

# Integrating Central Asia

Cooperation is critical for the resource-rich region

by per Concordiam Staff

**Central Asia is endowed with a surplus of natural and human resources. The region possesses abundant energy and minerals, some of the world's largest tracts of arable land and a highly literate population. It also borders on some of the fastest growing economies in the world, including China and India.**

“Central Asia is poised to become a significant actor in this new global paradigm and the next frontier of economic opportunity,” said Angel Gurría, Secretary-General of the Organization for Economic Co-operation and Development. Despite this high praise from the OECD, the five former Soviet Central Asian countries – Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan – have been struggling to varying degrees to integrate into the world economy.

Positive reforms are needed if Central Asia is to achieve economic integration and realize its vast potential. The OECD notes that the region is overly dependent on natural resource extraction and does little to promote investment, economic diversification and worker training. Critics say the region needs investment in infrastructure – not only pipelines to export natural gas and oil to an energy-hungry world, but also highways and railroads to ship produce and manufactured goods, and schools to educate its citizens. Most importantly, a number of analysts agree that the Central Asian nations need to improve intraregional cooperation and integrate their economies to compete effectively in world markets.

Much of the region suffers from poor economic growth and high unemployment, forcing large numbers of its citizens to migrate abroad in search of jobs. Some observers fear that despite its competitive advantages, the region could plunge into failure.

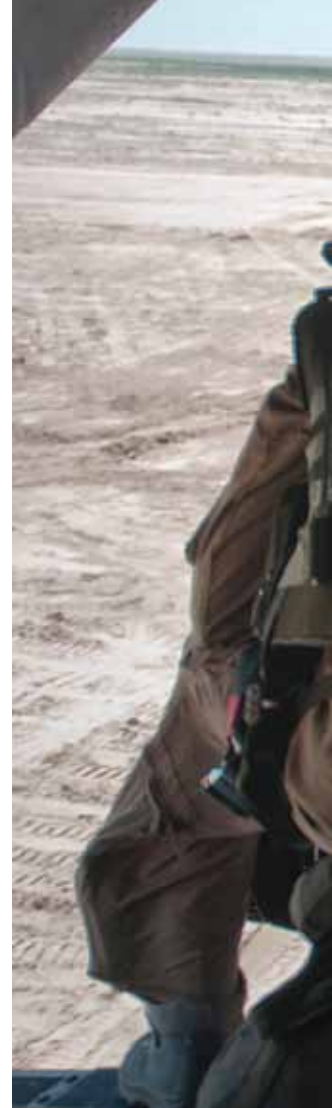
## Wealth of energy

Central Asia is home to vast energy resources and has potential for even greater energy production. The region boasts substantial reserves of traditional fossil fuels – oil, natural gas and coal – and large deposits of uranium. Hydroelectric dams proliferate, and the hot, dry climate produces wind and sunshine that could be harnessed as large-scale sources of electric power, according to the “Central Asia Atlas of Natural Resources,” published in 2010 by the Asian Development Bank, or ADB.

Kazakhstan, the largest and most developed of the five nations, was the world's 16th largest oil producer in 2009, with estimated reserves of 30 billion barrels. Turkmenistan's natural gas reserves are 7.5 trillion cubic meters, the fourth largest reserves in the world, according to *Oil & Gas Journal* as reported by the U.S. Energy Information Administration, or EIA. Kazakhstan (15th) and Uzbekistan (19th) also rank in the top 20 for natural gas, reporting an estimated 2.4 trillion and 1.8 trillion cubic meters, respectively.

Kazakhstan also sits atop the world's second largest known uranium deposits, 651,000 tonnes, according to December 2010 data from the World Nuclear Association, or WNA. Uzbekistan ranks 12th globally with reserves of 111,000 tonnes. In 2009, Kazakhstan mined 27.6 percent of the world's total uranium. Demand for uranium is expected to increase as the world looks to boost energy supplies while reducing carbon emissions. Supplies of Cold War surplus weapons-grade uranium and plutonium, which account for about 15 percent of civilian nuclear fuel, could be exhausted in a few years, the WNA said.

Tajikistan and Kyrgyzstan have little in the way of fossil fuels (although a recent gas find in Tajikistan shows promise), but both have abundant hydroelectric potential. The two mostly mountainous republics already have more than 40 hydropower stations and plan to build more. According to the ADB report, “hydroelectric potential for the region has been placed at more than 450 billion kilowatts per year, with an estimated 90 percent of this presently unused.” Tajikistan and Kyrgyzstan plan to grow into electricity exporters, with an eye toward the markets of China, Pakistan, Afghanistan and India.





A NATO helicopter patrols a new rail line between Mazar-e-Sharif, Afghanistan, and Termez, Uzbekistan. The railroad is part of the Northern Distribution Network, which supplies the NATO mission in Afghanistan and provides valuable commercial links within the region.

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A Tibetan nomad on horseback leads her camels full of goods in China's northwest Qinghai province. China and India will reopen a historic trading route through Tibet that was once part of the Silk Road.

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## Pipeline politics

There is tremendous demand for Central Asian energy, and the region's proximity to Europe and the energy-craving Asian economies makes it ideally situated to serve as an export and transit hub. "The energy resources of Central Asia can be a force for predictability in the global economy, ensuring diversity of sources and markets and transit routes, while at the same time bringing a new sense of economic possibility in the region itself," William J. Burns, U.S. Under Secretary for Political Affairs, said in 2009.

Unfortunately, much of the energy transit infrastructure is aging and inadequate for today's demands. According to a 2010 study by Spain's Real Instituto Elcano, maintenance and management of the mostly Soviet-era pipeline system is sometimes inadequate. The lack of maintenance brought about an explosion in a gas pipeline from Turkmenistan to Russia in 2009. There also aren't enough pipelines to handle increased production of and demand for Central Asian oil and gas, a problem for a region dependent on pipelines to export energy to world markets, the U.S. EIA points out.

New projects to get Central Asian gas to European markets include the Western-backed Nabucco and the Russian-backed South Stream pipelines, both routed across the Caspian Sea and Turkey. Some analysts argue that a southern pipeline through Iran would be easiest and cheapest, but the political and security situation in that country forestalls EU or U.S. participation or financing. A new natural gas pipeline between Turkmenistan and China opened in December 2009 with the ability to boost capacity along with demand. And according to the U.S. EIA, the Kazakhstan-China oil pipeline – online since 2006 – will be expanded to handle twice its current load by 2013.

## Rail and highway improvements

Central Asian transportation links play an important role in supporting NATO operations in Afghanistan. The Northern

Distribution Network, or NDN, is "a series of commercially-based logistical arrangements, connecting Baltic and Caspian ports with Afghanistan via Russia, Central Asia, and the Caucasus," according to the Center for Strategic International Studies. In 2011, the NDN will carry three times the supplies it did three years earlier and now carries half of all cargo destined for Afghanistan. NATO hopes to "promote the economic, transportation and security integration of the region" through the NDN, according to a March 2011 article in *Eurasia Review*.

The World Bank highlighted some of the problems associated with Central Asian transportation. Geography is an unavoidable obstacle. If one discounts the Caspian Sea, Central Asia is completely landlocked, limiting easy access to efficient water transportation. It is also covered by large deserts and includes some of the highest, most rugged mountains in the world, which limit available transport corridors and increase costs.

Railways are the primary mode of intercity transportation, and existing railways are well developed. But these Soviet-era networks were designed to connect the region with Russia, and "that leaves links among the Central Asian countries and other neighbors, including Afghanistan, China and Iran, largely underdeveloped," the World Bank said. That could soon change. Central Asia Newswire reported that China offered \$2 billion (1.4 billion euros) in January 2011 to finance the Kyrgyz portion of a railway linking it with Kyrgyzstan and Uzbekistan in exchange for access to Kyrgyz gold, aluminum and iron ore. Construction of a new railway linking Kazakhstan, Turkmenistan and Iran began in 2010.

Highways are more problematic. Many roads are poorly maintained and, as with railroads, the Soviet network was "designed without reference to future borders between nations that were not conceived of at the time," according to a 2009 analysis from the Central Asian Regional Economic



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Cooperation Institute, or CAREC. This leads to frequent border crossings and necessitates development of alternate routes. Inefficient border checkpoints and other regulatory delays can double the time required to cross the region.

As part of a 2005 study by the U.N. Economic and Social Commission for Asia and the Pacific, a truck traveling from Bishkek, Kyrgyzstan, to Novosibirsk, Russia, took 208 hours, 129 of which were absorbed at border crossings and assorted police and bureaucratic checks, most in Kazakhstan. Kazakhstan implemented a customs and border control reform program, moving some procedures online, and has formed a “Customs Control Committee” to identify export and import bottlenecks, the U.N. said. To further eliminate traffic delays in Central Asia, CAREC aims to “upgrade six corridors to international standard by 2017.”

### Diversification and integration

The richness of Central Asia’s natural endowment can create economic dependence. According to the OECD, oil and related products account for 65 percent of Kazakhstan’s exports, while gold makes up 29 percent of Kyrgyzstan’s. Foreign direct investment is critical to building Central Asia’s economies, but it is directed overwhelmingly toward natural resource extraction. The OECD recommended the region promote “high-potential sectors that could be developed to increase wider competitiveness,” including agribusiness, information technology and business services. Other recommendations include reducing state control over capital investment, removing

burdensome business regulations, increasing access to financing for small- and medium-sized businesses and improving the “deteriorating education system.”

Integration among the Central Asian countries is essential to growth and development. These countries, once thoroughly integrated as Soviet republics, have sometimes squabbled over resources and security as independent nations. But experts say they would benefit from reintegrating transportation and communication infrastructures, lowering barriers to trade and travel and cooperating on security, border enforcement and drug interdiction.

According to the Carnegie Endowment for Peace: “The development of the economies of the region is already distorted by the difficulties of intraregional and international trade. Future development of these countries will be put at further risk if the pace of integration is not increased.”

Central Asia has a long history of linking East and West. That vital role was interrupted for nearly a century under Soviet governance. “Central Asia has for thousands of years served as a bridge between East and West, North and South,” said Burns, the American diplomat. “The old Silk Road transported not only goods and people, but ideas, cultures, and technology. It helped create great civilizations and foster great innovations. Central Asia can have a similarly historic impact today.” Regional and international economic integration, careful development of natural and human resources and cooperation are the keys. □

**LEFT:** An Afghan Border Police officer guards the Freedom Bridge across the Amu Darya River. The bridge is the only border crossing between Afghanistan and Uzbekistan and is an important commercial link.

**CENTER:** An oil rig rises over the Tengiz oil field in Kazakhstan, near the Caspian Sea. Kazakhstan is one of the world’s largest oil producers.

**RIGHT:** Central Asian leaders turn a valve to release natural gas into a pipeline that began delivering gas from Turkmenistan to China in 2009. From left in foreground: Chinese President Hu Jintao, Kazakh President Nursultan Nazarbayev, Turkmen President Gurbanguly Berdymukhamedov and Uzbek President Islam Karimov.