

ASIAN DEVELOPMENT BANK

**Central Asian
Regional Economic Cooperation**

***Central Asian Assistance Plan
(2001-2003)***

December 2000

ABBREVIATIONS

ADB	-	Asian Development Bank
BIMP-EAGA	-	Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area
CARs	-	Central Asian republics
EBRD	-	European Bank for Reconstruction and Development
ECE	-	Economic Commission for Europe
ECO	-	Economic Cooperation Organization
ESCAP	-	Economic and Social Commission for Asia and the Pacific
EU-TACIS	-	European Union's Technical Assistance to the Commonwealth Independent States
FSU	-	former Soviet Union
OPEC	-	Organization of Petroleum Exporting Countries
PRC	-	People's Republic of China
TA	-	technical assistance
TRACECA	-	Transport Corridor Europe Caucasus Asia
UN	-	United Nations
UNDP	-	United Nations Development Programme
USAID	-	United States Agency for International Development
WTO	-	World Trade Organization

FOREWORD

The Central Asian Regional Assistance Plan describes the planned program of assistance by the Asian Development Bank covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as other planned activities. This Regional Plan is an update of the initial Plan covering the period 2000-2002, which was prepared by the ADB in December 1999 to February 2000, in close consultation with the concerned Governments and other stakeholders, including non-government organizations. The updated document was discussed with the Board of Directors in October 2000. The assistance plan described is only indicative and may be revised to reflect more recent developments.

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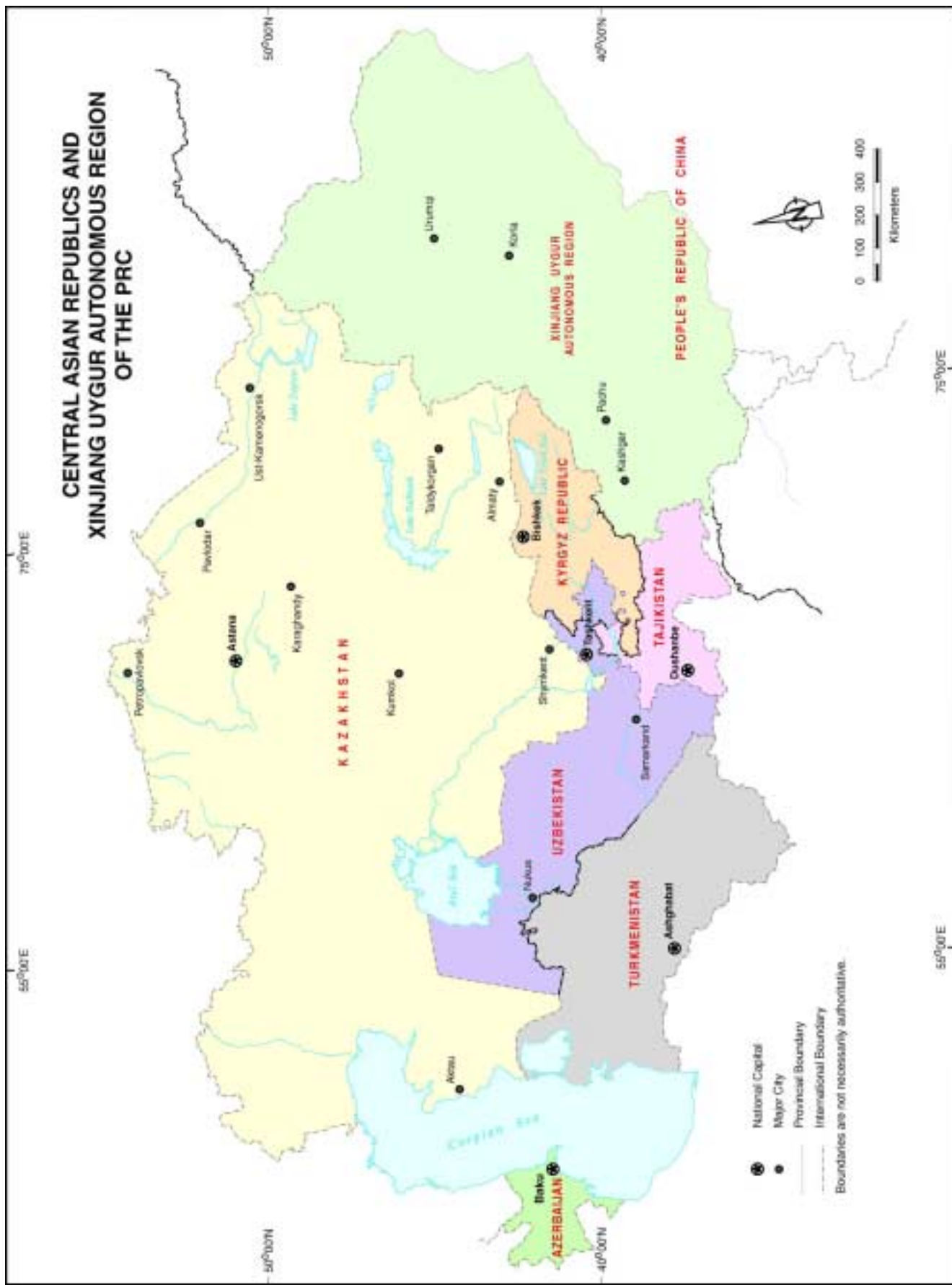
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REGIONAL ASSISTANCE PLAN (2001-2003)
CENTRAL ASIAN REGIONAL ECONOMIC COOPERATION

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REGIONAL ECONOMIC COOPERATION IN CENTRAL ASIA

I. Summary

1. Strengthening regional economic cooperation is especially important for realizing the development aspirations of the countries in Central Asia,¹ particularly in view of their landlocked location far from the markets of industrialized countries. Economic growth and sustainable reduction in poverty in the Central Asian republics (CARs) demands developing new trading relations within the region and new trading partners and transport links to external markets.

2. Economic integration of the Central Asian republics within the Soviet Union, and the inclusion of these republics in a common administrative region for planning purposes, did not lead to sufficient investments in infrastructure to facilitate intra- or inter-republic integration and trade after independence. Present day borders cross economic zones, further complicating the problems of economic restructuring and investment.

3. Since late 1996, the Asian Development Bank (ADB) has been providing technical assistance to encourage regional economic cooperation among its developing member countries in Central Asia. Activities under Phase I (1997-1998) of this ADB initiative concentrated on identifying infrastructure needs and policy issues impeding cross-border trade and traffic specifically in the areas of energy, trade, and transportation.

4. As a result of Phase I activities, the high priority of rehabilitating the road linking Almaty in Kazakhstan with Bishkek in the Kyrgyz Republic was identified and a parallel set of loan and technical assistance (TA) packages prepared. This project is expected to be presented to the Board in the fourth quarter 2000 and is expected to receive cofinancing support from the European Bank for Reconstruction and Development (EBRD) and the European Union.

5. Subsequent activities in Phase II, commencing in 1999, have stayed tightly focused, emphasizing areas of comparative advantage for the ADB, particularly transport (the ADB has active national programs in the transport sector in all its member countries of the region) as well as in energy. Investment needs are being identified in these sectors and the policy environments analyzed to better understand the needs for loan and technical assistance. In support of this exercise, country workshops and intensive government consultations were conducted covering the transport and energy sectors. The trade environment has deteriorated and ADB's policy dialogue, supported by regional workshops on trade issues and bilingual publications, needs to be continued and strengthened. Major efforts are underway to assist establishing institutional arrangements, which would facilitate systematically high-level consultation and consensus-building among the participating countries and between them and the ADB. In addition, moderate steps are being taken to broaden the ADB's regional initiative in areas such as education and rural finance where the ADB has strong programs of assistance to the involved Governments.

¹ For the purpose of this report, Central Asia includes the former Soviet Union Republics that are members of the ADB, i.e., Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan as well as the Xinjiang Uygur Autonomous Region of the People's Republic of China. Azerbaijan, located in the Caucasus region, joined ADB in December 1999, and Turkmenistan in August 2000; their participation in the regional initiative will be considered after they are classified by the Board.

II. Background and Rationale

A. The Need for Economic Cooperation in Central Asia²

6. Strengthening regional economic cooperation is especially important for realizing the development aspirations of the countries in the region known as *Central Asia*, an area with deeply rooted traditions of economic interaction. Situated along the historic *Silk Road*, the people living in this region engaged in extensive commerce and trade from as early as 3000 BC. In the twentieth century, geopolitical factors reduced the exchange of goods and services within the region. The deteriorating relationship between the Soviet Union and the People's Republic of China (PRC) resulted in the closing of most border crossings in the 1960s. With the collapse of the Soviet Union and the opening of PRC to trade in the early 1990s it became possible to once again develop economic linkages in the region.

7. The CARs face daunting constraints to economic development. Since the break-up of the Soviet Union in 1991, the newly independent republics in the region have had to develop new institutions, policies, and skills to function in the modern world—a process made more difficult by the severe economic contraction associated with this break-up. During this period, markets for their raw materials and industrial products, once controlled by Moscow, quickly evaporated. Real gross domestic product fell by 30 to 50 percent; inflation reached over 1,000 percent per year; and unemployment soared. The banking systems remain weak, and savings and investment have dropped precipitously. Moreover, the former Soviet republics are sparsely populated and have very low per capita incomes, which means that internal markets for domestically produced goods and services are limited.

8. Economic growth of the CARs depends largely on developing new trading relations within the region and new trading partners and transport links to markets in industrialized countries. This cannot be over emphasized: the failure to expand trade within the region and between the region and other markets will frustrate any hope for significant, sustainable economic growth in Central Asia. Of course new trading relations are no substitute for needed institutional development and reform. They are, however, part and parcel of any successful transition to a market-oriented economy.

9. Developments after independence have been further complicated by the outbreak of the Russian economic crisis in 1998. Prior to the Russian crisis, the former Soviet republics had begun to recover from the economic downturn of the early 1990s. Inflation had been reduced with monetary stabilization programs and currency controls; gross domestic product was rising; and production and trade were gradually recovering, if not to previous levels. The privatization of major industries and services has provided a foundation for new investment and economic activity.

10. However, the CARs economies have been severely affected by the Russian crisis through its adverse impact on the volume of merchandise trade, inflows of foreign investment, stability of exchange rates, and external debt service obligations. As a result, economic growth of the region has been dampened, the stabilization process has been interrupted, and the efforts for structural reform have been hampered. The economic situation in the CARs is expected to remain precarious. Moreover continuing political instability south of the region, particularly in Afghanistan, limits access to trade

² Additional background notes are in Appendix 1.

routes through the Indian Ocean and is a source of potential instability within Central Asia.

11. Xinjiang Uygur Autonomous Region (Xinjiang, PRC) in the PRC's western region, has extensive cultural affinities with the CARs. Even more important than these ethnic and historic ties, however, are the potential resource and market complementarities among the CARs and Xinjiang, PRC. Currently, reflecting the existing state of industrial and farm restructuring in the CARs, primary commodities (including hides and skins, cotton, petroleum, and steel) flow from the CARs to the PRC, and labor-intensive light industrial goods (shoes, garments, textiles, and processed food and beverages) flow in the reverse direction. As industrial and service sector development takes place, the mix of commodities traded can be expected to grow more complex and inter-country trade could show increased flows of higher value-added goods and services.

12. Until recently, the PRC economy grew by more than 10 percent each year with commensurate increases in productive capacity, aggregate demand, and personal income. Development in Xinjiang, PRC was particularly rapid, based on extensive development of mineral resources and a widening of the agricultural and industrial base. Continuing economic reforms, initiated in the late 1970s provided wider scope for enterprises to grow. Most recently, Premier Zhu Rongji has proposed to expand investment in the western regions of PRC, including Xinjiang, PRC. Proposals being discussed would provide for higher levels of state investment, but also increased incentives for foreign direct investment in the region. These policies are being examined as part of a special study under the 10th Five-Year Plan (2001-2005).

B. The Soviet Legacy in Infrastructure—A Connecting Thread throughout the Region

13. Economic integration of the Central Asian Soviet republics within the Soviet Union, and the inclusion of these republics in a common administrative region for planning purposes, did not lead to sufficient investments in infrastructure to facilitate intra- or inter-republic integration and trade after independence. The location of railroads and pipelines, in particular, was designed to take raw materials to specific processing plants specified by the Soviet planners, rather than to local processing plants. Railroad transportation in the former Soviet republics was relatively well developed; road transportation, on the other hand, was less developed. Intra-urban public transportation was extensive, but inter-city transportation, especially automobile transportation, was not a high priority of Soviet planners. As a result, no highway crossed the entire east-west length of the Soviet Union.

14. Specifically with respect to the CARs, all population centers and even remote manufacturing or processing centers are connected by some leg of the former Soviet transportation system. However, there are often no simple connections from any one point in one country to another point in the same country—road and rail links often crisscross existing borders. Thus even local traffic may necessitate border crossing and barriers to cross-border transit may affect local life. With the lack of maintenance and upkeep since the breakup of the former system, the physical infrastructure is showing signs of obsolescence and does not support the needs of the emerging economies of the region. Rebuilding, restructuring, and reorganizing this infrastructure is a priority for all governments in the region, and is an essential foundation for regional economic cooperation.

C. Present Day Borders Cross Economic Zones

15. The borders of the CARs were determined by both political and economic considerations. Between 1924 and 1936, authorities in Moscow defined arbitrary political boundaries for what became the five socialist republics in Central Asia. With a few exceptions, these new, internationally recognized borders do not reflect the contours of natural geographic, ethnographic, or economic divisions. Geographically, for example, the Fergana Valley is fed by one major river system, which is shared by the Kyrgyz Republic, Uzbekistan, and Tajikistan. Also, the Leninabad region of Tajikistan, and the Osh region of the Kyrgyz Republic, are separated from their countries' respective capitals by high, nearly impassable mountains. Highways and railroads created during the Soviet period also defy the national boundaries in the region. For example, the major highway between Tashkent and Samarkand in Uzbekistan passes through Kazakhstan.

D. Regional Responses to Regional Needs

16. Independence, the collapse of the Soviet-trade system, and the need to resolve regional issues, have led the CARs to experiment with various institutional forms of economic cooperation. The establishment of the Interstate Council of the Republic of Kazakhstan, the Kyrgyz Republic, and the Republic of Uzbekistan, as well as the Central Asian Bank for Cooperation and Development by the same three countries, are two notable examples. In addition, there have been negotiations concerning the trade in oil, electricity, and gas; water rights; and for cooperation concerning reconstruction of the environmental problems in the Aral Sea area. These activities reveal an underlying commitment to economic cooperation, an understanding and appreciation by the respective Governments that common solutions must be found to regional problems.

III. The ADB Initiative Towards Economic Cooperation in Central Asia³

A. Phase I: 1997-1998

17. Since early 1997, the ADB has been providing technical assistance to encourage regional economic cooperation among its developing member countries in Central Asia. The initiative follows from the charter which directs the ADB to encourage cooperation and regional programs. The Central Asian program, which follows a phased approach,⁴ has been tailored to fit the specific needs of the countries involved and also to benefit from the lessons learned from other regional initiatives including those in the Greater Mekong Subregion and the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA). Activities under Phase I of this ADB initiative concentrated on identifying infrastructure needs and policy issues impeding cross-border trade and traffic specifically in the areas of energy, trade, and transportation. These sectors were selected on the basis of initial discussions with the participating Governments of Kazakhstan, the Kyrgyz Republic, the People's Republic of China (focusing on the Xinjiang Uygur Autonomous Region), and Uzbekistan. The initial discussions

³ The Bank's initiative has been supported by RETA 5707: Regional Economic Cooperation in Central Asia (8 November 1996 for \$1,150,000), RETA 5760: Workshops on Economic Cooperation in Central Asia (14 November 1997 for \$344,000), RETA 5818: Regional Economic Cooperation in Central Asia, Phase II (11 December 1998 for \$1,350,000), and Rural Financial Systems Development Workshop in Central Asia (30 July 1999 for \$360,000). Publications and reports concerning the Bank's initiative are listed in Appendix III and a list of workshops and conferences in Appendix IV.

⁴ The phased approach is suggested in the Board policy paper, Bank Support for Regional Cooperation, Doc. R60-94, 11 April 1994.

emphasized the importance of focusing ADB activities in a region new to staff and where other multilateral funding agencies were working.⁵

18. In Phase I, transport was considered the key sector because: (i) the overwhelming need to reduce transport barriers to regional development was clearly accepted by the Governments; (ii) the ADB's technical expertise could potentially be the key to resolving sometimes divisive political issues; (iii) the ADB was the lead agency in road financing and an important one in the rail sector; and (iv) no other international funding agency provided the important mix of policy advice, loan and TA resources at levels likely to have an impact on sector issues. Thus a broad approach in the transport sector for the ADB was advocated and adopted. The energy sector was also an area in which the ADB focused due to: (i) the critical regional problems which were not being addressed by international funding agencies with the full mix of assistance modalities needed; (ii) the possibility of developing projects with potentially clear economic benefits; and (iii) the belief that ADB's technical expertise and experience could make a critical difference in the sector. In view of the commitments of other agencies such as the World Bank and the United States Agency for International Development (USAID) in the closely aligned areas of water resource management and the ADB's relatively smaller involvement in the region in national energy programs, the ADB adopted a more narrow program for the energy sector than in transport. Finally, it was recognized that trade issues, if unresolved, would frustrate any potential benefits from transport and energy projects. Thus a measured approach to trade encouragement was adopted for the ADB that complemented the more macroeconomic initiatives of institutions such as the World Trade Organization (WTO), the World Bank, and USAID and focused on issues such as non-tariff barriers and poor governance that directly affected trade and transit and could be addressed through workshops, policy advice, and in our transport and energy projects.

19. In summary, the sectoral strategic concerns of the ADB's initiative were three-fold:

- To lessen the economic isolation of the region through improvements in transport systems within Central Asia and from Central Asia to other parts of the world, particularly East and South Asia.
- To rationalize and encourage regional energy trade based on market principles and the preservation of existing infrastructure.
- To ensure that the underlying policy environment encourage trade, traffic and transit within and to the region.

20. The findings and recommendations of the initial study of Phase I were reviewed and validated in a series of five workshops conducted in 1998 at ADB headquarters and in the region (Appendix 4). These workshops led to (i) the identification of a high priority transport project, the improvement of the Almaty-Bishkek Highway, and (ii) a structure for Phase II operations. The rehabilitation of the highway is designed to foster regional economic cooperation in Central Asia through the development of an efficient and safe road transport link for movement of people, goods and vehicles between these two commercial centers and across the Kazakh/Kyrgyz border at Georgievka. The Project, expected to be presented to the Board in the fourth quarter of 2000, will assist the

⁵ Complementing extensive national programs of assistance in Central Asia, a number of international funding organizations have supported regional cooperation initiatives (para. 51).

Governments of Kazakhstan and the Kyrgyz Republic in rehabilitating the Almaty-Bishkek road, removing physical and nonphysical cross-border barriers, and improving coordination and management of road safety and introducing a road maintenance system by contract. The project is expected to be supported by loan cofinancing from the EBRD and grant cofinancing from the European Union.

B. Phase II: 1999-2002

21. Phase II of this regional initiative commenced in 1999 and seeks to support, in the context of regional cooperation, the continuing policy dialogue to remove cross-border barriers and facilitate the efficient movement of goods and peoples. Phase II maintained the initial strategic thrust noted above and has been guided by the following tactical concerns:

- The ADB's initiative should stay tightly focused, emphasizing areas of comparative advantage such as transport.⁶ Reflecting the ADB's comparative advantages, the work in the transport sector should be broad-based, the work in energy much more tightly oriented, concentrating on specific project areas as described below. Infrastructure investment projects should utilize the Almaty-Bishkek Rehabilitation Project as a model for future activities, particularly in the respect of tying investment to policy reforms designed to encourage trade.
- The trade environment has deteriorated, particularly with respect to cross-border trade. This reflects: (i) regional currencies that are not uniformly convertible, (ii) frequent border closures sometimes due to security concerns, (iii) tariff structures that impede trade, (iv) poor governance encouraging corruption in trade and travel clearance, and (v) national policies oriented towards national self-sufficiency. The ADB's policy dialogue, supported by four regional workshops on trade issues and bilingual publications needs to be continued and strengthened.
- The recent membership of Azerbaijan and Turkmenistan in the ADB calls for careful thought to understand the particular needs of these countries in the context of the ADB's regional efforts. Phase II has supported a study of the needs and relevance of regional cooperation to Tajikistan after it joined the ADB in 1998. It is anticipated a similar study would be undertaken in Azerbaijan and Turkmenistan.
- Modest, measured activities, should be undertaken to complement and support strong country-specific ADB programs with regional projects where appropriate. In this spirit, a workshop on rural financial systems development was held in Bishkek in October 1999 to support cross-country discussion concerning policy and institutional needs in the sector. This is expected to lead to further work in this area. In the future, it may be worthwhile to extend ADB's regional efforts more broadly to address regional banking and financial issues. A workshop on education reforms and policies is similarly planned for the region in 2001.
- Equally important, the regional initiative's plans and activities must be thoroughly integrated within the country programs. The priorities for action established by

⁶ A relatively focused program is important to effectively utilize limited resources in very staff-demanding inter-country exercises. See similar conclusions in the recent IES:REG-99026, *Impact Evaluation Study of the Asian Development Bank's Program in the Greater Mekong Subregion*, December 1999. [Impact Assessment-GMS]

regional discussions must be consistent with ADB's national programs of assistance. Establishing pipelines of regional projects, as discussed below, demand that loan, TA, staff, and consultant resources are budgeted within the national assistance programs.

- A more systematic and institutionalized approach should be adopted to facilitate further progress in regional cooperation. As activities are moving from the preparation towards the implementation stage, it is critical to ensure consistency and compatibility of ADB supported activities with the countries' development priorities. Establishing an institutional framework would therefore enable effective facilitation of high-level policy dialogue and consensus building among the participating countries and between these countries and the ADB.

IV. Sector Priorities and the Proposed Program 2001-2003

22. Any effort to expand economic cooperation in Central Asia must overcome several barriers. Inadequate infrastructure and policies that discourage trade and transit, are among the many impediments to cooperation. These issues must be addressed in the three principal sectoral initiatives: trade, energy and transport. A proposed lending and TA pipeline is in Appendix 2. This appendix also contains an indicative listing of needed economic and sector work.

A. Trade

23. Since independence, the CARs have made significant if uneven progress in domestic trade liberalization, helped along by privatization and the introduction of market-based incentives. In a relatively short time, prices have been freed on most goods and services, and strides have been made toward establishing the legal and regulatory framework necessary for the smooth functioning of market-based economies. Moving on quite a different reform path, the same is true of Xinjiang, PRC.

24. The potential for expanding intra-regional trade in products is considerable. The monoculture agricultural regime practiced by the Soviets, coupled with the isolation and specialization of industrial facilities, means that restructuring is needed to exploit this potential. The most immediate possibilities include agricultural chemicals (for instance, the Kyrgyz Republic needs to import fertilizers, pesticides, and herbicides), farm produce, skins and hides, and textiles. Consumer goods is another area of potential trade, especially between Xinjiang, PRC and the former Soviet republics. None of the republics produce consumer goods in any significant amount, and if incomes rise, the demand for these goods would increase.

25. Despite the progress toward open economies, policy restrictions and barriers to trade continue to impede the flow of goods, technology, services and capital within the region. These barriers may be classified into three categories: tariffs and related policies, procedures and regulations, and governance problems.

- Tariff constraints to trade are relatively minimal. However, in some cases the CARs impose export taxes on goods shipped from one country to the next, resulting in double taxation that discourages exports and depresses trade volumes. Policy-related constraints to trade include import quotas, export licensing arrangements, visa policies, and transport restrictions.
- Procedural and operational barriers to trade include a variety of impediments. There are often cumbersome and arbitrary procedures and bureaucracies

throughout the region administer regulations that are archaic and frequently conflicting. Regulations change continuously, usually without notice. There are also slow, difficult border procedures, multiple cargo inspections within a single country, and prohibitions that prevent vehicles from transporting goods between countries. Although the former Soviet republics had permitted the movement of citizens across borders for short periods of time with few restrictions, visa requirements are becoming common.

- Governance problems include arbitrary and extra-legal transit fees and the costs of dealing with corrupt border officials and local police. These problems are particularly discouraging to transit operations—third country cargoes and passengers are particularly vulnerable to abuse of official privilege. Administrative systems that lack transparency and accountability invite corruption and inhibit the growth of trade necessary for the region to prosper.

26. Removing barriers to trade within the region primarily involves changing attitudes toward trade and policy reform. As a step towards this direction, the Central Asian countries have applied for membership in the WTO, which requires compliance with internationally accepted trade practices.

27. The absence of a modern banking sector in the former Soviet republics also limits trade relations. Letters of credit, money orders, credit cards, and other modern payment instruments for commercial transactions are unavailable or limited in use. Trade financing, including financing of receivables and guarantees, is nonexistent. Currency overvaluation and the lack of convertibility also hinder trade expansion and produce economic distortions in the region. Partly as a result of this deficiency, a great deal of trade is driven into informal and illegal channels.

28. The ADB has been energetic in examining trade barriers and raising the issue to the Governments. It should continue, especially with the firm establishment of resident missions, to press the case that only through an expansion of regional trade, can the potential for growth and the significant reduction in poverty occur. The ADB should continue to support regional conferences, workshops and studies, heavily involving local consultants and Government officials, to build a core understanding of the costs of discouraging trade and traffic. The ADB should expand its efforts in these areas with others in the international community. Efforts should also continue to link infrastructure financing to reforms in the policy environment. The forthcoming regional roads project (the rehabilitation of the Almaty-Bishkek highway) offers a model in this respect: infrastructure rehabilitation is being planned in the context of a cross-border agreement to ensure that trade and traffic are encouraged not discouraged.

B. Energy

29. Economic cooperation is especially natural in the energy sector where resource complementarity among the countries creates a strong incentive for trade in products such as oil, gas, coal, and electricity.⁷ For example, Xinjiang, PRC imports oil to support its economic development; on the other hand, Kazakhstan seeks market diversification for its oil. The Kyrgyz Republic and Tajikistan are potential suppliers of hydroelectric

⁷ Long-term potential exists for exports of certain energy products (oil from Kazakhstan, natural gas from Turkmenistan) to industrialized markets. Much effort has in fact been directed into developing pipelines from Central Asia to European markets. The Bank's resources are unlikely to have much impact in this endeavor and have been and should be directed to areas in which little international attention has been paid.

energy. Uzbekistan's gas has a natural market in neighboring countries. Cooperation in the energy sector can help the region become an exporter of energy resources while helping the countries meet their own needs through the lowest cost resource alternatives.

30. Complementarities in the energy sector have already led the countries to seek mutual solutions to meet their respective energy needs. The PRC has invested in Kazakhstan oil production and is committed to developing rail and pipeline infrastructure for shipping oil to Xinjiang, PRC for processing and downstream exports. The Kyrgyz Republic and the PRC have actively explored opportunities to share electrical generating capacity. The CARs have negotiated complex gas, oil, water, and electricity trade and pricing agreements.

31. Despite such efforts, however, intra-regional energy trade is constrained to a great extent by a number of factors including national policies favoring self-sufficiency and deficiencies in physical infrastructure.

- National policies generally favor self-sufficiency and import substitution at the expense of trade and rationalization of energy use. Every Central Asian country has taken steps to encourage energy exports and discourage energy imports. These policies inhibit rationalization of energy use, limit markets, and raise the real resource costs of energy. Addressing this would require, among other things, commercialization of energy companies and the use of market-oriented pricing.
- Physical infrastructure such as new pipelines and electric transmission lines, as well as improved rail capacity and storage facilities would be required in some cases to expand trade. These infrastructure projects are expensive, and detailed studies would be needed to determine their economic feasibility. In other cases, a coordinated program of rehabilitation and operation is necessary.

32. The opportunities for cooperation sometimes involve the construction or rehabilitation of infrastructure to transport energy more efficiently. For instance, one of the proposed projects given high priority by the governments is the rehabilitation and improvement of the interconnected electric power grid in the Central Asian republics. Under Phase II, potential projects in this area are being identified. Investment in this area will provide the basis for expanding electricity production and export as well as stabilize electricity supplies throughout the region. Another proposed project is the completion and renovation of the gas pipeline from Turkmenistan and Uzbekistan through the Kyrgyz Republic to Almaty in Kazakhstan. It is expected that any infrastructure project would be undertaken in the context of specific improvements in the policy environment relevant to the project.

C. Transportation

33. All of the railroads and major roads in Central Asia cross national boundaries and affect the ability of each country to move goods cheaply, quickly, and effectively. However, because of the former economic integration of the CARs within the Soviet Union, their transportation infrastructure was physically and institutionally oriented toward European Russia. This did not lead to sufficient investments in infrastructure to facilitate intra- or inter-republican trade and traffic. The location of railroads, for instance, was designed to take raw materials to specific, usually distant processing plants rather than to local processing plants.

34. Rail is the most important mode of transport in the region. In the CARs, rail transport accounts for more than 75 percent of all freight transport and a significant percentage of inter-city passenger transport. The existing rail network already links the major cities and industrial centers of the region, and coverage is generally sufficient for current and near-term levels of economic activity. There are, however, critical gaps in rail coverage. In particular, the single rail corridor connecting the CARs with the PRC is a potential bottleneck to trade. Providing for intermodal connections between the Uzbek and the PRC rail systems across the Kyrgyz Republic would reduce the cost of shipping goods to South or East Asia from Central Asia and vice versa. In addition there is a critical need to improve commercially oriented operations of the transborder rail links. Opportunities exist to encourage increased technical cooperation between the rail entities and to improve communications, data base management, and maintenance. In addition, there is a need to reorient operations in a more consumer or client-oriented fashion. These projects are being further examined in the Phase II operations.

35. Road transport is also important for trade, and freight volumes are increasing as a percentage of the regional transportation mix. One reason is that higher-value finished consumer goods are entering local markets (especially for the yet small but significant urban, high-income market segments) and roadways allow for distribution to all parts of the region from local warehouses. Another reason is that the economies of the region have been freed from the constraints of centrally planned distribution systems, making the speed and flexibility of trucking more important.

36. Because the main road arteries connect the major economic and population centers, the road network of Central Asia is generally sufficient to meet current and near-term needs. More urgent than new construction, however, is the need to upgrade the existing network to meet the demands of future economic growth and activity. Most of this network is badly deteriorated as a result of poor construction and the lack of maintenance. The roads were not built to support the large volume of heavy trucks that are appearing as the economies open to increased cross-border trade. As a result, travel is slow, with considerable wear on vehicles and damage to goods. There is an urgent need to upgrade major roadways to carry larger volumes at higher speeds, with less damage to both rolling stock and the products being transported.

37. One major paved road corridor links the CARs—the east-west highway linking Tashkent with Almaty. This road runs beyond both of these cities, to Termiz in the southwest, and to the Kazakhstan-PRC border at Horgos and onward to Urumqi in the east. Portions of the road have been upgraded in Xinjiang, PRC, but major reconstruction of several sections of the road is still needed. As noted, the ADB is now processing parallel and coordinated loans to the governments of Kazakhstan and the Kyrgyz Republic for upgrading and rehabilitating the Almaty-Bishkek road, and for providing technical assistance to ensure that policy deficiencies do not inhibit the trade and traffic that would naturally develop with an improved infrastructure system. The activity is now fully integrated in ADB's country programs.

38. In conjunction with the proposed improvements to transport infrastructure, a number of cross-border issues also need to be addressed. Such issues include closures of border crossings, inadequate border crossing facilities and procedures, transit restrictions and charges, inappropriate or weak control by police and other authorities along transit corridors, high international transport charges, and inter-railway payments. Other related issues include the lack of regional traffic data and the need for improved transshipment facilities. As discussed below, within its general initiative, the ADB should

increase its efforts to work with other international organizations, especially the European Union to provide technical assistance and smooth regional cooperation in this area.

V. Addressing Poverty and Governance and other Cross-Cutting Concerns

A. Encouraging Poverty-Reducing Growth

39. The central goal of the ADB's initiative in support of regional cooperation in Central Asia is to establish an environment conducive to poverty-reducing economic growth. Regional cooperation can mitigate the effect of small domestic markets and extreme distance to industrialized countries that determine the economic landscapes in each Central Asian republic. Improved transport systems and policy environments supportive of trade would help arrest the widespread economic decline in the region. Most immediately the impact would be felt by the large number of small traders, many of whom are women⁸ that have moved from restructuring state enterprises and government agencies into the private sector. Improved road transport is especially needed to encourage the development of small businesses that require flexible, low-cost for low-volume shipping. Equally important, however, is improved rail transport to lower the costs of operations and reduce the disincentives to new investment in large enterprises. Strengthening the potential for restructured farms and firms would limit the ongoing labor redundancies and unemployment. Of course a sustainable impact on poverty or employment would require concomitant reform efforts to establish market-oriented institutions within each country.

40. Regional cooperation also offers scope for addressing some very difficult poverty issues such as the lack of adequate infrastructure in border areas. A common problem in many parts of the world is that the provision of adequate infrastructure tails off towards border regions, reflecting in part the difficulties of providing infrastructure services to areas divided among different national jurisdictions. Transport systems are particularly important, however, in Central Asia borders also cut across electricity transmission lines, irrigation systems, and oil and gas pipelines exacerbating the difficulties in maintenance and operations.

41. In the energy sector, commercialization of and a widening of regional energy trade would encourage business investment and employment and income prospects in Central Asia. Lower cost energy supplies with an appropriate policy environment, including low-income support mechanisms such as life-line tariffs, would reduce existing energy shortages, lower inflationary pressures, and improve living conditions of many poor families especially those in urban areas. Energy shortages, electricity cutoffs and service interruptions for heating systems, are considerable hardships for poor families. Assuring adequate energy supplies, especially in winter, would reduce these hardships and improve the health situation for poor families.

42. The ADB's initiative in support of rural finance and the prospective activity in education also have the potential for addressing poverty concerns. These are both areas in which ADB has developed regional specific expertise through projects in the national assistance programs. In education, the ADB is the lead financing agency in the region. The rural finance initiative seeks to improve the policy environment for especially small

⁸ In view of this gender-related issues must be systematically addressed in transport investments. Bauer, Armin, David Green, and Kathleen Kuehnast, *Women and Gender Relations: The Kyrgyz Republic in Transition*. Manila. Asian Development Bank. 1997 and Bauer, Armin, Nifia Boschman, and David Green, *Women and Gender Relations in Kazakhstan: The Social Cost*. Manila. Asian Development Bank. 1997.

businesses that can provide the income and employment base needed for rural poverty alleviation. In education there is the real prospect of encouraging a regional sharing of the lessons learned in ADB-supported sector reforms and also to support concrete programs of exchange—exchange of teaching materials and of training services—to ensure that children receive instruction in the language of their choosing. The former would be particularly important in helping the region exploit its potential for human resources-based development. The latter could do much to alleviate potential ethnic tension as well as ensure that the opportunity to develop appropriate skills is not denied minority children in the different countries.

B. Addressing Governance Issues and Other Cross-Cutting Issues

43. As discussed, the trade aspects of the ADB's Central Asian regional cooperation activities directly address key governance issues. Especially reducing the potential for and the incidence of corruption related to cross-border trade and traffic are formidable tasks. The series of workshops in the region and publications sponsored by the ADB have raised the issues and sought understanding by Government officials of the costs of hindering trade and transit. The recent suggestion by the PRC Government for the ADB to sponsor a high-level regional Trade Conference in early 2001 in Urumqi, Xinjiang, PRC (Appendix 4) offers an important venue to further this work. With ADB assistance, this Conference would be a forum for the concerned Governments to consider and adopt an action plan to begin to address some of these issues.⁹ In addition, it could be a venue for establishing an institutional arrangement that would facilitate high-level policy dialogue and consensus building among the participating countries.

44. Transition economies face particularly deep needs for institution building, institutions that reflect the increasing role of the private sector in the economies. The ADB's work in regional transport and energy offer avenues for assisting in this process. The prospective regional road project offers a model in transportation whereby investment in infrastructure rehabilitation is supported by policy reform directly related to the utility of the investments. In this case, a cross-border agreement that addresses physical and non-physical cross-border barriers, aims at improved coordination and management of road safety initiatives and continued maintenance of the road. After a recent workshop which focused on the investment needs of the CARs electricity grid, a review will be undertaken on policy, particularly with respect to establishing transparent mechanisms for price determination and depoliticizing energy trade.

45. Not all activities supported by the ADB will address all facets of development needs. The ADB's initiative in support of economic cooperation in Central Asia addresses squarely the overarching goal of poverty reduction by targeting critical aspects hindering poverty-reducing growth. Supporting the enabling environment for the private sector is also central to ongoing and proposed work in energy, trade, and transportation. Regional cooperation is, of course, a goal in itself, as well as the tool for addressing poverty reduction and other issues. While it can be argued that the needs of women in Central Asia are not as pressing as in other developing member countries, some significant gender issues will be addressed by easing the barriers and burdens facing small traders who are often women. Moreover, the historic family responsibilities borne by women could be eased by improved service environments in transportation and energy. Some environmental issues will also be addressed by rationalizing energy.

⁹ Among the items for the agenda is establishing an institutional arrangement through which to address more effectively the issue of improving the physical and non-physical border crossing conditions, free trade zones, and trade and transit related legal reforms.

Particularly the increased regional use of hydroelectricity and natural gas would potentially reduce urban pollution due to the use of coal.

C. Supporting for and Involvement of the Private Sector

46. The Central Asian transition economies present a situation of evolving, yet limited market-based institutions. In particular, although in all countries the private sector is replacing the public sector as the predominant source for production, income generation and employment; private enterprises have limited ability to fund infrastructure projects. Partly this results from the still-limited privatization of larger firms. This also reflects limited investment capacity, undeveloped capital markets, and non-supportive regulatory and judicial environments. Indeed, as stated in ADB's Private Sector Strategy for Central Asia (March 1998, p. 1), we have in the region, "enterprises of mixed ownership and management structure operating in a gray region that is neither private nor public."

47. The ADB's initiative in Central Asia has focused on the need to involve the private sector in infrastructure investments. The first two workshops on the transport and energy sectors devoted considerable efforts to highlighting the institutional problems that would need to be addressed to allow for private sector support of infrastructure investment projects.¹⁰

48. The indicative project pipeline provides scope in some projects for active participation of the private sector. The Multi-modal South Kyrgyzstan Transport Corridor-Phase I provides some scope for BOT projects in the rail sector investments that may be necessary for providing for reshipment from rail to highway cargo. The two energy projects (Power System Rehabilitation in the Central Asian Republics and Improvement and Renovation of Gas Pipeline, Uzbekistan to Almaty) similarly provide possible avenues for private sector investment components. However it must be stressed that the private sector cannot be expected to take the lead in these projects due to the undeveloped enabling environment, the difficulties in multi-country project processing, and the need for improvements in specific sector policies. In this way the ADB's lead in supporting projects, by undertaking policy dialogue and project organization can potentially provide scope for the private sector to participate.

VI. Issues and Challenges

49. The ADB's efforts towards encouraging economic cooperation in Central Asia have borne a measure of success: projects have been identified, mutual dialogue conducted, and strategic and tactical approaches selected. To continue will require addressing a number of issues: (i) increasing internal resources, (ii) improving coordination with other external funding agencies, (iii) country programming coordination, and (iv) strengthening regional institutional support. Further, a review of the strategy should be undertaken in 2002, prior to the commitment of further large TA resources.

A. Increasing Internal Resources

50. To enhance the ADB's Central Asian regional initiative, professional staff has been dedicated on a full-time basis to coordinate and implement the various activities.

¹⁰ *The First Workshop on Economic Cooperation in Central Asia: Challenges and Opportunities in Transportation*, 5-6 February 1998, pp. 70-125. *The Second Workshop on Economic Cooperation in Central Asia: Challenges and Opportunities in Energy*, 3-5 March 1998, pp. 93-153.

Specifically, a full time professional staff has been designated as Head, Central Asian Regional Economic Cooperation Unit, located in Programs Department (East). Further the newly established Resident Missions in Central Asia will be strengthened to support the regional initiative. The Resident Missions will play an important role, particularly, of communicating to the Governments the various developments in the ADB's initiatives through the conduct of frequent, informal workshops. This will involve additional staff and budgetary resources, particularly for regional travel and consultations.

B. Improving Coordination with Other International Funding Agencies

51. Within Central Asia, other international funding agencies have mounted or are planning to mount regional projects. The ADB is actively working with those that address common issues and areas.

- The European Union's Technical Assistance to the Commonwealth of Independent States (EU-TACIS) program has had the most involvement with the ADB's activities. The Transport Corridor Europe Caucasus Asia (TRACECA) program, which provides grant financing of small-scale infrastructure and consultant studies, has been particularly important. Although the PRC is not involved, TRACECA can bring together all of the former Soviet Union republics to address cross-border transit and transport issues. ADB has actively been exploring avenues of future collaboration in the transport sector.
- USAID's regional technical assistance projects have focused on institutional development in such areas as water resource management and energy pricing and trade within the CARs. ADB staff are actively exploring the potential for collaboration in those areas as well as electricity market development.
- The World Bank's regional programs tackled the very important issue of rehabilitation of the Aral Sea among the CARs. This program faces the hard challenge of reform of the Soviet-era water sharing agreement. Potentially this could have a positive impact not only on the environment, but also on the potential for rationalizing electric energy generation and distribution.
- The United Nations Development Programme (UNDP) has recently committed to initiating a project to encourage economic cooperation in Central Asia (including PRC and CARs). This project could potentially address many of the same sectors as the ADB's project namely trade and transport. The two organizations are in close consultation to ensure that efforts are coordinated, as the UNDP plans for its inception work.
- The United Nations (UN), through joint efforts by the Economic and Social Commission for Asia and the Pacific (ESCAP) and Economic Commission for Europe (ECE), is similarly supporting a project to address regional needs in transport and trade in Central Asia. The ADB will endeavor to closely coordinate its activities with those of the UN agencies.
- As EBRD focuses its operation in promoting the growth of private sector, ADB is actively exploring potentials for cooperation on a regional scale.

52. The ADB's efforts have been carefully directed towards sectors and projects in which ADB resources—particularly staff resources—have some comparative advantage. The emphasis on transport flows from the lead financing role of the ADB in the region. ADB efforts, however, even in transportation have benefited greatly from work by other funding agencies, particularly that of TRACECA's technical assistance work. The ADB is

continuing to coordinate its regional activities with that of other funding agencies. As a result of the coordination efforts to date, cofinancing has emerged for the Almaty-Bishkek Road Rehabilitation Project from the European Bank for Reconstruction and Development (EBRD) for the Kazakhstan loan component and the European Union (through TRACECA) is expected to provide grant cofinancing for both the Kazakh and Kyrgyz components of the project.

53. In addition to mobilizing resources from traditional partners, the ADB will actively pursue cofinancing for future projects in Central Asia from: (i) multilateral sources, such as the Islamic Development Bank, and the OPEC Fund for International Development, (ii) bilateral donors, such as the Saudi Fund for Development, and the Kuwait Fund for Arab Economic Development, and (iii) commercial sources. In the case of commercial cofinancing, sources of assistance include the ADB's Complementary Financing Scheme, its guarantee programs (i.e., the partial credit guarantee and the partial risk guarantee), and increased cooperation with export credit agencies. In order to realize the full potential of such assistance (and consistent with the ADB policy to "upstream" cofinancing), cofinancing staff will participate in Country Programming Missions and actively assist in mobilizing resources for projects that demonstrate potential for cofinancing, whether official or commercial.

54. There is a need to strengthen the coordination efforts. There is, in particular, a need to ensure that forward-looking programs by international funding agencies are done in coordination. With the completion of the Phase II consultant studies in transportation and on the CARs electricity grid, a series of consultation meetings should be held with other international organizations active in this area, to include the EBRD, Economic Cooperation Organization (ECO)¹¹, the EU-TACIS program, UNDP, and World Bank. These meetings would allow the ADB to share its plans and seek active collaboration. Over the longer term, it may be worthwhile to establish a regional clearing center for information on economic cooperation activities in Central Asia, including, for example, the establishment of a web site.

C. Country Programming Integration

55. It is expected that the strategy and tactics expressed in this document will be reviewed throughout 2000; at the anticipated conferences and workshops on transportation, energy, and trade, and as part of the ongoing dialogue with the respective Governments and other international funding organizations. The thrust of the ADB's program should also be formally reviewed during country programming exercises to ensure continued relevance and adequate provision in the respective programs for expected TA, loan and economic and sector work activities. All regional projects must be consistent with and supportive of national programs of assistance.¹² Regional public sector loan projects, in particular, must ultimately be resolved as obligations of individual governments. This is particularly important to ensure that regional projects, in the context of country assistance programs, are complementary both with respect to projects across sectors and with respect to cross-cutting concerns. Further problems that need addressing include the difficult task of apportioning financing responsibilities among

¹¹ The ECO is an intergovernmental regional organization established in 1985 by Iran, Pakistan and Turkey for the purpose of providing economic, technical and cultural cooperation among themselves. Membership has been increased to 10 countries in 1992 to include all ADB member countries in Central Asia and Azerbaijan. The main objectives of the ECO include achieving sustainable economic development of its member states through promoting intra-region trade and economic integration.

¹² The ADB faces difficult challenges to make regional and national programs of assistance consistent (Impact Assessment-GMS, pp. 16-17).

participating countries. Costs and benefits for regional projects do not necessarily accrue in the same fashion across national boundaries and this must be taken into account when designing loan projects. TA activities in support of investments may also need nationally specific identification within country pipelines. Moreover all activities must be consistent with staff resources. This document represents the first concrete step towards a regional plan and to initiate the integration within the national programs of assistance.

D. Regional Institutional Support

56. Phase I operated through national coordinators and national steering committees in all of the concerned countries. In some cases the considerable and frequent reorganization of Government organizations have reduced the effectiveness of these arrangements and communication and coordination were coursed through the ADB's normal counterpart agencies and personnel. With some signs of public sector stability in Central Asia and the full establishment of the ADB's Resident Missions in all the countries, efforts are being elevated to strengthen institutional support for regional cooperation. ADB is presently assisting the participating countries to establish institutional arrangements, to be inaugurated at Conferences on Regional Cooperation in Transportation at end-September 2000, and on Trade and Investment planned for March 2001. These arrangements, similar in structure to those in the ADB-supported GMS program, will facilitate in a systematic manner high-level inter-governmental consultation and consensus-building between the participating countries and ADB. Specifically, the working groups to be established within these arrangements could play an important part in strengthening regional communication, dialogue, and project planning, particularly in energy, transport, trade, where the ADB has undertaken major regional commitments. Institutional strengthening measures may also be useful in areas such as education or rural finance where the ADB has important national programs and where cross-border communication could greatly facilitate policy dialogue.

CENTRAL ASIA: A GEOGRAPHICAL AND HISTORICAL PERSPECTIVE

A. The Region

1. Central Asia extends nearly 4,500 kilometers from east to west, and occupies a land area about the size of Europe exclusive of the former Soviet Union. The combined population of Kazakhstan, the Kyrgyz Republic, Tajikistan, Uzbekistan, and Xinjiang, PRC is about 66.9 million. This means that the region is sparsely settled, with a population density of about 13.0 per square kilometer (see Table 1).

Table 1: Central Asia—Population, Land Area, and Borders

	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan	Xinjiang PRC
Total Area ('000 sq. km.)	2,717.3	198.5	143.1	447.4	1,647.0
Population (million)	15.7 (1998)	4.7 (1998)	6.2 (1998)	23.6 (1997)	17.5 (1998)
Land Boundaries	PRC, Kyrgyz Republic, Russia, Turkmenistan, Uzbekistan	PRC, Kazakhstan, Tajikistan, Uzbekistan	Afghanistan, Kyrgyz Republic, PRC, Uzbekistan	Afghanistan, Kazakhstan, Kyrgyz Republic, Tajikistan, and Turkmenistan	Kazakhstan, Kyrgyz Republic, Tajikistan, Mongolia, Pakistan, India, Afghanistan, Russia
Coastline	Landlocked ^a	Landlocked	Landlocked	Landlocked, one of the double landlocked countries in the world	Xinjiang is landlocked. Urumqi is the most distant large city from a seaport in the world

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

2. The single most salient geographic characteristic of the region is its remoteness—the four Central Asian republics and Xinjiang, PRC are all landlocked. Uzbekistan has the distinction of being one of the only double landlocked countries in the world: the country and all of its immediate neighbors are landlocked. Urumqi, the capital of Xinjiang PRC, is farther from a seaport than any other large city in the world. International trade in the region therefore involves the shipment of goods over long distances through neighboring countries.

3. The harsh geography of the region poses substantial barriers to transportation and communication. The terrain varies from the second-lowest point on earth, in the

Turpan basin (154 meters below sea level), to mountain peaks that rise to over 7,400 meters, just a few kilometers away on the Kyrgyz Republic-PRC border. Inhospitable deserts cover much of western Uzbekistan and Kazakhstan. The Taklamakan Desert in the Tarim River basin of southern Xinjiang, PRC was particularly dangerous to ancient travelers and poses significant barriers to modern development. The dry grass plains of Kazakhstan rise abruptly to the high mountains and mountain valleys of the Kyrgyz Republic and the Tianshan Mountains. This rugged terrain has constrained travel to only a few corridors and passes.

B. The Silk Road

4. Historical trade patterns in the region are the result of both topography and politics. Because Central Asia has some of the highest mountain ranges and severest deserts in the world, overland traders had limited corridors to travel. Population centers, including Samarkand, Bukhara, Osh, Tashkent, and Kashgar, grew around the oases along these corridors. Together, these corridors and oases formed the legendary “Silk Road”, a loose network of trade routes linking China to the Mediterranean Sea and Europe, and southern Asia to central Siberia.

5. As early as 3000 BC, trade in metals, gems, semi-precious stones, and even building materials flourished along the western portion of this Silk Road. Trade in jade opened routes between Iran and China as early as 2000 BC, and by 1000 BC a network of trade routes linked western Asia and China over a distance of nearly 8,300 kilometers. These trading routes grew in importance until the 1400s AD, especially under Tamerlane of Samarkand, who imposed control and management of the Silk Road throughout the region. The Silk Road was also significant in the exchange of ideas and technologies. Writing, the wheel, printing, paper, weaving, agriculture, and the art of horseback riding were all passed westward along the Silk Road, as were weapons technology, engineering, astronomy, and medicine.

6. The discovery of a sea route between Asia and Europe in the late 15th century, coupled with political instability in the areas along the Silk Road following the demise of the Mongol dynasty, led Europeans to abandon the expensive and risky transcontinental overland trade through Central Asia in favor of the less expensive sea trade. This left the landlocked region even further isolated, a condition that persists to this day.

C. Modern Land Bridges

7. In more recent times, the area has been crossed by so-called continental land bridges. The first of these was the Trans-Siberian Railroad, built between 1891 and 1904, which connects St. Petersburg and Moscow to the Pacific port city of Vladivostok. This 5,800 km. railroad is still the longest single line of track in the world. One section of the Trans-Siberian Railroad crosses Mongolia and connects with a rail line in the PRC that reaches Beijing.

8. Additional railroads constructed to meet the Soviet Union’s strategic needs for minerals and raw materials linked Moscow and eastern parts of the Soviet Union with the “Middle Asian” countries.¹ These lines eventually extended from Rotterdam in Western Europe, through the Kazakhstan-PRC border crossing at Druzba, to Xian and Lianyungang in the PRC. The lines became known as the second continental land bridge.

¹ The area now known as Central Asia was generally referred to as “Middle Asia” in the Soviet Union. Middle Asia did not include Kazakhstan, however, because it was viewed more as an integral part of Russia.

9. A third continental land bridge refers to the rail linkages from Istanbul to Tashkent, via Iran and Turkmenistan. This rail line enters Tajikistan and the Kyrgyz Republic, but does not extend through either of these territories to reach the PRC. The completion of this southern land bridge would make it an alternative to northern routes especially through the Russian Federation.

**CENTRAL ASIA REGIONAL ECONOMIC COOPERATION
LENDING AND TECHNICAL ASSISTANCE PIPELINE, 2001-2003**

I. Lending Pipeline

Year	Sector	Project Name	Projects Division	Total Project Cost (\$million)
2001	Transport	Improvement of Rail Transit Route via Northern Tajikistan	IETC	80.0 ^a
2002	Energy	Power System Rehabilitation in the Central Asian Republics	IEEN	60.0 ^b
2002	Transport	Multi-modal South Kyrgyzstan Transport Corridor, Phase I	IETC	110.0
2002	Energy	Improvement and Renovation of Gas Pipeline, Uzbekistan to Almaty	IEEN	40.0
2003	Transport	Regional Railway Cooperation and Telecommunications Improvement Project	IETC	80.0
2003	Transport	Almaty-Horgos Road Rehabilitation	IETC	130.0

^a Project preparatory TA expected to be completed in early 2001.

^b Project preparatory regional TA expected to be completed in August 2001.

**CENTRAL ASIA REGIONAL ECONOMIC COOPERATION
LENDING AND TECHNICAL ASSISTANCE PIPELINE, 2001-2003**

II. Technical Assistance Pipeline^a

Year	Sector	Project Name	Projects Division	Total Project Cost (\$ 000)
2001	Multi-sector	Regional Economic Cooperation in Central Asia (Phase II, Year 3)	PED	1,350.0
2001	Transport	Multi-modal South Kyrgyzstan Transport Corridor, Phase I	IETC	750.0 ^b
2001	Energy	Power System Rehabilitation in the Central Asian Republics	IEEN	996.0 ^c
2001	Energy	Improvement and Renovation of Gas Pipeline, Uzbekistan to Almaty	IEEN	600.0 ^d
2001	Education	Subregional Cooperation in Managing Education Reform	AEEH	750.0
2002	Multi-sector	Regional Economic Cooperation in Central Asia (Phase II, Year 4)	PED	1,000.0
2002	Transport	Regional Railway Cooperation and Telecommunications Improvement Project	IETC	600.0
2002	Transport	Almaty-Horgos Road Rehabilitation-Kazakhstan	IETC	650.0
2002	Agriculture/ Finance	Rural Finance	AEAR	600.0
2003	Multi-sector	Regional Economic Cooperation in Central Asia (Phase III)	PED	1,000.0
2003	Transport	Multi-modal South Kyrgyzstan Transport Corridor, Phase 2	IETC	1,200.0
2003	Energy	Power System Rehabilitation in the Central Asian Republics, Phase 2	IETC	800.0

^a Includes both firm and standby projects.

^b Project identification study completed in August 2000.

^c Project identification study expected to be completed in late 2000.

^d Pre-feasibility study expected to be completed in early 2001.

**CENTRAL ASIA REGIONAL ECONOMIC COOPERATION
LENDING AND TECHNICAL ASSISTANCE PIPELINE, 2001-2003**

III. Economic and Sector Work^a

Year	Focus
2001	The Role of and Importance of Regional Cooperation for Azerbaijan
2001	The Role of and Importance of Regional Cooperation for Turkmenistan
2001	Poverty Reduction and Economic Cooperation in Central Asia
2001	Impact on Central Asian Regional Program of PRC's Shift in Development Focus Towards its Western Provinces
2001	A Comparative Study on Regional Economic Cooperation in Central Asia: Experiences, Lessons Learned and Policy Adjustment
2002	Investment Promotion in Central Asia—Strategies and Tactics
2002	Encouraging Market-Oriented Organization of Transportation in Central Asia
2002	Patterns of Energy Use in Central Asia: Sustainability and Environmental Impact
2002	Strategic Review of ADB's Priorities and Programs to Encourage Economic Cooperation in Central Asia
2003	Encouraging Private Sector and NGO Involvement in Energy and Transport Projects in Central Asia
2003	Regional Banking Needs
2003	Participatory Design of Water Resource Management Projects in Central Asia

^a Some of these studies will be funded under the umbrella TA, Regional Economic Cooperation in Central Asia.

PUBLICATIONS AND REPORTS

ADB Publications

Regional Economic Cooperation in Central Asia, July 1998.

First Workshop on Economic Cooperation in Central Asia—Challenges and Opportunities in Transportation, 1999.

Second Workshop on Economic Cooperation in Central Asia—Challenges and Opportunities in Energy, 1999.

Trade Cooperation between Kazakhstan and the Kyrgyz Republic, May 1999 (in English and Russian).

Forthcoming ADB Publications

Reweaving the Silk Road--Encouraging Economic Cooperation in Central Asia: The Role of the Asian Development Bank (English, Russian and Chinese).

Cross-Border Trade Cooperation between Kazakhstan and the People's Republic of China. (English, Russian and Chinese).

Other Publications

Dorian, James P, Utkur Tojiev Abbasovich, Mikhail S. Tonkopy, Obozov Alaibek Jumabekovich, and Qui Daxiong, "Energy in central Asia and northwest China: major trends and opportunities for regional cooperation," *Energy Policy*, 27(1999) pp. 281-297.

Reports in Progress (Expected date of completion in parenthesis)

"Regional Economic Cooperation in Central Asia: Phase II (T.A. No. 5818-REG)—Transport Sector Study" (October 2000)

"Regional Economic Cooperation in Central Asia: Phase II (T.A. No. 5818-REG)—Tajikistan" (November 2000)

"Regional Economic Cooperation in Central Asia: Phase II (T.A. No. 5818-REG)—PRC Trade with Central Asia" (December 2000)

"Regional Economic Cooperation in Central Asia: Phase II (T.A. No. 5818-REG)—Electric Energy Study" (October 2000)

"Regional Economic Cooperation in Central Asia: Phase II (T.A. No. 5818-REG)—Regional Trade Analysis in Central Asia" (December 2000)

"Regional Cooperation in Central Asia and the International Community"

WORKSHOPS/CONFERENCES UNDER THE ADB'S CENTRAL ASIAN INITIATIVE**Completed**

First Workshop on Economic Cooperation in Central Asia: Challenges and Opportunities in Transportation, 5-6 February 1998, ADB Headquarters, Manila, Philippines.

Second Workshop on Economic Cooperation in Central Asia: Challenges and Opportunities in Energy, 3-5 March 1998, ADB Headquarters, Manila, Philippines.

Workshop on Cross-border Trade Cooperation between Kazakhstan and the People's Republic of China I, 30 March 1998, Urumqi, Xinjiang, PRC.

Workshop on Cross-border Trade Cooperation between Kazakhstan and the People's Republic of China II, 1-2 April 1998, Almaty, Kazakhstan.

Kazakhstan-Kyrgyz Republic Trade Cooperation Workshop, 14 August 1998, Bishkek, Kyrgyz Republic.

Trade Policy in Central Asia, 14-15 December 1999, Almaty, Kazakhstan.

Country Trade Workshops: 3 April 2000, Astana, Kazakhstan; 6 April 2000, Bishkek, Kyrgyz Republic; 16 May 2000, Tashkent, Uzbekistan.

Country Transport Workshops: 10 July 2000, Astana, Kazakhstan; 13 July 2000, Issyk Kul, Kyrgyz Republic; 17 July 2000, Tashkent, Uzbekistan; 20 July 2000, Dushanbe, Tajikistan.

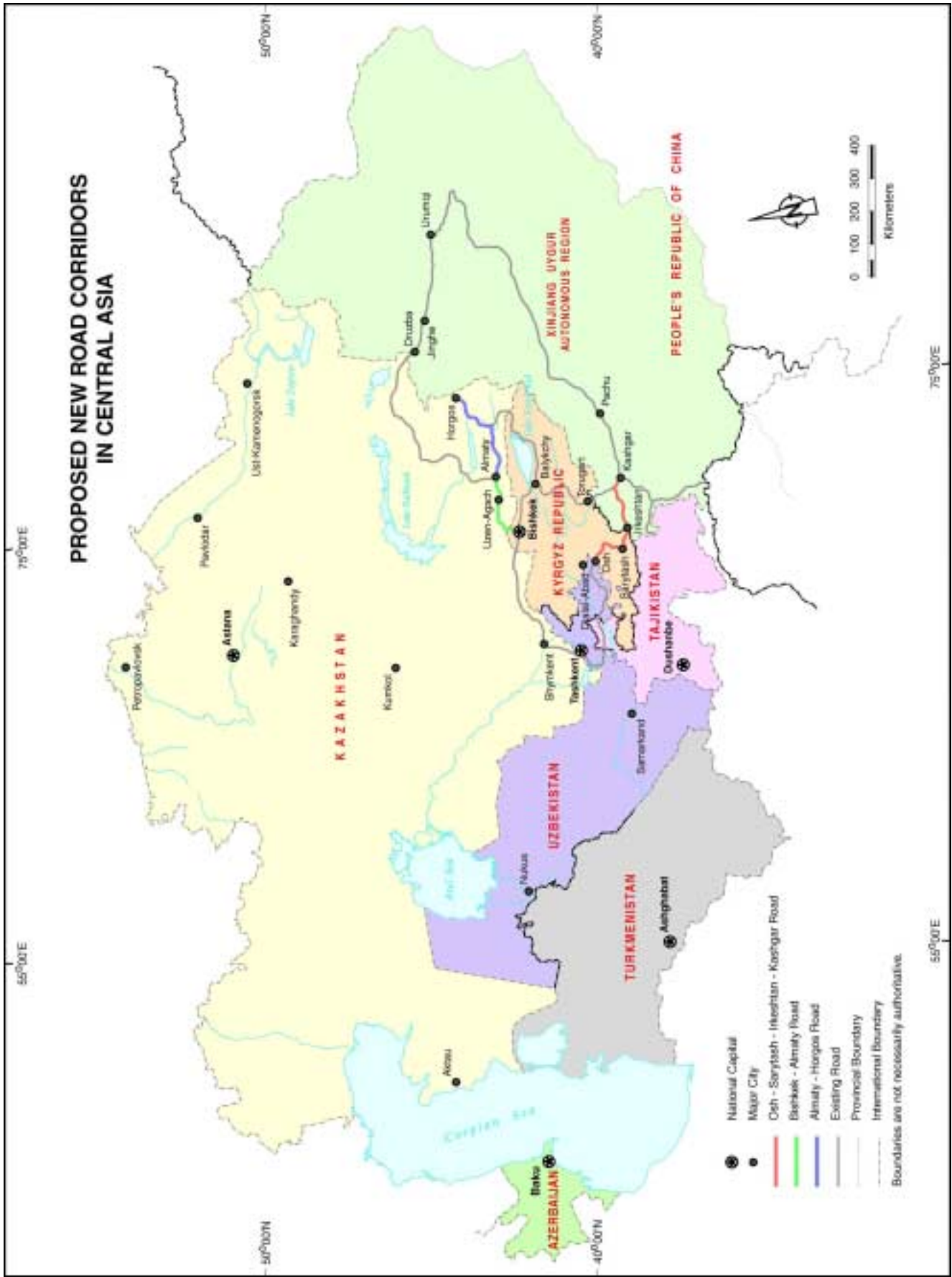
Country Energy Workshops: 7 August 2000, Tashkent, Uzbekistan; 11 August 2000, Dushanbe, Tajikistan; 14 August 2000, Bishkek, Kyrgyz Republic; 17 August 2000, Astana, Kazakhstan.

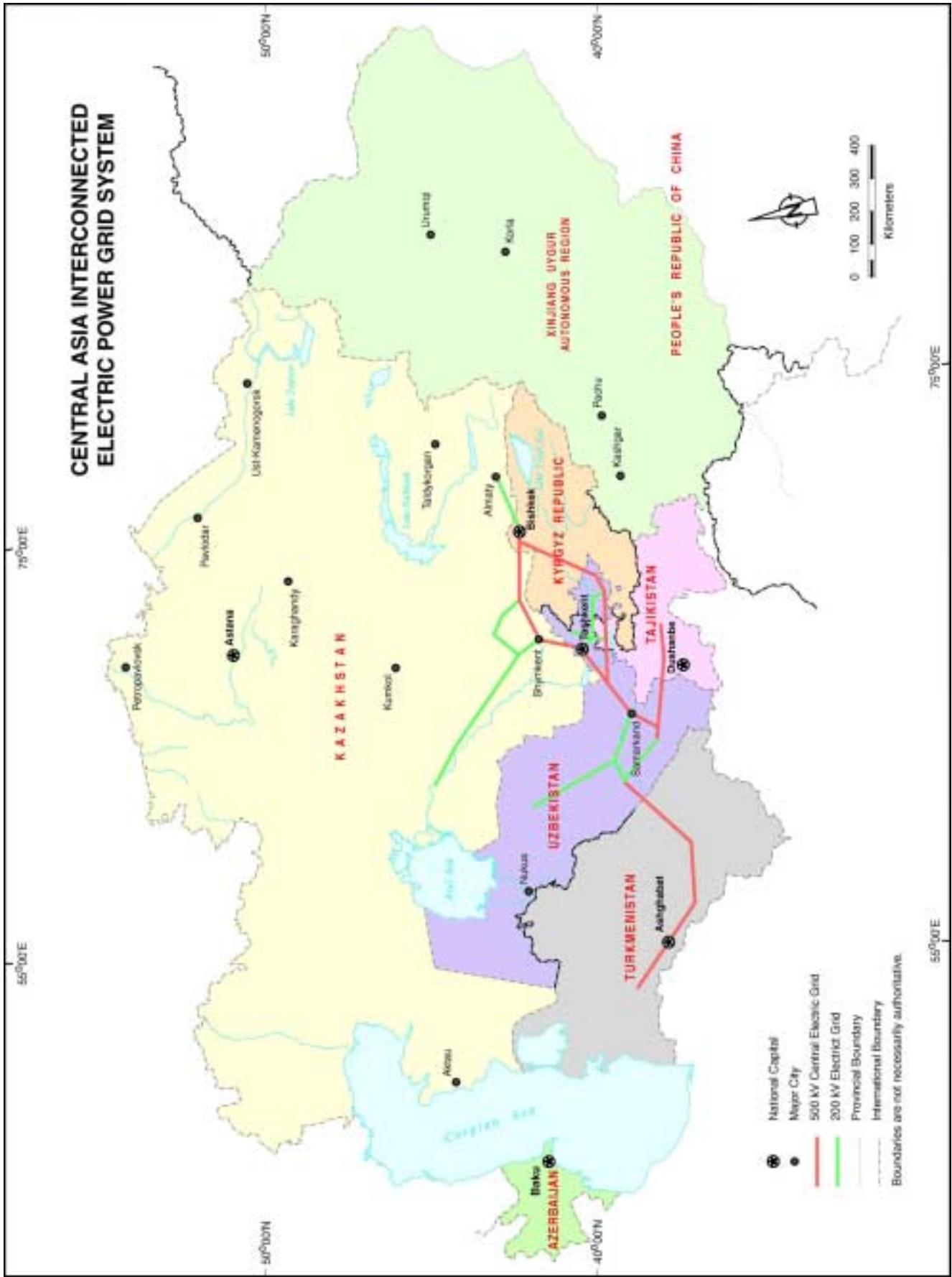
Conference on Central Asian Regional Cooperation in Transportation, 26-27 September 2000, Almaty, Kazakhstan.

Forthcoming Conferences

Conference on Trade and Investment in Central Asia, March 2001, Urumqi, PRC.

Regional Energy Conference (tentatively planned for 2001).





PROJECT PROFILE				
1. Project Name: Regional Railway Improvement (Improvement of Rail Transit Route via Northern Tajikistan)			2. Sector/Subsector: Transport and Communications/Railways	
3. Poverty Classification: ^{a *} ODI			4. Crosscutting Operational Priority: ^{b*} RC	
5. Rationale and Objectives: The northern line from Bekabad to Kambadam carries most of the traffic and generates over 70 percent of the revenue for the Tajik Railway. This route provides international service for Tajikistan's two main exports (aluminum ingots and cotton). In addition it provides transit between two parts of Uzbekistan (Fergana Valley is an important traffic base for the region), as well as access to the Kyrgyz Republic. Reliable rail access is dependent upon improvement of this 106 km northern line.			6. Beneficiary Participation/Consultation Needs: Beneficiary governments will be consulted.	
7. Scope: The objective of the Project is to facilitate economic growth in the region by providing economic and efficient railway transportation. This will be achieved through improvements in infrastructure and changes in the policy environment to facilitate commercial operation of the railway. The scope of the Project will include: (i) capacity improvements, including electrification of the 106 km northern section from Bekabad to Kambadam, (ii) reforms and restructuring initiatives to improve operational efficiency, and (iii) institutional support for commercializing operation and corporatizing.				
8. Estimated Cost and Financing Plan (\$ m) Loan Project cost :				Remarks: Estimated Cost – based on preliminary cost estimates Cofinancing – nonconcessional cofinancing from IDB is envisaged.
Financing (Source)	FC	LC	Total	
Bank	40.0	0.0	40.0	
Cofinancing	20.0	0.0	20.0	
Borrower	10.0	10.0	20.0	
Total	70.0	10.0	80.0	
9. Estimated Benefits and Beneficiary Groups: The Project will remove existing bottlenecks in transportation between regions of neighboring countries and benefit rail users, both passengers and shippers of goods. Economic transportation will benefit less developed regions and help provide employment, raise incomes of people and improve living standards. Regional cooperation will be enhanced.				
10. Executing Agency: Tajik Railway			11. Project Implementation Period: Start: 2001 End: 2005	
12. Environment Category: B			13. Processing Year: 2001	

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation.

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

PROJECT PROFILE																								
1. Project Name: Power System Rehabilitation in the Central Asian Republics Location: Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan.			2. Sector/Subsector: Energy/Power																					
3. Poverty Classification: ^c * ODI			4. Crosscutting Operational Priority: ^d * RC																					
5. Rationale and Objectives: Persistent electricity shortages in some areas provide evidence that the interconnected power grid in Central Asia requires rehabilitation and expansion and that the policy environment requires improvement. Investments are necessary to (i) increase reliability of service; (ii) increase capacity; and (iii) serve remote or under-served areas. Policy improvements would support the basis for increased electricity trade, energy specialization (in electricity generation), and lower energy costs.			6. Beneficiary Participation/Consultation Needs: Beneficiary participation in the project formulation and design will be encouraged through the use of social analysis using participatory approach.																					
7. Scope: This Project would include a structured, phased program building new high-voltage transmission lines in areas of limited service; commissioning new electrical generating capacities where appropriate; improving operating efficiencies at switching stations and control capability. The investment program would follow and support cross-border agreements on electricity trade to improve and increase the regional market.																								
8. Estimated Cost and Financing Plan (\$ m) \$60 million for initial phase investments. Financing Plan to be determined during project design. Loan Project cost :				Remarks:																				
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9. Estimated Benefits and Beneficiary Groups: Electricity consumers, both residential and industrial would benefit from improved reliability and capacity of power service. Renovating and expanding Central Asia's interconnected power grid and improving the policy environment could alleviate chronic power shortages in southern Kazakhstan. Activities to reorient power tariffs towards market-based needs could include introduction of "life line" tariffs to reduce living costs for poor households.																								
10. Executing Agency: Implementing agencies would include the Kazakhstan Ministry of Energy and Natural Resources and the State Committee for Privatization; the Kyrgyz Republic's Kyrgyzenergo; the Uzbekistan Ministry of Power.			11. Project Implementation Period: Start: 2002 End: 2005																					
12. Environment Category: B			13. Processing Year: 2002																					

^c CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

^d ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation.

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

PROJECT PROFILE																								
1. Project Name: Multi-modal South Kyrgyzstan Transport Corridor Location: The Kyrgyz Republic, Uzbekistan, and Xinjiang PRC Between Andijan (Uzbekistan)-Osh-Sarytash (the Kyrgyz Republic)-Kashgar (Xinjiang Uygur Autonomous Region, PRC)			2. Sector/Subsector: Transportation: Roads and Railways.																					
3. Poverty Classification: ^e * ODI			4. Crosscutting Operational Priority: ^f * RC																					
5. Rationale and Objectives: The project would (i) improve road transportation between Andijan and the Ferghana Valley generally and the Kashgar area of Xinjiang PRC and (ii) provide for transshipment of rail cargo from the Uzbek railways, across the highway in the Kyrgyz Republic to the PRC railway. Construction will ensure the use of the highway in winter and protect against landslides. Investments in the rail lines would be made to ensure transshipment capacity. Training in maintenance will be included to ensure year-round access. Development of this corridor will create new trade and cooperation opportunities between the Kyrgyz Republic and Xinjiang PRC, and also have a positive effect on the Ferghana Valley region of Uzbekistan and Tajikistan. The investments would take place within the scope of inter-country agreements to ensure easement of border restrictions to trade, transit, and travel.			6. Beneficiary Participation/Consultation Needs: Beneficiary participation in the project formulation and design will be encouraged through the use of social analysis using participatory approach.																					
7. Scope: The Project would include surfacing, widening, re-surfacing, and rehabilitating an existing gravel road on both sides of the Kyrgyz-Uzbek border; building and upgrading customs and immigration facilities. Investments may be needed in the rail lines to allow for rail-to-road shipments. Actions would be undertaken to support regular contact between immigration, road and customs authorities on both sides of the borders to ensure quick problem resolution and speedy transit. It may be necessary to develop new communications systems for the border posts. Cross-border agreements would be developed and signed by concerned governments.																								
8. Estimated Cost and Financing Plan (\$ m) US\$110 million, with 90 percent going toward capital improvements. The bulk of the expenditures would be undertaken on roads within the Kyrgyz Republic. Financing Plan to be determined during project design. Loan Project cost :			Remarks:																					
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9. Estimated Benefits and Beneficiary Groups: Trade would increase between the three countries with new trade opportunities for microenterprises of the Ferghana Valley and better opportunities for the sale of perishable goods to the PRC. Employment opportunities and new businesses will be created as the corridor through this remote area is developed.																								
10. Executing Agency: The implementing agencies are expected to be the PRC, Kyrgyz, and Uzbek Ministries of Transportation, and custom agencies on both sides of the border. Design would be carried out by regional transport design institutes in a cooperative effort.			11. Project Implementation Period: Start: 2002 End: 2005																					
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