

Deepening Integration in Border Regions within CAREC:
The Asiaregio[•]

Report prepared by the World Bank

May 13, 2009

Table of Contents

I. Purpose of the Paper	1
II. Summary of the paper	1
III. The European experience	3
IV. Lessons of the European experience for CAREC.....	4
V. Why the potential benefits of Asiaregios will be large	5
VI. How existing trans-border cooperative agreements in CAREC can be improved.....	7
VII. Recommendation for CAREC	11
References:.....	13
Annex 1: Possible candidate for a Pilot Project: “Sarytash-Murghab-Kashgar Triangle”	14

The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB) or its Board of Directors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

[•] This report was prepared by a team headed by Saumya Mitra and consisting of Bartlomiej Kaminski (principal investigator) and Matin Kholmatov (economist). The team is grateful for comments from Motoo Konishi and Kazi Matin (World Bank); and Sena Eken and Ana-Lucia Coronel (IMF). The Bank acknowledges with gratitude the generous support of the Swiss government to the conduct of this study.

I. Purpose of the Paper

The central endeavour of Carec is the deepening of cooperation between its members across the entire range of development activities. Recent papers prepared by the World Bank for consideration of the ministers and officials of Carec countries have focused on fostering cooperation in border trade¹ and in supporting key institutions that underpin border trade such as bazaars in central Asia. But cooperation in border areas goes much deeper than trade alone. Economic development activities related to trade such as tourism, retail, business and trade facilitation as well as cooperation in public services (such as shared health facilities, other infrastructure services such as small-scale irrigation), optimal use of the environment, cultural and sports activities often have a significant cross-border character. Therefore, cross-border arrangements that support such activities and realize economies of scale in the provision of services can yield high dividends; and the key public policy question is how to best make such arrangements flourish.

This paper presents initial thinking on this question, responding to the request made by Carec representatives. It is based on discussions with officials in Kazakhstan, Kyrgyzstan and Tajikistan in 2008-09 and on an examination of legal acts pertaining to cross-border cooperation. It makes full use of the experience of European countries over the entire post-Second World War period in designing and implementing such wide-ranging cross-border arrangements – the Euroregio. Past discussions within the Carec forum have shown that the experience of European integration exploiting the synergy between integration efforts conducted at the governmental level and cross-border cooperation among contiguous regions had been found of interest. Euroregios have offered opportunities for pilot-tests of various instruments of integration as well as to trigger a ‘bottom-up’ movement towards deeper development cooperation extending across whole territories of involved countries. Furthermore, Euroregios have also turned to be an important agent for economic growth engendering in the process further cross-border cooperation addressing cross-border externalities both positive and negative. In consequence, they have been established not only among contiguous regions within the EU but also at EU borders with other countries with the specific aim of fostering integration.

II. Summary of the paper

- **Strong forces promoting cross-border cooperation exist, but policies are often not supportive.**

This paper finds that although cultural and ethnic affinities, common historical background, and existing functional interdependencies among former Soviet Central Asian republics continue to provide a strong, spontaneous impulse for cross-border cooperation on the part of economic agents, significant differences can be found in policy approaches to economic development and the role of foreign trade. Such differences in policy and approach contribute to the persistence of barriers to cooperation and cross-border trading. Many local markets appear to be fragmented, despite free-trade agreements under the umbrella of CIS/EURASEC, and generally unfettered movement of people is not possible. For example, price differentials unrelated to transport cost are significant between bordering marketplaces—even for agricultural produce. Therefore, the creation of Asiaregios (analogous to Euroregios) encouraging deeper integration among contiguous areas than with rest of the country, could contribute to greater integration, stronger competition, and more efficient production.

¹ Defined as trade conducted within 10-25 km of the border, with the distance depending on the geographical and population characteristics of the border region.

- **Clear legal arrangements and devolution of power to local authorities are essential if cross-border cooperation is to flourish.**

Despite high density of movement of people and goods amongst four Central Asian CAREC-member states—Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan—legal arrangements governing cross-border movements do not accord preferential treatment to residents of bordering regions and do not provide institutional structures that would foster direct cross border cooperation – these, therefore, constitute critical barriers to deepening cross-border cooperation. Moreover, decisions concerning cross-border movements of people, goods and services are in discretion of *central* governments. *Local* governments are not empowered to make decisions or act on their own to cooperate with ‘foreign’ entities. In consequence, given various degree of decentralization in decision-making, local trans-border initiatives face serious administrative barriers.

Furthermore, the absence of institutional structures linking contiguous borders stems also in large part from a deeply held conviction among central government officials that the existing levels of trans-border cooperation among adjacent regions are broadly satisfactory. But this view ignores the large potential for growth that lies untapped as a result of obstacles to cross-border development activities. The establishment of Asiaregios cannot take place spontaneously at the level of contiguous communities, despite the demand from them for greater cross-border activities, but requires a regional framework involving some de-concentration of central powers. This would involve granting local authorities certain well-defined and limited rights, such as the right to proceed with relaxing arrangements governing movement of people, goods and services across the borders specifically for inhabitants of bordering regions. Such agreements are essential for setting up Asiaregios.

- **Successful cross-border arrangements must be comprehensive in their coverage.**

The European experience shows that a key element of cross-border arrangements lies in their comprehensive nature: Euroregions seek to establish structures for cooperation in areas ranging from commerce to culture, environment, tourism and education. Similar Asiaregio arrangements would need to reflect the nature of demand in specific border regions and their economic characteristics. The Euroregion experience also shows that the establishment of legal structures fostering cooperation does not require significant economic resources. The only investment needed is political will to see them implemented: the rest depends on local initiative and desire of local actors of identifying and taking advantage of new opportunities associated with a cooperative framework.

- **Evidence shows strong demand at the local level for deeper cooperation**

There are indications that the local demand for such deeper cooperation across a range of activities is strong. Minutes of the negotiations between the businesses of Tashkent oblast in Uzbekistan and South-Kazakhstan oblast in Kazakhstan show demand for establishing legal arrangements facilitating the emergence of Asiaregios. Participants argued for investment and trade links between two oblasts through joint exhibitions and fairs; facilitating the establishment of joint ventures; attracting investments in agro-processing; joint projects to develop infrastructure (roads); cooperation to increase tourism; cultural exchanges; and exchange of knowledge. Listening to opinion on the ground is important. Local authorities and businesses have the best available knowledge about local conditions and this knowledge can substantially improve the quality of inter-government development programs.

- **Existing trans-border arrangements can be built upon.**

Various Asiaregio-type arrangements exist. Notwithstanding their diversity, the common denominator characterizing CAREC countries reviewed in this report is the absence of a legal framework that would allow for the establishments of Asiaregios. This is already regarded as a problematic area in some countries. The Kazakh government has taken the lead in drafting a law on cross-border cooperation – this could be used as a framework by other CAREC countries. Future work would need to address border areas involving more than two national jurisdiction and where benefits of cross border cooperation can materialize only insofar as all governments are involved sticking to the same rules. Also, such agreements would have to include such important areas as tourism, environment, labor, water, land, energy, and infrastructure.

Policy recommendations can be found in the final section of this paper.

III. The European experience

Euroregions initially emerged as mechanisms to foster cooperation and stimulate economic growth in regions along internal borders of western European states. The content of a cross-border cooperation program usually ranged from cultural, environmental, educational, and tourism activities to business and trade facilitation measures. It also hinged critically on the largely unrestricted movement of people, capital, goods and services. Among many different arrangements underpinning the first Euroregio established along the Dutch-German border in 1958 was a provision to open the border for shopping on special days. With the progress in European policy-induced integration, and the disappearance of internal borders, this provision quickly lost its relevance. In turn, the level of economic development of contiguous regions determined the type and relative significance of economic exchanges for the respective populations. Interaction among regions at a low level of economic development took different forms than among highly developed economies, as the latter often entailed a more sophisticated division of labor.

Starting in the 1990s, the concept was applied not only at external borders of the EU but also adopted by countries outside the EU, with the strong support of both the European Commission and the Council of Europe.² As a result, virtually all local and regional authorities across Europe are now involved in cross-border cooperation initiatives.

The organizational structures of Euroregions vary, albeit they all have one feature in common: multiplicity of areas of mutual interest to bordering regions is reflected in multiplicity of various organizational arrangements to manage across issue-areas supported by trans-national legal instruments allowing partners to link their activities. Euroregions are governed by a “steering committee” formed by regional and local authorities to promote local business and cultural initiatives, develop infrastructure, protect the environment, and facilitate movement of people and goods across borders.

The implementation modalities for cooperation include establishing associations of chambers of commerce from neighboring participating regions; and councils and working commissions focusing on joint trans-frontier projects. These might include such initiatives as environment, health care,

² The Council of Europe has developed a framework for cross-border cooperation embodied in its 1980 decision on Framework Convention of Transfrontier Cooperation, subsequently ratified by most members (COE 1995). Several non-EU states implemented the concept. For instance, Hungary established cooperation in the border areas with Austria, Italy, and the former Yugoslavia in 1989 (Maskell and Törnqvist 1999, p. 32).

trade fairs, cooperation between police departments and universities, and other professional associations, joint ventures among firms in the field buying, producing, and marketing. Such cross-border cooperation has proved to be especially beneficial to small and medium sized enterprises.

Cross-border cooperation as embodied in Euroregion was assisted by the overall process of European integration. Two supranational bodies, the European Commission and the Council of Europe, were critical to removing a major legal obstacle related to the fact that central rather than local governments had legal authority over cross-border interactions. During the early stages in the 1960s and 1970s, bilateral and multilateral governmental commissions were established to deal with cross-border transport issues and cross-border spatial planning.

Subsequently, the Council of Europe was behind the progress in clarifying the legal conditions and delegating responsibilities to local authorities, whereas the European Commission has provided substantial financial support to regions under the EU regional and cohesion funds in response to a strong demand for cross-border cooperation driven by local or regional interests. Typically, cross-border initiatives undertaken by local authorities would lead to the emergence of ‘twin associations’ of municipalities and districts on both sides of the border based on agreements with varying degrees of formality and relying often on good will (Perkmann 2003). These agreements were subsequently often transformed into a cross-border agreement establishing Euroregion.

The Euroregion played an increasingly important role in implementing programs of regional development. The allocation of funds is governed by Steering Committees involving local actors as well as higher-level authorities such as central states and/or regions from the participating countries. As Interreg is by far the most important source of funding for most Euroregion initiatives,³ they must comply with the modalities set out in the EU regulations and regional policy. Therefore, effectively, many Euroregions function as implementation agencies for this specific type of transnational regional policy.

Strong political willingness to establish structures for closer trans-border cooperation among bordering regions and allocation of resources supporting cross-border projects by the European Commission characterized the Euroregion. Its concepts and organizational underpinning can be easily transplanted to other regions provided—to borrow from the Council of Europe’s definition of cross-border cooperation—that there is commitment “to reinforce and foster neighborly relations between territorial communities and authorities within the jurisdiction of other Contracting parties and the conclusion of any agreement and arrangement necessary for this purpose.”⁴ Its underlying concept stems from the simple idea that going a step ‘further and deeper’ beyond the existing framework of bilateral relations between governments is beneficial to the welfare of contiguous local communities, while paving way for better relations between nations.

IV. Lessons of the European experience for CAREC

Turning to the situation of the CAREC states in central Asia, it should be emphatically noted that economic integration is not a pre-requisite for the formation of Asiaregions, nor is the existence of a supranational authority a precondition. Rather, there has to be a political willingness to recognize the large potential for economic and social gains stemming from deep cross-border cooperation together with the willingness to delegate, within predefined legal limits,

³ Interreg is a European Community initiative, financed under the European Regional Fund, which seeks to encourage interregional cooperation in the EU.

⁴ As defined in the ‘Outline Convention’ of the Council of Europe, quoted in Perkmann (2003, p. 4).

powers to local authorities. An inter-governmental agreement or understandings to these ends would be required to support the process.

The major lessons from the experience of Euroregions of particular relevance for CAREC member-states can be summarized as follows:

- **Asiaregions need to have an ally at the CAREC level.** This might involve setting up a CAREC Inter-regional Committee charged with an overall responsibility for
 - devising a legal framework that would allow for regional initiatives to be easily implemented,
 - encouraging the development of operational spatial development strategies on a transnational scale that would promote cooperation among bordering cities and between urban and rural areas in the context of sustainable development,
 - identifying border areas where cooperation would be particularly beneficial in the context of longer-term infrastructure projects including environment, tourism, transport, information and communication networks and services, and water and energy systems, and others
 - and establishing a CAREC-wide fund, possibly with participation of international donors that would support cross border cooperation among bordering regions.
- **Central governments should actively search out and welcome local initiatives of cross-border cooperation** and encourage them to form ‘twin associations’ even though formal base may be lacking and their enforcement based on good will.
- **Bottom-up integration** movement driven by cooperation between contiguous regions usually starts with liberalization of movement of goods, vehicles, and persons.
- Without substantive organizational effort and assistance coming from the central government, assisted by external donors such as CAREC and without **delegating powers to local regional bodies**, cross-border cooperation across multiple issue-areas would be hard to accomplish.
- **The benefits of cross-border cooperation** including, among others, local entrepreneurship, local employment initiatives, eco-friendly development do not occur immediately: they **take time to materialize** but their benefits last.
- **Euroregions were never conceived as a one-size-fits-all solution.** Instead, its organizational forms and scope of activities for cross-border cooperation vary greatly depending on local circumstances.

V. Why the potential benefits of Asiaregions will be large

The benefits of Asiaregio type arrangements are likely to be large.

- First, **there are powerful reasons related to geography that favor cross-border cooperation.** CAREC members share immense borders. Borders of two CAREC members (Kyrgyzstan and Tajikistan) are only with other CAREC-member countries. Central Asian CAREC members are landlocked with their gateways to the world passing mostly through other CAREC countries. Borders of other CAREC member countries account for 13 percent of China’s land borders, 26 percent of Afghanistan, 40 percent of Kazakhstan’s borders, and 74 percent of Uzbekistan’s borders. While the percentage is

much smaller for China, its relevance significantly increases if Mongolia is included (up to 30 percent). Furthermore, Central Asian CAREC members (excluding Mongolia) border just one of China's provinces (Xinjiang Uygur Autonomous Region), which has been one of the major drivers of China's CAREC-directed trade expansion over the last decade.

- Second, in addition to geography, cultural and ethnic affinities, common historical background, and existing functional interdependencies among former Soviet Central Asian republics continue to provide a **strong impulse for cross-border co-operation**. As for other CAREC countries, the development of functional interdependencies would be one of the points of departure for cross border cooperation.
- Third, **trade and border trade with immediate neighbors has expanded greatly** in the recent past. Intra-CAREC trade (excluding Azerbaijan) has been growing on average at almost 40 percent a year since 2002. So has the importance of trade with immediate CAREC neighbors. The value of intra-CAREC trade in 2006 (US\$28 billion) was five-fold its 2002 value. Similarly, the share of Afghanistan's trade with immediate CAREC member states in total trade was nearly 26 percent higher in 2006 than in 2002. Except for Uzbekistan whose CAREC trade was growing at rates below those with other countries, intra-CAREC increased more than 50 percent in 2006 over 2002.⁵ Given that the area within 25 kilometers from the border accounts for a large part of the land area of three CAREC countries: Kyrgyzstan (42 percent), Tajikistan (64 percent), and Uzbekistan (27 percent), small-scale trade among bordering regions is widespread (See World Bank 2007). Thousands of people, mostly residents of contiguous border areas, cross BCPs (border crossing points) every day to exploit differences in prices, wages, and regulatory practices.⁶ For many small agricultural producers, sales at a marketplace across the border often offer the only opportunity to purchase other goods. For example, consumers can obtain fresh produce at an attractive price. For others intermediating and supplying services to traders is their only source of income, allowing many households to stay out of poverty. Furthermore, for communities in remote areas, lacking the advantages of a well-developed road network, contacts with similar communities across the border may be the only opportunity to move beyond subsistence farming and gain access to desired services that are not available locally.

There are indications that the local demand for such deeper cooperation across a range of activities is strong and are not confined to opinions of the local authorities alone. Minutes of the negotiations between the businesses of Tashkent oblast in Uzbekistan and South-Kazakhstan oblast in Kazakhstan read like a description of Euroregion pointing to the need to establish legal arrangements facilitating the emergence of Asiaregions. Participants argued for investment and trade links between two oblasts through joint exhibitions and fairs; facilitating the establishment of joint ventures; attracting investments in agro-processing; joint projects to develop infrastructure (roads); cooperation to increase tourism; cultural exchanges; and exchange of knowledge. The sides have agreed to the need to conduct joint seminar, conferences, working meetings covering issues of joint interest and encourage exchange of scientific and technical information (Tashkent, May 11,

⁵ The share of Uzbekistan's neighbors in its total trade was 10 percent lower over the same period. Policy-induced barriers may be responsible for this. According to a recent study (ADB 2006, p. 25-28), Uzbekistan's foreign trade regime is the most protectionist one among Central Asian CAREC economies.

⁶ In many areas with restrictions on the movement of people and goods borders are often crossed illegally.

2007). The participants also showed awareness of the need for permanent mechanism by agreeing to hold regular meetings at the level of head of the oblasts, including private entities (businesses) between the two oblasts.⁷

Listening to opinion on the ground is important. Local authorities and businesses have the best available knowledge about local conditions and this knowledge can substantially improve the quality of inter-government development programs. In addition, local officials and NGOs involved in Asiaregio arrangements would emerge as lobbying groups in favor of deeper intra-CAREC policy induced integration yielding mutual benefits.

Asiaregios would also facilitate the development of the division of labor linking producers across borders based on stable foundations. The Asiaregio framework would not only remove uncertainty associated with conditions affecting the movement of goods and people across borders but it would also encourage entrepreneurship through information exchange and local employment initiatives.

Finally, the implementation of Asiaregio framework might enhance attractiveness of regions through economy of scale effects to investors, foreign and domestic alike, and to tourism. As for the latter, there are many attractive tourist areas on both sides of the border: special visa arrangements might enhance their appeal to foreign tourists coming from countries whose citizens need entry visas.⁸ So would convenient and accessible border crossing points together with appropriate tourist infrastructure on both sides of the border.

VI. How existing trans-border cooperative agreements in CAREC can be improved

Geography and historical legacies, coupled with government policies, have contributed to the emergence of highly diverse arrangements for regional cross-border cooperation. There are significant differences not only between, on the one hand, Central Asian, who are also members of the CIS (Commonwealth of Independent States) or EURASEC (Eurasian Economic Cooperation), and, on the other hand, CAREC members, but also within both groups. But the former clearly overshadows the latter: while there are agreements among Central Asian CAREC/CIS members that address directly issues of cross border cooperation at the level of borders, we know of only two examples of agreements between two 'groups' having a regional character: an agreement between governments of China and Kazakhstan and China and Tajikistan.

⁷ Information provided by the Ministry of Trade and Industry, Kazakhstan.

⁸ For instance, if visas are required for crossing a border, residents of Asiaregio may enjoy a short term visa-free into territories of bordering regions. A good candidate for this type of arrangement might be an area between Samarqand (Samarqand oblast) in Uzbekistan and Sugd oblast (Panjakent) in Tajikistan located on the route from Samarqand to Tajikistan's mountainous region with seven lakes including Alexander the Great Lake (Iskanderkul).

BOX 1. The Panfilov/Khorgas Arrangement

The agreement between China and Kazakhstan is unique. It has set up a preferential regime for the movement of local residents of the Kazakh neighboring district, Panfilov, with China through a border crossing point at Khorgas. In contrast to residents of other regions in Kazakhstan, Panfilov residents are allowed to enter China visa-free for a period of one day. The waiving of the visa requirement really matters, as visas can be only obtained in Almaty, about 300 kilometers from Jarkent, the center of Panfilov region, and are expensive. This special visa arrangement combined with Kazakhstan's customs regulations friendly towards shuttle trading has contributed to lower prices of imported products including food and fruits and allowed a large number of people to find employment in trade related activities.⁹

Notwithstanding the diversity of various regional agreements, **the common denominator characterizing CAREC countries is the absence of a legal framework** that would allow for the establishments of Asiaregios. This is already regarded as a problematic area in some countries. The government of Kazakhstan has prepared a draft of a law on cross border cooperation that would allow local authorities to conduct border cooperation activities: it has, however, been rejected by the Parliament on the grounds that cross border cooperation issues ought to be governed within the framework of bilateral agreements. But the problem remains, however, that bilateral agreements are inter-governmental agreements: they leave the issue of delegation of authority to a government. Without addressing this issue in the framework of bilateral or intra-CAREC agreements, unilateral delegation without corresponding action on the other side of the border will not alter the situation. Clearly, without such agreements, oblast authorities cannot pursue cross border cooperation as long as central governments of bordering countries do not transfer some authority to regional authorities.

There are two other problems with reliance on bilateral arrangements to pursue cross border cooperation as envisaged in the concept of Euroregio.

- First, there are some **border areas involving more than two national jurisdictions** and where benefits of cross border cooperation can materialize only insofar as all governments are involved sticking to the same rules.
- Second, **the existing bilateral agreements are issue-oriented**. Those that focus on trade do not address areas relevant to cross border cooperation between contiguous regions. They leave out such important areas as tourism, environment, labor, water, land, energy, and infrastructure.

In the absence of national legal frameworks that would delegate some autonomy to authorities of bordering regions, two conditions have to be simultaneously met for cross border cooperation to take place: there has to be a bilateral inter-governmental agreement providing a reference framework, and central authorities of both countries have to be willing to act. Bilateral intergovernmental agreements, in turn, derive mostly from broader regional integration agreements, i.e., CIS (Commonwealth of Independent States), Eurasec (Eurasian Economic Cooperation) or CAREC. This leaves little room, if any, for decentralized spontaneous efforts for cooperation

⁹ In Kazakhstan, cargo whose weight does not exceed 50 kilograms and value not exceed US\$1,000 can be brought without paying any border charges. As for large shuttle trade, shipments of agricultural products up to 10 tons and shipments of industrial products up to 2 tons and the value not exceeding US\$10,000 are subject to a simplified customs procedure with a flat rate of 17 percent (14 percent VAT and 3 percent customs fee) ad valorem.

among bordering regions. Bilateral border issues are thus in the purview of inter-governmental commissions usually including representatives of local governments from border regions.

BOX 2: The Khustigormon Cooperation Arrangement

Kushigurmon, located on the Tajik-Uzbek border enjoys the benefits of free movement of people and goods across the two borders. While according to existing intergovernmental agreements, local population living within 30 km from both sides of the border along all Tajik-Uzbek frontier could cross the border visa-free, Kushigurmon is unique in a sense that both adjacent to Uzbekistan jamoats (Gorniy and Plotina jamoats of the Sogd region of Tajikistan) can also cross with their cars (albeit with Uzbek car plates only) and bring goods in small quantities for trade. This is a special arrangement for both jamoats (located in Tajikistan) that used to be under jurisdiction on Uzbekistan and are mainly holders of Uzbek citizenship. Border authorities have a complete list of local dwellers that cross border daily both for work and bring fresh produce and petty commodities. On these regime allows an average 300 people and 150 cars cross border daily. While heavy truck are not allowed to cross the border but lightweight cars are allowed to being up to 1 ton of goods. Kushigurmon is also a very good example how relaxed administrative processes could facilitate increased border trade and improve welfare as evidences by two-way border trade even with the emergence of small price differentials across the border.

The issue of cross-border cooperation has remained marginalized in most CAREC countries by other pressing policy issues at the national level—despite its vital importance to the welfare of local populations by the provision of preferential regimes to contiguous regions. Although there are some specific arrangements applying to residents living in bordering areas of former Soviet Central Asian republics,¹⁰ they fall short of features associated with Euroregions on three major counts.

First, these are mainly interstate agreements focusing on overall conditions in the movement of people and goods across borders. They do not take account of the specific features of particular bordering regions. They can be divided into three different groups: these that are related to intra-CAREC relations; these that exist within the CIS framework; and bilateral agreements that are outside both CAREC and CIS frameworks. Since CAREC-related agreements are not as deep and comprehensive as CIS agreements, we shall focus on the latter. Furthermore, bilateral rather than regional agreements represent legal tools for the implementation of region-wide agreements.

Although a rich legislative framework, including both *CIS region-wide* and *bilateral agreements* amongst CIS Central Asian countries, governs relations amongst Central Asian CAREC-member states including border cooperation, bilateral agreements are the major tools of enforcement of CIS-wide agreements. Relevant international agreements are part of legal arrangements underpinning the (CIS) integrative agreements. The following pertain directly to trans-border cooperation. These are: “Concept on Intraregional and Border Cooperation between CIS Member Countries” approved by the Council of the Heads of CIS member states dated September 15, 2004; “Agreement on Basic Principles of Border Cooperation between Country Members” March 1996; and the “Agreement on Deepening of Integration in Economic and Humanitarian Areas,” March 29, 1996. Together with

¹⁰ A good example is special arrangements governing the movement of people and goods living in a region, “Kushigurmon” or “Plotina” Sogdijskii region, spreading over parts of Tajikistan and Uzbekistan – see Box 1.

other CIS-wide and EURASEC agreements on movement of persons and goods among CIS countries, they jointly determine contours of border cooperation.

While the CIS agreements and, increasingly, CAREC agreements set a broad framework, their transformation into enforceable arrangements hinges critically and inter-state, bilateral agreements.¹¹ These agreements not only complement but they also go beyond region-wide agreements. In fact, there is a true spaghetti bowl of bilateral agreements within both CIS and CAREC framework. Agreements between countries that are both CIS/EURASEC and CAREC members and those CAREC members that are not CIS or EURASEC members are, quite expectedly, ‘shallower’ in terms of the depth of integration reflecting the differences in the progress in policy-induced integration within both regional blocs. They mostly focus on deepening of economic and humanitarian cooperation. Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, on the one hand, and other CAREC countries, China and Afghanistan, on the other hand, have signed such agreements. While highly relevant for bilateral relations of these countries, they do not necessarily specifically address issues related to cross-border regional cooperation, although they often facilitate cross-border trade.

Second, they tend to be issue-specific focusing almost exclusively on commercial relations, as outlined in respective bilateral agreements, rather than addressing also other areas of mutual interest in a comprehensive fashion. The governments of both Kyrgyzstan and Tajikistan have issued border cooperation regulations but they cover solely cross border trade.¹² They do not comprehensively address all issues potentially relevant to welfare of population living in bordering regions but mostly focus on cooperation between border authorities. There are some exceptions, although still falling short of the Euroregion model. There are separate bilateral agreements between the countries governing bilateral border cooperation but they mainly focus on the development of incentives to increase cross border trade. Kyrgyzstan has such agreements with both Kazakhstan and Tajikistan. Other agreements, though still addressing mainly cross border trade, often contain provisions for cooperation in other areas like tourism, agriculture, etc. Examples include agreements between South Kazakhstan and Tashkent oblast, and Sogd oblast of Tajikistan and Batkent oblast of Kyrgyzstan.

The agreement between Kyrgyz Republic and Kazakhstan, signed on April 26, 2007, on creation of the international centers for border trade “Auhatti-KenBulun” (Kordai rayon of Jambul oblast) and “Aishabibi-Chonkapka” (Issyk Ata rayon of Chuy oblast) combines trade promotion with investment and trade facilitation activities. It calls for the creation of ‘international centers’ and obliges relevant border authorities to accelerate customs clearance and phyto-sanitary inspections. It is indicative of the absence of a legal framework that the agreement was not between bordering regions but between central governments.

Third, the existing agreements largely lack an organizational structure that would provide a permanent mechanism for supporting cross border cooperation, although some rudimentary forms are already in place. At present, the institutional vehicle across counties covered in the study is intergovernmental commission. Intergovernmental commissions are set to negotiate and translating into practical actions general provisions of existing bilateral agreements.

¹¹ For instance, although CIS-wide agreements have eliminated visa requirements for CIS citizens, Uzbekistan imposes a visa requirement on Tajikistan citizens, except for individuals residing in certain designated border areas.

¹² See, for instance, the 2003 Decree on organization of border trade of Tajikistan with Kyrgyzstan and Uzbekistan, the 1996 Decree of the Government of Tajikistan on border trade with Afghanistan, the 2003 Decree on establishing border trade points in Khatlon oblast with Afghanistan.

Yet, some steps have already been taken to introduce a local permanent mechanism for promoting cross border cooperation. The Kyrgyzstan—Tajikistan intergovernmental commission has approved recently the opening of representation offices coordinating cooperation between the Djirgital rayon in Tajikistan and Osh oblast in Kyrgyzstan. Some agreements between CAREC countries that are beyond the scope of this study have underlying organizational structures. For instance, agreements between Tajikistan and Afghanistan and between China and Tajikistan have in place operating steering committees or provisions calling for regular meeting between local authorities of neighboring regions.

The agreements fail to address areas that would maximize welfare effects of this cooperation for the reasons discussed above, i.e., their narrowness, lack of legal instruments, and organizational underpinnings. The proliferation of agreements addressing mainly commercial aspects of cross border cooperation and informal contacts between businesses and authorities from bordering areas in Kazakhstan, Kyrgyzstan, Tajikistan and, to a lesser extent, Uzbekistan show growing awareness of benefits inherent in closer cooperation.

The challenge facing CAREC governments is to remove barriers to regional cooperation and establish mechanisms for supporting it. These include not only legal instruments but also financial assistance. It seems that this would be an area that would attract foreign donors interested in promoting initiatives encompassing measures enhancing stability and alleviating poverty.

VII. Recommendation for CAREC

As this paper has shown, the growth in the level and intensity of intra-CAREC links shows the existence of a significant potential for welfare gains from establishing framework for cross border cooperation among neighboring regions. The existing framework of bilateral agreements with provisions addressing cross border cooperation falls short of this goal. First, bilateral agreements which deal with cross border issues are usually trade agreements, whereas issues that might be meaningfully addressed with welfare gains to cooperating regions are covered, if they are, by other inter-state agreements and government agencies. In consequence, such areas as, for instance, tourism, culture, environment, energy cannot be easily addressed in cross border regional cooperation. Second, regions that might benefit from enhanced cross border cooperation spread often across more than two countries. By the same token, they require coordination not at a bilateral but regional level. CAREC is uniquely placed to supply necessary institutional and policy framework to achieve it.

The paper contained a number of recommendations for CAREC countries encompassing legal changes, devolution of powers to local authorities, adopting a wide-ranging cross-sectoral approach to cooperation, setting up specific institutions for cooperation and the like. In this final section, a CAREC-oriented recommendation is made.

With a view to promoting the formation of Asiaregios, an initial step should be the establishment of a CAREC Inter-Regional Committee. The Committee should be responsible for:

- a) devising a common legal framework (to be adopted by CAREC member states) that would eliminate legal obstacles and facilitate regional initiatives to intensify cross border cooperation;
- b) conducting an assessment of gains from closer cross border cooperation spanning over the issues going beyond trade in order to select candidates for implementing pilot projects;

- c) coordinating and encouraging the development of operational spatial development strategies on a transnational scale based on cooperation among bordering cities and between urban and rural areas in the context of sustainable development.

Even before a common legal framework for establishing Asiaregions emerges, the CAREC member governments should put the issue of regional cross border cooperation high on their policy agenda. In addition to working closely with CAREC Inter-Regional Committee, the governments should encourage and provide organizational support to local authorities of bordering region interested in devising strategies for local cooperation.

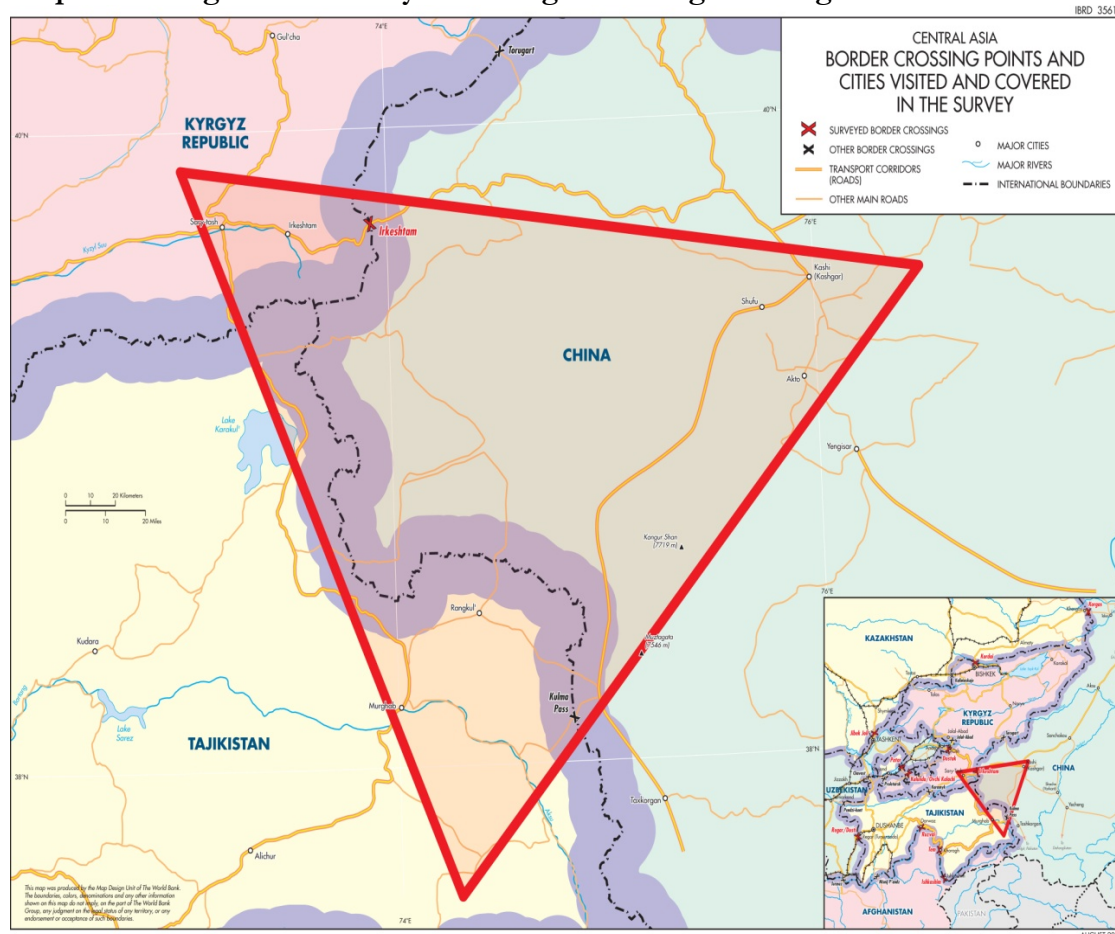
References:

- Kordela-Borczyk, Zofia. 1996. "The Case for Economic Cooperation and Development in the Central Carpathian Region: The Euroregion Model." *Global Security Fellows Initiative, Occasional Paper No. 4*, University of Cambridge, Cambridge, UK, October.
- Maskell, Peter and Gunnar Törnqvist. 1999. *Building a Cross-Border Learning Region: Emergence of the North European Øresund Region*, Copenhagen Business School Press, Copenhagen.
- Perkmann, Marcus. 2003. *The Rise of the Euroregion. A bird's eye perspective on European cross-border co-operation*, published by the Department of Sociology, Lancaster University, UK, at <http://www.comp.lancs.ac.uk/sociology/papers/Perkmann-Rise-of-Euroregionon.pdf>
- [WB 2007] *Cross-Border Trade among the Countries of Central Asian Regional Cooperation*, CAREC and World Bank, Washington and Manila, August/September.

Annex 1: Possible candidate for a Pilot Project: “Sarytash-Murghab-Kashgar Triangle”

A tentative Asiaregion could comprise two Central Asian EURASEC/CAREC member states—Kyrgyz Republic and Tajikistan—and China (see Map 1). Geography, level of economic development, potentially large economic gains from cross-border cooperation, together with these governments’ open attitude to cross-border cooperation and infrastructure development support this choice.

Map 1: Asiaregiono: The Sarytash-Murghab-Kashgar Triangle



The geographical area is large and organized around three cities: Sary Tash in Kyrgyz Republic; Murghab in Tajikistan; and Kashgar in China. Large distances separate them (Table 8.2). The triangle depicted by these cities covers a large territory of over 30,000 square kilometers, spanning over approximately 5 percent of Tajikistan, 3 percent of Kyrgyzstan, and less than 2 percent of Uygur Xinjiang Autonomous Region in China. It is sparsely populated, with a total population of over 300,000, with China accounting for over 80 percent of the total, Kyrgyzstan for less than 10 percent, and Tajikistan 10 percent. Murghab, with a population of 15,000 people, is the most remote district in Tajikistan. Sary Tash district, with a population of less 10,000 people, is also one the most remote districts in Kyrgyz Republic. In contrast, Kashgar is the largest city in South Uygur Xinjiang Autonomous Region, with a population of over 200,000.

Although the triangle suffers from tough climatic conditions, rather long distances, and road infrastructure remains inadequate, the establishment of the Asiaregion could rapidly impact economic and social conditions in these remote areas as trade is booming through Irkeshtam and Kulma. Sary Tash is located 80 kilometers from Irkeshtam and is one of the poorest districts in Kyrgyzstan, with an average monthly salary of US\$40. However, Sary Tash is the crossroads in this region. Indeed, it is the main city of the Murghab region, located 235 kilometers from Osh and 360 kilometers from Kashgar, the largest city in South Xinjiang Uygur Autonomous Region (see Table 8.2 for distance within the triangle).

Annex Table 1: Distances Within the Triangle: Sary Tash—Murghab—Kashgar (in kilometers)

	Sary-Tash (KGZ)	Irkeshtam (KGZ)	Murghab (TJK)	Kulma (TJK)	Kashgar (CHN)	Irkeshtam (CHN)
Sary-Tash		80	235	355	360	80
Irkeshtam-KGZ			315	435	280	0
Murghab				120	390	315
Kulma					270	435
Kashgar						280
Irkeshtam-CHN						

Note: Kulma-Irkeshtam via Sash Tash.

The developmental prospects of an otherwise remote region could be considerably improved through the lowering of government policy-induced barriers to cooperation, i.e., an establishment of Asiaregio removing and lowering some of them. For instance, the lure of attracting eco-tourism would be enhanced by the prospect of visa-free movement of eco-foreign tourists that could move in this Asiaregio with an entry visa from just one of three countries. All three regions might benefit from it. While this would call for on-site due diligence, the diversity of issues as well as the potential for reaping benefits of economy of scale clearly points to significant benefits that of cross-border cooperation.

Cross-border cooperation, together with its institutionalization in Asiaregion, could yield significant economic benefits to contiguous regions in three countries. Recent developments point to significant potential for economic development. Consider first that Kashgar, which has already attracted traders from South Kyrgyzstan and Badakhshan in Tajikistan, again has become the main bazaar in South Xinjiang. Central Asian traders can find everything there for cross-border trading activities, such as local food products, articles of daily use, as well as consumer goods. Second, Tajik-Chinese bilateral trade going through Kulma has increased from zero in 2003 to US\$400 million in 2006, and Kyrgyz-Chinese trade through Irkeshtam BCP has been booming.¹³ Hotels, cafés, and warehouses have sprung up in Badakhshan and are evidence of the boost to the region's economy.

¹³ However, as described in Box 2, if the Kulma BCP were permanent, there would be a further increase in Tajik-Chinese trade turnover and further positive impact on local economies. In Irkeshtam, visa fees deter any cross-border trade activity.

Whenever the Kulma crossing is open, informal employment doubles (Asanova 2007). Last, but not least, it could help alleviate poverty in Murghab, which is cut off from major urban centers in Tajikistan. Murghab is not only the most remote district in Tajikistan but also one of the poorest, with a poverty rate estimated at 84 percent of the district population. Formal employment is almost nonexistent.

The institutional design of the Sary Tash—Murghab—Kashgar Asiaregion would need to be developed in close cooperation, first between central authorities to set a framework for local cooperation and institutionalization of preferential border arrangements, and second through a framework for cooperation and monitoring among local authorities. Areas of cross-border cooperation also would need to be identified, which, as a rule, include the establishment of associations to address issues of potential interest to border areas, such as environment, trade, and infrastructure, as well as creating formal administrative links among local authorities. A possibility could be to establish a Triangle Asiaregion Council consisting of local and central government representatives who would meet on a regular basis and have administrative and research support.

Agreement would also have to be reached on the scope of relaxation of constraints discussed under the single-policy-issue framework. It follows that the constraints on the movement of people and goods of three the contiguous regions should be removed, i.e., the three parties should agree on visa-free movement for residents of border areas. This would apply to the movement of persons and goods between China, on the one hand, and Kyrgyz Republic and Tajikistan, on the other hand. As a first step, the Khorgas model should be adopted for both people and vehicles on a reciprocal basis followed by a deeper integration. As a second step, the program of infrastructure development should be implemented taking into account the need to establish local links that are an integral part of the existing international network.

Given the strong potential for trade expansion in remote locations as well as infrastructure rehabilitation, the three regions have strong incentives to create economic synergies and develop regional economic cooperation for a win-win strategy.