by 1995 this country had already dropped out the list of the top ten export markets for Turkmen goods. In 1994–96, export deliveries to Kazakhstan fell two-fold; that country dropped from second to fifth place in the list of export markets for Turkmenistan.

The reason for such changes lies in the fact that natural gas represents the lion's share of Turkmenistan's exports to Central Asian markets. However, as has already been pointed out, Turkmenistan—faced with the inability of its users to pay—has consistently ratcheted down the volume of its gas deliveries.

At the same time, Central Asia supplies less than 5 percent of the total imports to Turkmenistan, and in 1994–96 the absolute value of such imports did not exceed 70 million dollars. Most of these goods come from Kazakhstan and Uzbekistan. Because Turkmenistan has constantly had a favorable balance of trade with these countries, it has sometimes been forced to engage in barter deals and in clearing commercial transactions.

Turkmenistan's cautious posture toward regional cooperation is also due to natural and geographic factors. Thus, whereas the discharge of Syr-Daria (the largest water artery of the region)
is shared by four Central Asian states (Kyrgyzstan, Uzbekistan, Kazakhstan, and Tajikistan). Turkmenistan draws its water from the Amu-Daria basin. Although the republic depends almost entirely on river discharges that are formed on the territories of other republics, the only potential for disputes over the use of this water involves Uzbekistan.

The key component of the water system on the Amu-Daria is the Nurek water reservoir, located on the territory of Tajikistan. Its role in the water cascades formed by the Amu-Daria and a number of smaller rivers in Uzbekistan and the Karakum Canal (in Turkmenistan) is analogous to that played by the Toktogul reservoir in Kyrgyzstan. In principle, Turkmenistan finds it relatively easy to come to an agreement with Tajikistan about the terms for water usage, since the latter is keenly interested in obtaining natural gas from Turkmenistan. The main stumbling block is Uzbekistan, which itself is interested in supplying natural gas to Tajikistan in exchange for water, electricity, and aluminum. Whereas Turkmenistan reduced natural gas deliveries to Kazakhstan and Kyrgyzstan at its own initiative, in the case of Tajikistan this was due mainly to competition from Uzbekistan.

Until 1996, Uzbekistan had claims to the entire hydraulic engineering system of Turkmenistan. It justified such claims by the fact that this system was allegedly constructed with funds from the Uzbek SSR and by Uzbek builders.4

Given these circumstances, for a long time Turkmenistan preferred to resolve questions concerning water usage through an Inter-state Coordination Commission on Water, not through direct bilateral negotiations. Turkmenistan is perfectly satisfied by the fact that each state on the Commission has equal rights and the same number of votes. Especially in its initial phase, the Commission relied heavily on past practices with respect to the division of limits and quotas on water use. It is no accident that the President of Turkmenistan, Sapamurad Niazov, is so hypersensitive and hostile to proposals by international organizations to make certain corrections in how water use is regulated at the regional level: “This sharing [of water] has been a vital issue throughout history, and the World Bank should exercise caution. . . . The point is to ensure more efficient utilization of water resources.”5

There is yet another factor predisposing Turkmenistan to prefer multilateral diplomacy in resolving questions of water usage. Namely, it is the only country in Central Asia (or even in the CIS) that did not reduce the land area under cultivation, but actually increased this sown acreage by some twenty percent in the first half of the 1990s.6 Given the natural and climatic conditions in

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6“Ekonomicheskoe polozhenie v agropromyshlennykh kompleksakh gosudarstv uchastnikov SNG v 1995 g.,” Data Medium (supplement to Delovoi mir [weekly], no. 7 (18 July 1996), p. 2.
Turkmenistan, this expansion was only possible through an increase in water consumption by the agrarian sector. Given the limitations on water resources in the region, this growth amounted to a de facto redistribution of water in favor of Turkmenistan.

It was only in early 1996, at a meeting between presidents Karimov and Niyazov, that bilateral agreements were signed to regulate the utilization of water discharges. It is possible that, in exchange for Uzbek concessions on the use of water resources, Turkmenistan had to abandon its claims to the Kokdumalak oil fields—the largest petroleum reserves in Uzbekistan, but on territories contiguous to Turkmenistan. The latter, for a while, had insisted on holding discussions about “the fair division of hydrocarbon reserves.”

On the other hand, Turkmenistan is the only country in the region that, in theory, does not need to cooperate with its neighbors to construct new export avenues to world markets. In addition, at least hypothetically, Turkmenistan could build new gas pipelines in collaboration either with Iran, or with Afghanistan and Pakistan. In September 1995, Turkmenistan and Iran signed an agreement to commence construction on a gas pipeline from the deposits in Koperdzh (Turkmenistan) to the Iranian point Kurt-Kui, a total length of 140 km. and with a load capacity of 8 billion cubic meters per year. The gas should then go to the Iranian distribution network in the northern part of the country. Iran has agreed to purchase all 8 billion cubic meters. The cost of building the pipeline is estimated to be 215 million dollars, and Iran has assumed responsibility for 80 percent of this sum.

The Turkmen-Iranian pipeline project may grow into something still larger. It is known that, as far back as 1994, Turkmenistan, Iran, and Turkey agreed to construct a large pipeline following the route of Turkmenistan, Iran, Turkey, and Western Europe. The project would cost 7 billion dollars and have a load capacity of 28 to 30 billion cubic meters of natural gas per year. In theory, it could be built in six or seven years.

Commentaries usually underscore the geopolitical dimensions of the question: while realization of the Turkmen-Iranian agreement opens Central Asia to world markets, it also frees Iran from the international isolation superimposed by the United States. However, the interests embedded in these projects are, first and foremost, of a geoeconomic character. It is far from clear why Iran, itself a major producer and exporter of natural gas, should want to open world markets to its own competitor.

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8 Dmitrii Aliaev, p. 4.
Superficially, the most promising project is the route Turkmenistan, Afghanistan, and Pakistan. This project involves plans to construct a pipeline from the Dauletbad reserves in Turkmenistan to the city of Sui in central Pakistan and also the Pakistani town of Multan, with the possibility of further shipment to India.\textsuperscript{11}

However, the Pakistan-Indian route raises a plethora of purely economic questions. Thus, to what degree are the plans by Pakistan (and, later, India) to purchase large volumes of natural gas backed by a capacity to pay? What volume of investment is needed for these two countries to build the power stations that keep the natural gas flowing through the pipelines? What will be the final cost of constructing such a pipeline in a region intersected by high mountains and subject to seismic activity? And, most important, if these large scale projects are realized, what will be the net profit for the suppliers of hydrocarbon resources?

However these questions are answered, Turkmenistan is cognizant of the fact that the neighboring states in Central Asia are in no position to make any substantial contribution to the resolution of these tasks. As a result, it has chosen to pursue a policy which distances it from any regional unions and pro-integrationist associations. It follows the same policy, moreover, with respect to the CIS. Thus, Turkmenistan has not signed the Tashkent military agreement concluded in May 1992 by the majority of member-states in the CIS. It is also highly revealing that, in 1995, it downgraded its original status as a member of the CIS to that of an associate member, and indeed it has come to regard the whole CIS as merely a consultative mechanism.\textsuperscript{12} Ashkhabad has made neutrality the basis for its foreign policy, and in December 1995 the General Assembly of the United Nations formally granted Turkmenistan the status of “permanent neutrality.”\textsuperscript{13}

Turkmenistan is the only Central Asian state that, officially, does not regard the Taliban movement of Afghanistan as a threat to its own security. Even after February 1997, when the Taliban movement established control over two-thirds of the Afghan territory and impelled Uzbekistan, Kazakhstan, and Kyrgyzstan (together with Russia) to countenance the possibility of a large-scale war in Central Asia, Turkmenistan demonstratively refused to participate when the defense ministers from those other states met to make plans for a military response to the Taliban threat.\textsuperscript{14}


Evidently, Turkmenistan has some economic calculations behind this special foreign policy. Having colossal reserves of natural gas as well as a sufficiently well-developed industrial complex to extract this resource (a fact of critical importance), Turkmenistan seeks to secure several alternative routes—or, at a minimum, one such route—to world markets. To realize this goal, it needs to maintain balanced relations with all those states that, potentially, might provide new routes for a pipeline to world markets.

Turkmenistan’s attempt to distance itself from the Central Asian region, as well as its efforts to construct an alternative pipeline, can hardly evoke the support of its neighbors. For example, Uzbekistan makes no secret of the fact that it looks askance at the proposal to build a Turkmenistan-Pakistan pipeline. President Islam Karimov of Uzbekistan regards the rapprochement between Turkmenistan and Iran in 1992-95 in terms of an attempt by the “Islamic revolution” to penetrate the Central Asian region. In one interview, Karimov openly declared that the intensification of Turkmen-Iranian contacts threatens to subject his country to the fate of Tajikistan, and in general represents a menace for all states in the region.

Behind such declarations is an economic subtext. Having relatively large reserves of natural gas, but being rather ill-situated in the very center of this region, Uzbekistan fears that it will be left out of large international projects to ship its hydrocarbons to world markets.

To be sure, each of the potential exporters is waging a political struggle on every possible front. Thus, the very same Uzbekistan does not categorically preclude participation in a Turkmenistan-Pakistan pipeline. In May 1996, the presidents of Turkmenistan, Uzbekistan, and Iran—in the presence of their colleague from Pakistan—signed a memorandum of mutual understanding on the construction of an international pipeline. Iran assumed the role here as the foreign guarantor for Afghanistan, since the latter is still torn by internal strife and warring factions. Moreover, Islam Karimov proposed that the construction of a highway and railway that would run alongside the new pipeline.

Hence it is not entirely precluded that, in the event Turkmenistan, Uzbekistan, Afghanistan, and Pakistan come to a firm agreement, and the requisite investment capital can be raised, the first pipeline from Central Asia will go to the Pakistan city of Karachi. Incidentally, in the summer of 1996, Kazakhstan began to hold discussions with Pakistan about the possibility of laying a pipeline from the Kazakh deposits to ports on the South Seas.

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Tajikistan

An exceptional situation has come to prevail in Tajikistan. At the present time, this country is not even a unified state, but rather consists of several different zones. Some of these are under the control of the central government; some are ruled by power groups at the regional level; others have no formal authorities at all, but are simply subject to the depredations of field commanders and armed bands.

The main zones, which are partly under the control of formal state authorities, include Dushanbe and the contiguous oblasts, Leninabad Oblast, and Gornyi Badakhshan. Dushanbe itself is ruled by the central government of Emomali Rakhmonov (or the “Kuliab clan”); the northern territories centered in Khudzhande (formerly Leninabad) are under the control of the so-called “Leninabad (Khodzhent) clan,” which is traditionally oriented toward Uzbekistan. Gornyi Badakhshan is the focus of a fund created by the spiritual leader of Ismailis, Aga-Khan IV, who regularly sends flour, medicines, and other humanitarian assistance to the region.19

The central government under Rakhmonov is primarily sustained by economic and military assistance from Russia. According to estimates published by the Tajik opposition, in 1992–95 Russia provided more than 600 million dollars in aid and credits—not to mention the costs of maintaining border troops and the 201st Motor Rifle Division.20 Other states and international organizations—including such unlikely bedfellows as the United States and Iran—are also helping the central government to stay afloat. By mid-1995, the aggregate foreign debt of Tajikistan was estimated at 731 million dollars, which in fact exceeds that country’s GDP as measured in terms of the official exchange rate.21

Gornyi Badakhshan, which embraces 44.5 percent of the territory of Tajikistan, is cut off from the rest of the country by major mountain ranges. A strategic, year-round highway links the center of Gorno-Badakhshan Oblast (the city of Khorog) with Osh in Kyrgyzstan. This artery carries most of the freight and, in the winter, when the mountain route becomes impassible, it maintains the link between Gornyi Badakhshan and the external world.

Leninabad Oblast is the most developed region in Tajikistan and produces a significant part of that country’s GDP. Even a fleeting glance at a map shows that northern Tajikistan, like a wedge thrusting into the Fergan Valley, is economically oriented toward Uzbekistan and Kyrgyzstan, not to the regions of its own country located on the other side of a major mountain range.

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Hence it is hardly surprising that, among the Central Asian states, Uzbekistan is the primary economic partner for Tajikistan. In 1995, for instance, Uzbekistan accounted for 90 percent of its exports and about 80 percent of the imports.\textsuperscript{22} Moreover, in 1994–96, these bonds between Uzbekistan and Tajikistan noticeably intensified. Indeed, Uzbekistan ranks among the top three export markets for Tajikistan, while being the main source of imports to that country.

As to the profile of Tajik exports to Uzbekistan, electric power comprises about 90 percent of total exports, followed by unprocessed aluminum (6.7 percent). In turn, Tajikistan obtains mainly natural gas and electric power. This large-scale mutual flow of electric power dates back to the Soviet era. To be sure, if the balance is now in Uzbekistan’s favor, earlier Tajikistan was the “donor” of cheap hydroelectric power. It was only in the winter, when the volume of water in mountain streams fell, that Tajikistan’s seasonal shortage of electric power had to be covered through deliveries from Uzbekistan.

At present, Uzbekistan remains a major supplier of electric power. Users include the Tajik aluminum plant in Tursunzade, which accounts for more than 50 percent of that country’s exports and, apparently, for more than 80 percent of export earnings in freely convertible currency.\textsuperscript{23}

This critical dependence of Tajikistan on Uzbekistan is apparent in other spheres as well. Thus, the only railway line linking the Tajik aluminum plant with the foreign world passes through Uzbek territory.\textsuperscript{24} Furthermore, natural gas from Turkmenistan comes to Tajikistan through Uzbek territory, which uses this fact to put pressure on its neighbor. In theory, Uzbekistan in turn is critically dependent on Tajikistan for water. In fact, however, the irrigation systems in Leninabad and Khatlon oblasts of Tajikistan form a single network with the contiguous territories of Uzbekistan. Hence Tajikistan cannot exploit this factor in its negotiating position with Uzbekistan.

In general, the relations between these two states can best be described as those between a “leader” and the “led.” Notwithstanding all the mutual dependency of their national economies, the role of leadership unquestionably belongs to Uzbekistan. De facto, this leader/follower relationship was already in place in early 1995, when Uzbekistan agreed to restructure the Tajik debt (198.96 million dollars) for repayment in the year 2000. That debt, as acknowledged by Tajikistan, included an Uzbek credit to cover its unfavorable balance of trade for 1995 (amounting to 77.19 million

\textsuperscript{22}Calculated on the basis of data from sources cited in footnotes 1 and 5.
\textsuperscript{24}Ekaterina Sytaia and Takhir Dzhalilov, “Srok ult’imatuma,” p. 3.
dollars). In the beginning of 1996, Tajikistan confirmed that it owed Uzbekistan 199.802 million dollars; that debt was again restructured so as to defer repayment until 2003.

Tajikistan was compelled to join Uzbekistan in exploiting the Altyntopkan gold fields, which are located at the juncture of Leninabad and Tashkent oblasts. Although the main mine and shafts are located on territory of Tajikistan, the latter shares the profits from the extraction of precious metals on equal terms with its neighbor. The enrichment of ores is performed at the Almalyk mining-metallurgical combine in Uzbekistan.

Given these and other factors, close cooperation with Moscow provides the leadership of Tajikistan with a certain counterweight to the influence of Tashkent. Were it not for Russian assistance, Tajikistan would have quickly fallen to the status of a vassal subordinate of Uzbekistan.

One must also note the special role that Tajikistan plays in criminal and extra-legal dealings within Central Asia and the CIS. The last state in the region to establish its own national currency, Tajikistan continued to circulate rubles bearing 1991–93 imprint dates until 10 May 1995. Taking advantage of this fact, its neighbors and other states in the CIS used Tajikistan to dump ruble holdings, including those of dubious origin. This literally bled the country’s economy dry, since virtually all its output and products were exported in exchange for these rubles. The inundation of traders from neighboring countries (above all, Uzbekistan) was further abetted by the fact that Tajikistan received part of its interstate credits from Russia in the form of cash.

Some data indicate that Tajikistan, even afterwards, continued to be involved in money laundering. In any case, some observers claim that in 1995–96, in Gornyi Badakhshan and Leninabad Oblast, the primary currency in circulation was still the Russian ruble, not the Tajik ruble.

One cannot understand the economic realities of Tajikistan without taking into account the factor that this country became an important transit stop on the movement of narcotics from Pakistan and Afghanistan to Russia (and then on to Europe). The population of Gornyi Badakhshan, on a massive scale, has become directly involved in the drug business. In recent years there is mounting evidence that drug crops are attracting ever broader strata of the population and from all

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regions of the country.\textsuperscript{32} In essence, Tajikistan is replicating the path of certain Latin American states, where the lack of other resources is making narco-business into the backbone of the national economy.

From time to time, the Tajik and Russian press publish ambitious plans for the economic rebirth of Tajikistan. The core of these plans is to complete construction of the Rogun hydroelectric station, which will enable the republic to become a major supplier of cheap electric power for the neighboring states of Central Asia, and also to Afghanistan, Pakistan, and even India.\textsuperscript{33}

It is our view, however, that such plans are not very realistic. First, to complete the construction and to erect a temporary dam and other necessary engineering installations, it is necessary to invest at least 3.5 billion dollars.\textsuperscript{34} Even if one overlooks the improbability of attracting such huge investments in a country torn by civil war and located in a highly explosive and unstable region, it is far from clear just how many years will be required for the recoupment of such massive infusions of capital. Second, the capacity of the Central Asian and other contiguous states to pay for this electricity is far more modest than the authors of such fantastic projects assume. And, finally, the delivery of electric power over long distances, amidst the new system of costs and relative prices (which approximate those on world markets) can prove to be uneconomic and inexpedient.

To be sure, one cannot foreclose the possibility that the transformation of Tajikistan into the main source of electricity in Central Asia would enable these states to optimize their economy at the general regional level.

**Common Water Resources: A Situation Pregnant with Conflict**

Central Asia is a region with complex natural and economic conditions. More than half of the territory of these Central Asian states consists of deserts, semi-deserts, and arid steppes. The average annual precipitation in Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, and southern Kazakhstan amounts to 120 to 250 millimeters per year.\textsuperscript{35} Water is a resource of critical importance for supplying the needs of the population and for supporting agriculture.


\textsuperscript{33}For example, see Anatolii Maksimov, “V Rogune opiat’ zagovorili po-russki,” Delovoi mir, 11 February 1995, p. 5.


But the principal source of water comes from surface sources, chiefly rivers. As Table 1 indicates, underground water supplies are limited and poorly developed; they supply from 2 percent (Turkmenistan) to 18 percent (Kyrgyzstan) of the average annual aggregate water consumption in the various Central Asian states. 36

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Kazakhstan</th>
<th>Uzbekistan</th>
<th>Kyrgyzstan</th>
<th>Turkmenistan</th>
<th>Tajikistan</th>
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<td>30.0</td>
<td>14.0</td>
<td>1.2</td>
<td>6.4</td>
</tr>
<tr>
<td>Confirmed Reserves of Subterranean Water</td>
<td>13.1</td>
<td>5.2</td>
<td>3.4</td>
<td>1.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Subterranean Water Currently Used</td>
<td>2.5</td>
<td>5.72</td>
<td>1.63</td>
<td>0.44</td>
<td>1.82</td>
</tr>
</tbody>
</table>

*Most data come from the mid-1980s. In those instances where information is lacking, the authors have used indicators to earlier or later periods. However, given the force of inertia in natural and water systems, these data provide a reliable guide to the situation in the 1990s.*


The main water systems of the region consist of the two transnational rivers, the Amu-Darya and the Syr-Darya, which have an annual discharge of 69.5 and 37.0 cubic kilometers respectively. 37 The total discharge of these two rivers, along with some smaller ones, is approximately equal to the annual water usage in Uzbekistan, Kyrgyzstan, Turkmenistan, Tajikistan, and southern Kazakhstan (with the remaining areas of Kazakhstan being part of the natural climatic zone of Siberia and drawing water from such sources as the Irtysh, Ishim, Ural, and other rivers).

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36 Calculations based on the date in Table 1.
As Table 2 (page 16) indicates, the river resources are distributed very unevenly. Annual averages for several years show that only in Kyrgyzstan (and, to a lesser degree, Tajikistan) is the river discharge formed mainly on their own territories. In Kazakhstan 47.3 percent of the discharge comes from its own territory, and the proportions are much smaller in Uzbekistan (12.3 percent) and Turkmenistan (0.7 percent). In other words, the water consumption of Turkmenistan, Uzbekistan, and Kazakhstan (to a lesser degree and primarily in its southern part) comes from the territories of their neighbors.
Table 2
River Discharge in Central Asia (average annual amount in cubic kilometers)*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Kazakhstan</th>
<th>Uzbekistan</th>
<th>Kyrgyzstan</th>
<th>Turkmenistan</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>Percent</td>
<td>Volume</td>
<td>Percent</td>
<td>Volume</td>
</tr>
<tr>
<td>From Domestic Rivers</td>
<td>53.5</td>
<td>47</td>
<td>12.2</td>
<td>12</td>
<td>48.7</td>
</tr>
<tr>
<td>From Rivers in CIS</td>
<td>35.5</td>
<td>32</td>
<td>87.3</td>
<td>88</td>
<td>0.37</td>
</tr>
<tr>
<td>From Rivers outside CIS</td>
<td>24.0</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>113.0</td>
<td>100.0</td>
<td>99.5</td>
<td>100.0</td>
<td>49.1</td>
</tr>
</tbody>
</table>

*See note in Table 1
Sources: See Table 1
The Amu-Daria basin envelops Tajikistan, Uzbekistan, and Turkmenistan, while the Syr-Daria basin includes Kyrgyzstan, Uzbekistan, Kazakhstan, and Tajikistan. It is therefore only natural that the division of water discharge from these transnational rivers should be a central issue in the inter-state relations of Central Asia. Without agreements by contiguous states to regulate the quotas on water consumption, the agriculture of Uzbekistan, Turkmenistan, and southern Kazakhstan would quickly collapse, and raise the shortage of potable water—already felt in these countries—beyond any tolerable level.

The severity of the water question is intensified by the highly complicated water management system that the Soviet régime constructed in Central Asia. That system involved a unified natural-production cycle, water resources, colossal artificial installations for water control and irrigation, and also numerous hydroelectric plants. This general system creates a closely interrelated cycle for the natural discharge of rivers, the operation of canals, dams, sluices, hydrosystems, reservoirs, irrigation complexes, and the operation of hydroelectric power plants.

Moreover, the functioning of this system—which is partly natural, but for the most part artificial—is coordinated with the agricultural cycle. In turn, the cultivation of agricultural crops in contiguous Central Asian states is closely linked to water and irrigation capacities.

This highly interdependent system functions within a tightly constricted set of temporal and technical constraints. Thus, both the Amu-Daria and the Syr-Daria derive water from the melting of glaciers. Consequently, water for these rivers (or for the reservoirs and irrigation systems based on them) can only be done during strictly regulated times of the year. To cite another example, if the water from the reservoirs of Kyrgyzstan is released at the wrong time, this will paralyze the agricultural sectors of Uzbekistan and Kazakhstan that depend on these water resources.

The USSR had regulated water, energy, and agrarian questions within the framework of a centrally planned system and a single state. After the formation of five independent states in Central Asia, questions of water supply were shifted to the level of inter-state relations. On 18 February 1992, these states established the Inter-State Commission for the Coordination of Water Management in Central Asia. The commission has, inter alia, the task of coordinating replenishment and water levels in reservoirs, as well as the discharge of the Amu-Daria and Syr-Daria rivers. The commission is not an open public body; to judge from press reports, however, the Central Asian states resolve problems of determining the limits on water consumption in an atmosphere of acrimonious disputes and controversy.

Amidst an acute economic crisis, it is inevitable that the question of a redistribution of resources to support the water-irrigation system be raised. This is all the more true since, in many

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38Kazakhstanskaia pravda, 18 February 1997, p. 1.
39For example, see Marstam Bektasov, "Vodnyi balans na regional'nom urovne," Aziiia—ekonomika i zhizn', no. 6 (February 1996), p. 19.
cases, the newly independent states encounter a situation where the expenditures to support canals, reservoirs, pipelines and the like are borne by one state, but the water resources thereby obtained are used by other countries.

A host of unforeseen problems, however, is involved in the assessment of fees for the use of water resources. Unless such fees are introduced (including assessments for the water used in field irrigation), it is not possible to resolve the problem of a redistribution of water discharges from the transnational regional rivers. But, because the enterprises and populations have little or no capacity to pay, the imposition of new production costs for water usage threatens to aggravate the problems that already beset the agricultural sector. Evidently motivated by such considerations, in 1995 Uzbekistan established an assessment from agricultural producers that covered only half of the costs of providing water for their fields.40

Moreover, only the states can figure as the contracting party to settle mutual accounts. For one thing, all the countries here leave an important resource like water under the exclusive control of central authorities. Moreover, it is difficult for a single state to collect the water assessments even within its own territory. Thus, in 1995, Kyrgyzstan established a water levy on agricultural producers at essentially a symbolic level—1.5 tyin (0.14 cents) per cubic meter. If one takes into account the fact that the minimal expenditure of water in the agrarian sector amounts to 5.5 million cubic meters, the total amount due is approximately 70 million som (about 6.5 million dollars). In reality, however, the government succeeded in collecting only 9 million som (about 832,000 dollars).41 The arrears were due to the simple inability of agricultural producers to pay.

As the economic transformation intensified, one fundamental problem assumed decisive significance: to what degree should the existing energy, water, and agricultural system be adjusted to market realities? In the Soviet period, the dominance for gross output indicators (for electric power, grain, and cotton) justified any costs and expenditures. Only this can explain the colossal scale of resources that were expended on waterworks and irrigation projects, despite their rather modest end results. The area of irrigated land in Central Asia, by the beginning of the 1990s, had increased nearly four-fold since the beginning of the Soviet régime (see Table 3, page 19).

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41Based on the authors' estimates and the data in Iurii Razguliaev, "Voda i zemlia: problema zdes' poka khvataet," Aziia—ekonomika i zhizn', no. 27 (June 1996), p. 4.
### Table 3

**Land Area under Irrigation in the States of Central Asia (millions of hectares)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Before 1917</th>
<th>1974</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>696</td>
<td>1539</td>
<td>2294</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>1339</td>
<td>2825</td>
<td>4164</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>425</td>
<td>1000</td>
<td>1034</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>307</td>
<td>744</td>
<td>1259</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>211</td>
<td>543</td>
<td>691</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2978</strong></td>
<td><strong>6651</strong></td>
<td><strong>11442</strong></td>
</tr>
</tbody>
</table>


The newly independent states have inherited the energy, water, and agricultural system of the former Soviet Union, but this can only continue to function if massive infusions of capital are periodically made. In purely market terms, however, such investment is basically inefficient. But this system supports the life and work of the population, and it also serves as the basis for agricultural production. The loss of external sources of financing (i.e., from the all-union center in Moscow), together with the inability of the Central Asian states themselves to keep this system in working order (at least on the earlier scale)—leave essentially two lines of development:

- The inherited system will self-destruct and degrade to a minimal, marginal level; given the economic crisis and a shortage of financial resources, this variant appears quite probable.
- A process of partial dismantling and adaptation to the new conditions will proceed under the more or less organized control of the interested states, which, however, will be required to make significant investments.

As developments in recent years indicate, both processes are now at work.

The water factor is also of critical importance for the agrarian evolution of the Central Asian states. The introduction of private property on land, which itself constitutes a complicated process, decides very little. Water was and is the main factor of production for agriculture. The simultaneous reform of land and water usage threatens to unleash mass chaos and destabilization in the region. The risk of decisive measures can only be borne by those countries that do not have a shortage of water resources—that is, Kyrgyzstan and the northern part Kazakhstan (those areas amply supplied
by the natural climatic system of Siberia). For Uzbekistan and Turkmenistan, rapid privatization in the agrarian sector—if the water factor is left out of account—would be akin to suicide.

The knotty issues involving the Aral Sea are hardly any less complicated. In 1994, the five states of Central Asia established an international fund to save the Aral Sea; drawing resources from initial contributions by the participating states. But annual allocations amount to just 0.3 percent of each country’s GDP; as a result, by March 1997, the fund had accumulated only 2.12 million dollars. As might be expected, the only states to pay the full amount due were Kazakhstan, Turkmenistan, and Uzbekistan—that is, the countries that border directly on the Aral Sea. Tajikistan and Kyrgyzstan, by contrast, had made no payments whatsoever.42

The states of Central Asia obviously do not even have the wherewithal to cope with the enormous problems caused by the fall in the water table and surface area of the Aral Sea. Rather, the fund was created mainly to evoke an international resonance to these problems. Convinced that it is impossible to devise a common, unified approach to the Aral problem and lacking the requisite resources, the Central Asian states are increasingly disposed to follow their own, separate policies.

Thus, in January 1997, Kazakhstan completed the construction of a dam that divided a single hydraulic plane into two parts—one in the East (Kazakhstan), another in the West (Uzbekistan). The waters of the Syr-Daria ceased to flow into the western part of the Aral Sea, but the water level in its eastern part slowly began to rise.43 Apparently, from a practical point of view, this was the only proper solution. One can now hope for a stabilization at least in that part of the Aral belonging to Kazakhstan. At the same time, this was a politically sensitive decision, since it separates the Uzbek part of the Aral from the Syr-Daria. Obviously, this decision will further complicate the difficult social-economic and demographic situation in Uzbekistan’s Karakalpakstan. In this respect, the regular meetings of Central Asian leaders on the Aral issue embody a certain prophylactic character, enabling them to discard mutual claims and to devise compromises in a civilized manner.

**Transportation as an Integrating Factor**

The mutual dependence of Central Asian states also derives from the integrity of the transportation infrastructure. The first major transportation system in the region was the Turkestan railway line; built at the beginning of the twentieth century, for a long time this was the sole link to the Russian Empire and the outside world. From the 1930s to the 1980s, the Soviet Union built here—and virtually from scratch—a network of highways and rail lines. Although it built this system within the framework of a centrally planned economy, military strategic needs often took precedence

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over purely economic considerations. That is because Soviet military doctrine treated Central Asia and Kazakhstan as a bastion to defend against China and the southern flank of NATO.

As a result, the network of highways and rail lines are directed not toward the interior of the region itself, but to Russia, which thus became the main focus of foreign economic relations for Central Asia. Moreover, transportation links were often better developed between countries than inside individual states. For example, northern and southern Kyrgyzstan are linked by a single highway, and even that roadway is poorly constructed and leaves much to be desired, especially in the winter. For all practical purposes, Gorno-Badakhshan Oblast of Tajikistan—so far as its infrastructure is concerned—is separated from the rest of the country. The transportation system of northern Kazakhstan is integrated with the contiguous areas of Russian Siberia, but has poor links to Central Asia.

The situation in Central Asia is not something exceptional: the inadequate development of the transportation infrastructure and the relatively high level of development of the regional and inter-regional networks are typical for backward states. Nevertheless, this trait—along with others—constitutes a barrier to the formation of integrated national economic systems.

It is therefore not surprising that, ever since the Central Asian states achieved independence, they have attempted (or at least made plans) to correct the most flagrant deficiencies in their transportation infrastructure. However, projects involving the infrastructure are capital-intensive and require a long period for recoupment of the investments. Therefore, almost all the transportation projects in the region rely mainly on foreign loans and credits. Particularly noteworthy here is the contribution of Japan and the Asian Bank of Development to the improvement of the transportation infrastructure within individual countries. Thus, their credits have made it possible to modernize and complete construction of the railway junction "Druzhba" (Kazakhstan), to build a bridge over the Irtysh River (near the city of Semipalatinsk in Kazakhstan), and to construct a year-round highway linking southern and northern Kyrgyzstan. Moreover, the Asian Bank of Development is examining the possibility of financing a highway to link Almaty, Karaganda, Akmola, and Borovoe.44

But the main transportation projects in the region involve a global dimension. Until very recently, Russia was the sole link between the states of Central Asia and the external world. As the foreign economic ties shifted from Russia and the former Soviet republics to other markets, this region has begun to construct railway lines and highways to circumvent Russia and to establish access to global transportation networks.

In recent years, the creation of a pan-Asian and pan-European transportation corridor has been a subject of active discussion and debate. In 1993–95, a commission of the European Union allocated

more than 30 million ECUs to develop regional programs for a transportation complex called “Europe-Caucasus-Asia,” which would include the construction of sea, railway, and highway systems in the Central Asia corridor.\textsuperscript{45}

Inclusion of Central Asia in the global transportation network involves not only a latitudinal East-West, but also a longitudinal North-South dimension. The Central Asian and, especially, the Russian press treats these essentially as competing, not complementary, lines of development. However, from the mid-term and especially the long-term perspective, both the latitudinal and the longitudinal should be seen as complementing one another. The leading world centers of economic activity could, as circumstances warrant, use the special advantages that each has to offer. For example, the East-West corridor gives producers and consumers in European Russia the shortest access to the Chinese market (through Petropavlovsk, Akmola, and the railway junction Druzhba). Meanwhile, the North-South axis provides the Volga region of Russia with its shortest access to the lively trade routes of the Persian Gulf. It is another matter that such links could isolate, in terms of transportation webs, areas like the Russian Far East and the Trans-Siberian railway.

In the final analysis, the choice of the most convenient and economically rationale route will be taken amidst a fierce competitive struggle, and a decisive role in this will be played by shipping rates, freight volumes, quality of service, and so forth. So far as the Central Asian countries are concerned, the critical issue is the sequence for realizing these global projects.

The first to be developed has been the latitudinal route—a railway line, opened in 1990, that links the railway junction at Druzhba (Kazakhstan) with Alakanchou (China). In 1995, this line carried 1.17 million tons of freight, and the following year that figure had risen to more than 2 million tons.\textsuperscript{46} The key points in the latitudinal East-West route include the Central Asian cities of Almaty, Bishkek, Dushanbe, and Ashkhabad.

The main nodes in the longitudinal North-South corridor include the following: Astrakhan (Russia); Makat, Beineu, Eralievo, and Bektash (Kazakhstan); Turkmenbashı, Gazandzhik, and Gyzyletrek (Turkmenistan and Azerbaijan); and, Gazandzhik, Tedzhen, and Serakhı (Azerbaijan, Turkmenistan, and Iran). In other words, a meridional route unites the railway lines and sea communications of Russia, Kazakhstan, Turkmenistan, and Azerbaijan. On 12 May 1996, the railway line Meshkhed-Serakhı-Tedzhen (with a length of 320 km.) commenced operations, linking the rail system of Turkmenistan (and in turn the entire Central Asian region) with that in Iran. Once this line achieves full capacity, it will carry up to 7 million tons of freight per year.\textsuperscript{47}


\textsuperscript{46}S.E. Atymanov et al., “Zheleznye dorogi respubliki vsegda byli rentabel’nym,” \textit{Azia—ekonomika i Zhizn’}, no. 41 (October 1996), p. 23.

\textsuperscript{47}Segodnia, 14 May 1996, p. 1.
Of all the Central Asian countries, Turkmenistan is bound to profit from these projects, whatever their configuration, since it is strategically located on both the latitudinal and longitudinal axes. Kazakhstan and Uzbekistan represent a certain competitor for the latitudinal routes if Tashkent, in competition with Kazakhstan, succeeds in establishing a transportation route to China without passing through Almaty. This latter project involves a highway linking Andizhan (Uzbekistan), Osh (Kyrgyzstan), and Kashgar (China); running 940 km in length, the undertaking is more than half-finished. There are also plans to build a parallel rail line along the same route; such construction could not build on any existing lines and hence must be built from scratch. According to the original rough estimates, the volume of freight capacity can reach 10 to 12 million tons per year.\textsuperscript{48} Kazakhstan has responded to these plans with unconcealed envy and claims that this new branch will not help to reduce the line between Asia and Europe.\textsuperscript{49} The real backdrop to these differences is the on-going struggle among states in this region to occupy the main points in the emerging network of global transit routes.

Nor is Kazakhstan especially interested in creating the so-called “Trans-Caspian Corridor” running through Tashkent, Ashkhabad, Baku, Tbilisi, and Poti. Nevertheless, in May 1996, the presidents of Uzbekistan, Turkmenistan, Georgia, and Azerbaijan signed an agreement to coordinate their efforts to build this new corridor. Almost simultaneously, Georgia announced that it was beginning construction to join the Georgian and Turkish rail lines.\textsuperscript{50} For Uzbekistan, this new route runs approximately 3,000 km—about 1,000 km shorter than the traditional routing through Russia and Ukraine (with the port of Il’ichevsk).\textsuperscript{51}

Although Tajikistan has been largely uninvolved in these plans for new transportation routes, it too is seeking to obtain direct access to Asia. In mid-1995, the Fund of Akha Khan signed an agreement with Tajikistan to cooperate in building a highway to the Karokorum highway, which links this region with China, Pakistan, and Afghanistan.\textsuperscript{52} In May 1997, Iran expressed its support for an analogous project and announced its willingness to invest 28 million dollars to construct a Kuliab-Kalaikhumb road if the Tajik government would provide matching funds.\textsuperscript{53}

One must keep in mind that the global project for a pan-Asian and pan-European corridor gives the Central Asian states only a passive role in transit links. A comparison of the efficacy of the various transit routes will enable the European and Asian countries (and companies) to choose the optimal route. Central Asia, for its part, will only provide the territory needed to realize this project.

\textsuperscript{50}Azer Mursaliev, “V obkhod Rossii,” Kommersant-Daily, no. 18 (21 May 1996).
\textsuperscript{51}“Transport i sviaz’ v Uzbekistane” (mimeograph; 1996), p. 14.
\textsuperscript{52}Kommersant-Daily, 30 May 1995, p. 5.
\textsuperscript{53}Delovoi mir, 13 May 1997, p. 2.
To be sure, countries in the region will gain from the fact that they will obtain shorter and, possibly, somewhat cheaper access to world markets. Moreover, the very construction of massive infrastructure projects and their subsequent operation will stimulate economic growth in the contiguous territories. In general, however, the mainsprings for this growth will come from outside the region itself.

The focus of intra-regional disputes continues to be the overt and hidden contradictions among the Central Asian states themselves. For all their gravity, such differences cannot prevent the realization of global projects. In the final analysis, one must not forget that the Great Silk Route had several branches in Central Asia and hence was able to satisfy the special interests of local areas.

There is good reason to think that the export of hydrocarbons from Central Asia will follow these future transportation corridors. The volume of investment required is so immense that investors prefer to insure each other and to share the risks. The simultaneous realization of huge oil, natural gas, and other infrastructure projects will make it possible to reduce individual constructions costs. The parallel realization of hydrocarbon and transport projects is also dictated by technical considerations: the development of new oil and gas deposits, especially in the shelf zone, requires an enormous amount of heavy- tonnage equipment, and this can only be delivered if the requisite rail lines have been built.

In any case, the global infrastructure projects in Central Asia will not be realized anytime soon. Apart from everything else, they will require that the states in this region replace virtually all of the existing transportation infrastructure and rolling stock. The width of rail tracks in Central Asia is 1.520 mm, not the standard 1.435 mm used in China, Iran, and Europe. The double reloading of cargo, or a double switch over in wheel base (i.e., upon entering and leaving the region) will significant increase the cost of shipping freight. Moreover, the existing fleet of locomotives and rail cars is basically worn out and requires almost complete replacement. For example, by the end of 1996, two-thirds of the diesel locomotives and one-third of the rail lines in Kazakhstan were in a state of severe dilapidation. Similarly, Uzbekistan needs to replace some 40 percent of the railway ties and fleet of locomotives.

In conclusion, it bears noting that the construction plans for a pan-Asian and pan-European corridor have, until now, been confined to the realm of hypotheses. Even if one disregards the problem of maintaining stability in the region (which is beset by a mass of extremely acute economic, social, and ecological problems), it is not entirely clear who, and under what conditions.

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56Transport i sviaz' v Uzbekistane, p. 3.
plans to finance these multi-billion dollar projects. So far as the authors know, the question of financing such plans has not yet been even posed at the practical level.

**Is the Economic Integration of Central Asia Realizable?**

A complex of fundamental economic preconditions that would favor the development of regional economic integration in Central Asia does not exist at the present time. This is evident from the following considerations:

1. In the course of the continuing economic decline, the five states of Central Asia have evinced a clear tendency to develop similar national economies. As a result, they lack the need for integration, or even for closer cooperation, so as to complement the national economic complexes of the individual states.

2. The Central Asian states have approximately the same set of production factors. In particular, they all suffer from an abundance of labor resources. Moreover, because of the high tempos of demographic growth, the absolute and relative surplus of labor resources will rapidly increase. At the same time, all these countries suffer from another common, critical problem: an extremely acute shortage of domestic savings and capital accumulation.

3. The emerging strategy of national development—in explicit or implicit form—makes import substitution an integral element in their economic policy. This import-replacement strategy results both from the largely similar structures of their natural (and especially energy) resources, and from the attempt to reduce a negative balance in its trade and payments.

4. Peculiarities in the institutional environment generate serious obstacles to the coordination of efforts in the economic sphere. On the one hand, all five states (though to a lesser degree in the case of Uzbekistan and Turkmenistan) have experienced a restructuring of industrial organization at the micro level. On the other hand, the states of Central Asia follow economic strategies (especially with respect to allocating roles to various economic agencies) that, to a large degree, are incompatible. Whereas Kazakhstan and Kyrgyzstan carried out a policy of deliberately dismantling the state as an institution (which, in turn, had a far-reaching impact on the whole process of social-economic development), Uzbekistan has pursued a contrary course, assigning the state an ever greater role in the economy. In Turkmenistan, the state structure and economic policy have taken the form of a voluntaristic, Eastern variant of the "Leader-ism," while in Tajikistan the state has been paralyzed and disabled by civil war and the inter-clan conflicts.

It should thus be painfully evident that this institutional discordance can hardly contribute to the process of drawing these five states closer together. Indeed, precisely the contrary obtains, as the five grow further and further apart.
If one takes into account these and many other related factors, it is difficult to expect any major breakthrough toward regional integration. It is not even so much a question of the difficulties attending the transition period, when immediate and pressing problems take precedence over attention to mid- or long-term prospects for development. The foregoing factors lead one to conclude that Central Asia, as yet, does not possess the objective foundation for a fundamental, broad-based economic integration. This does not mean that economic cooperation between these countries is doomed to disappear entirely. On the contrary, such cooperation will unquestionably develop both within the framework of the single economic system inherited from the former USSR, and also in certain new areas and spheres. Those elements bequeathed by the Soviet past—a unified or highly interdependent system of energy, oil and natural gas pipelines, transportation and water systems—continue to constitute the main foundation for mutual economic assistance in Central Asia. One cannot fail to observe that, in a number of cases, this is an obligatory form of cooperation, based on a simple lack of alternatives.

It bears noting that Kyrgyzstan and Tajikistan are more interested in regional cooperation than the other states. Moreover, as far as Kyrgyzstan is concerned, both Kazakhstan and Uzbekistan are approximately of equal significance. Tajikistan, especially its northern part, is primarily oriented toward Uzbekistan. Kazakhstan and Uzbekistan assign the highest priority to their own mutual relations, but the relative significance of this economic nexus was substantially diminished during the period of 1994-1996.

In principle, Turkmenistan shows a lesser need and interest in expanding regional mutual cooperation. Significantly, its exports flow almost entirely to destinations outside this region; this is the only country that does not require the cooperation of its neighbors for purposes of constructing new pipelines to ship its natural gas to world markets.

In sum, there is good reason to conclude that, at least in the foreseeable future, Central Asia is hardly likely to create a regional economic association like that in the European Economic Community, NAFTA, or even ASEAN. The maximum that is likely to appear here is a fragile association, something similar to the Council for Cooperation of Persian Gulf States. Moreover, this will occur only in the event that Kazakhstan, Turkmenistan, and (in part) Uzbekistan succeed in becoming major, world-class exporters of oil and natural gas.

The need for such an association is determined by geography and the special characteristics of the newly independent states. Lacking direct access to the sea, neither Kazakhstan nor Uzbekistan can expect to become major exporters of hydrocarbons without the close cooperation of their neighbors. But only external forces, coming from outside the region, can serve to cement such association ties. The Central Asian states, whether individually or collectively, lack both the opportunities and resources to finance multi-billion dollar projects to extract and transport oil and natural gas.
Moreover, one should keep in mind that each of the states of the Persian Gulf has its own direct access to the sea (and hence to world trade routes), thereby making them independent of each other. Furthermore, the general situation in Central Asia is far more difficult. The coordination of economic strategies and political course of such landlocked countries (indeed, especially at a time when they find themselves in acute economic crisis) constitutes an incomparably more complex task.

The triple union of Kazakhstan, Kyrgyzstan, and Uzbekistan (joined, in the second half of 1996, by Tajikistan as an observer) is intended to compensate—at least partly—for the weakness of the national statehood of its participants and to reinforce their negotiating position in dialogues among themselves and with the external world.

Above all, this pertains to cooperation with Russia, which remains the main economic partner for all the Central Asian states (the sole exception being Turkmenistan). Given this critical economic dependence on the Russian market, the countries of Kazakhstan, Kyrgyzstan, and Uzbekistan are seeking to create a system of political balances and counter-weights that can create greater equity in their relations with Russia. It is no accident that a principal objective of the Central Asian Union is to create a more or less coordinated position for the three countries as they prepare for the summits of the CIS.

In principle, the Central Asian Union strengthens the position of Kazakhstan, Kyrgyzstan, and Uzbekistan in their mutual relations with Turkey, Iran, and also within the framework of the Organization for Economic Cooperation (OEC) and the Commonwealth of Turkish-Speaking States. Although ranking substantially lower than these neighboring states in terms of economic potential, the three members of the Central Asian Union are nevertheless merciless in blocking any attempt by more powerful neighbors to assume the role of "older brother" in the region.

The accelerated politicization of regional cooperation in Central Asia is also nourished by a constant threat of destabilization from Tajikistan (beset with civil war) and Afghanistan (which, for all practical purposes, has broken down into individual territories).

One must also take into account the fact that the Central Asian Union is neither the sole nor the most important "proto-integrationist association" in the region and in post-Soviet space. Apart from the fact that Uzbekistan, Kyrgyzstan, and Kazakhstan are participants of CIS, it bears noting that Kyrgyzstan and Kazakhstan are members of a Customs Union with Russia and Belarus. The economic significance of this association for Kazakhstan and Kyrgyzstan is markedly greater than that of the Central Asian Union. Thus, whereas the relative significance of trade within the Central Asian Union generally decreased in 1994-1996, the trade with Russia developed at higher rates.

In the authors' opinion, trade cooperation at the regional level does not in the least contradict the development of relations between the Central Asian states and Russia. Without going into prolix speculation about this issue, one can say that these two dimensions of cooperation serve more to supplement than to block each other. Moreover, if one takes into account the structure of economic
cooperation that had already developed in the Soviet era, the development of trade between Central Asia and Russia will apparently also serve to promote a growth of trade within the region as well.

At the same time, there are other impulses favorable to integration. One comes from the explosive instability of the region: the indeterminacy and insecurity of each of these new independent states in post-Soviet space, together with the fragility and volatility of the situation in the region (which could explode in the event that Tajikistan disintegrates or the instability of Afghanistan spills over into the region). Hence, the simultaneous entry into various unions (bilateral, and multi-lateral inter-state associations) can be fairly seen as an attempt by Central Asian elites to find a certain exogenous compensation for the economic and political vulnerability of the newly independent states.

However, in the longer term, the prospects of the region are almost exclusively determined by the degree to which it can be successfully integrated into the world economy. Cooperation at the regional and supra-regional levels cannot give the Central Asian countries the dynamic inputs needed for economic take-off. In essence, the sole theoretical possibility for sundering the tentacles of backwardness and poverty is to transform Kazakhstan, Turkmenistan, and Uzbekistan into major suppliers of hydrocarbons and other raw materials in high demand on world markets.