NORTH AND CENTRAL ASIA AS A TRANSIT HUB: POTENTIAL, CHALLENGES AND THE WAY FORWARD
The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is the regional development arm of the United Nations for the Asia-Pacific region. Made up of 53 Member States and 9 Associate Members, with a geographical scope that stretches from Turkey in the west to the Pacific island nation of Kiribati in the east, and from the Russian Federation in the north to New Zealand in the south, the region is home to 4.1 billion people, or two thirds of the world’s population. This makes ESCAP the most comprehensive of the United Nations five regional commissions, and the largest United Nations body serving the Asia-Pacific region with over 600 staff.

Cover photo credit: Shutterstock / Dostoevsky for the right photo depicting fibre optic cables in the first row and Nikolay Pomoshchnikov for other photos.
NORTH AND CENTRAL ASIA AS A TRANSIT HUB: POTENTIAL, CHALLENGES AND THE WAY FORWARD
The sluggish growth witnessed in the North and Central Asia (NCA) subregion in recent years has underlined the urgent need for countries to diversify their growth engines by gaining trade competitiveness beyond primary commodity exports. To fully leverage global and regional value chain opportunities, NCA economies need to accelerate their efforts to mobilize and facilitate direct investments that promote economic diversification, support small and medium-sized companies and allow for more inclusive growth in the subregion. Nurturing new and dynamic businesses and expanding into the growing markets for green technologies offer a promising way forward.

Given its strategic location at the heart of the Eurasian continent, the subregion requires enhanced infrastructure connectivity to support trade and investment competitiveness. Investing in the modernization of infrastructure related to transport, power generation and communication is an essential component of a pro-growth strategy. However, the lack of seamless cross-border infrastructure corridors has hindered the potential of the subregion to become a center of trade between the three big markets – East Asia, South Asia and Europe.

Nevertheless, clear signs of progress in infrastructure connectivity and integration into the regional and global economy appear to be emerging, notably through the China-led Belt and Road Initiative (BRI), Eurasian rail land-bridge link, trans-Caspian multimodal routes, and launch of energy connectivity projects such as the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline and the CASA-1000 electricity transmission link. With the possible backing of institutions such as the Asian Infrastructure Investment Bank, improved transport, energy and ICT connectivity could support the creation of a more favourable business environment for economic diversification and inclusive growth. Furthermore, with the establishment of the Russian Federation-initiated Eurasian Economic Union (EAEU) in 2015, a much deeper process of market integration also appears to be well underway.

Notwithstanding these harbingers of change, as we move towards future paradigms of development, it will be crucial for North and Central Asia to leverage on these opportunities by addressing the huge challenges that remain. This study identifies and proposes policy reforms in four priority areas, namely (i) dismantling non-tariff barriers and accelerated trade and investment facilitation for enhanced global competitiveness; (ii) expanded infrastructure connectivity in transport, energy, ICT and networks, particularly through the development of southern
corridors, for reduced trade costs; (iii) creation of a competitive, transparent and resilient financial markets for enhanced liquidity through, interalia, deeper EAEU-led financial cooperation; and (iv) reduced vulnerabilities to the increased occurrence of natural disasters and intensified climate change effects that increasingly know no boundaries.

Understanding and planning for the interconnections among these areas is crucial to formulate coherent policies that minimize trade-offs and maximize synergies for inclusive and sustainable development. This will need to be accompanied by an architecture that builds inter-country cooperation, policy integration and extends opportunities to multiple stakeholders. However, the pathway to integration will not be easy and will require a political commitment carried out in unison to remove entrenched barriers outlined in this study, and to amicably solve challenges. To this end, ESCAP offers a vital platform through its annual Commission session, the United Nations Special Programme for the Economies of Central Asia (SPECA), the High-Level Policy Dialogues on Regional Economic Cooperation and Integration and on Financing for Development in Asia and the Pacific respectively, and the Asia-Pacific Forum on Sustainable Development, among others.

Through the Bangkok Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific, endorsed as ESCAP resolution 70/1, ESCAP’s member States have demonstrated a firm commitment to work together on promoting regional cooperation and integration. ESCAP stands ready to support ways of bringing the high potential of the subregion as a transit hub for Eurasian integration to its long awaited fruition.

Strengthening regional economic cooperation and integration will help accelerate implementation of the 2030 Agenda for Sustainable Development and the achievement of integrated markets and connected societies in North and Central Asia, and beyond.

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Under-Secretary-General of the United Nations
and Executive Secretary, United Nations Economic and Social Commission for Asia and the Pacific
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I. INTRODUCTION

As young states, the preoccupation of countries in North and Central Asia (NCA) has been the consolidation of national sovereignty, as well as strategic political manoeuvring to cope with competing geopolitical interests and threats in the subregion. This concern has taken precedence over potential economic gains to be made through subregional cooperation. In parallel, most governments have made significant strides in establishing market economies and achieving socio-economic well-being.

Despite deep socio-economic upheaval in the immediate aftermath of the dissolution of the Union of Soviet Socialist Republics (USSR), economic growth averaged about 8.1 per cent and 11.2 per cent (excluding the Russian Federation) during the resource boom years between 2003 and 2007. Economic growth in most countries has largely been driven by a rich natural resource base. Rent from natural resources is estimated to have comprised as much as 30 per cent of Gross Domestic Product (GDP) in Azerbaijan, Kazakhstan, the Russian Federation, and Turkmenistan during the same period. Economic growth is also intimately connected to developments in the Russian Federation, which generates 83 per cent of subregional GDP, as well as the political and economic legacies inherited from the USSR-era.

More recently, the sharp decline in oil prices, combined with a marked economic slowdown in the Russian Federation, has led to a rapid growth deceleration. Not only has a major source of income been disrupted for commodity exporters, such as Azerbaijan, Kazakhstan, the Russian Federation, and Turkmenistan, non-commodity exporters such as Tajikistan, Kyrgyzstan, Armenia, and Georgia have also been affected due to their high reliance on remittances from migrant workers employed in the subregion’s commodity exporting countries.

Looking forward, there are harbingers of a more purposeful reintegration process underway. For one, to varying degrees, individual NCA countries are recognizing the benefits of engaging with the global economy, beyond simply selling natural resource products. The need to create an enabling policy environment in which producers and consumers can respond to the opportunities offered by greater connectivity has assumed policy urgency. Second, unlike earlier trade agreements which made little progress, the establishment of the Russian-spearheaded Eurasian Economic Union (EAEU) in 2015 represents a much deeper integration process that has also been broadened to include Armenia and Kyrgyzstan, while a free trade agreement has been signed with Viet Nam, and in the near future, likely Singapore. Third, bilateral trade with China is burgeoning, highlighted by the construction of a gas pipeline from Turkmenistan through Uzbekistan, and Kazakhstan to China, between 2006 and 2009; the pipeline represents not only a major investment, but also the first meaningful cooperation among the three Central Asian countries. Fourth, and relatedly, China has become an important financier of infrastructure connectivity projects, notably through the Belt and Road Initiative (BRI) announced in 2013.

The BRI, with its land and sea transport corridors linking China to the Middle East, Africa, and Europe through the landlocked NCA countries, offers the opportunity to not only establish trade partnerships and networks, but also to open up multidirectional infrastructural links. The interest appears to be two-way, as reflected in a number of meetings with China’s President Xi Jinping, in which NCA leaders expressed a keen interest in collaborating on rail, air, road, and sea transport, as well as oil and gas pipelines. To realize this collaboration, however, operationalizing China’s $40-billion Silk Road Fund and Asian Infrastructure Investment Bank (AIIB) will be critical.

A relevant example of the operationalization needed is the China-Pakistan Economic Corridor, which amounts to $46 billion in investments as an extension of the Silk Road initiative. It has sparked interest in south-bound corridors that bring to the fore the true potential of multidirectional connectivity. In particular, a number of pipelines which transport hydrocarbon, gas, and electricity

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exports to South Asia and Europe have emerged to facilitate greater energy connectivity. This includes the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline launched in December 2015 in Ashgabat, Turkmenistan; the Trans-Caspian linkages for a gas pipeline from Turkmenistan to new markets in Europe; and the Central Asia-South Asia (CASA-1000) high-voltage electricity line linking the hydropower exporting countries of Kyrgyzstan and Tajikistan with energy deficient Afghanistan and Pakistan, launched in Dushanbe, Tajikistan in May 2016. The Asia-Pacific Information Superhighway (AP-IS) of the Economic and Social Commission for Asia and the Pacific (ESCAP), together with initiatives such as the Azerbaijan-led Trans-Eurasian Information Superhighway (TASIM), are expected to usher in investment and increase cross-border exchanges, while promoting the development of smart grids.

These initiatives have all sought to further link the economies of the NCA subregion and they have the potential to reinvigorate growth prospects by enhancing connectivity, economic diversification, and scaling up NCA participation in regional and global markets. Moreover, and in line with the forthcoming ESCAP report titled “Regional Integration: Enhancing Sustainable Development in Asia and the Pacific”, enhancing connectivity in NCA will enable the subregion to emerge as a transit hub in the next phase of Asia-Pacific’s transformative trajectory of development. However, in spite of these governmental and intergovernmental initiatives in the subregion, as well as public and private investments, significant derailers to regional integration are holding the subregion back and threatening future economic growth. Geographic hurdles, poor transport infrastructure, administrative border-crossing and regulatory complexities, low commodity prices, and unsustainable agricultural and energy policies, in addition to monetary volatility, have all contributed to barriers in connecting NCA countries with one another, as well as with other subregions.

In light of the emerging opportunities, as well as persistent derailers outlined above, this paper identifies four priority policy areas for (i) increased trade and investment; (ii) expanded infrastructure in transport, energy, information and communications technology (ICT); (iii) deeper financial cooperation; and (iv) reduced environmental vulnerabilities to heightened challenges posed by climate change. It concludes by proposing elements for an ESCAP Regional Economic Cooperation and Integration (RECI) agenda for the NCA subregion, underlining that an essential condition that permeates spatially and temporally, and upon which hinges the subregion’s future prosperity, is the individual countries’ political will for cooperation (box 1). The timing for such cooperation appears propitious.

### Box 1

**Improvements in the ease of trading across borders**

In August 2015, following the accession of Kyrgyzstan to the EAEU, customs control on the Kyrgyz-Kazakh border was dissolved. This symbolic ceremony took place at the Akjol-Kordai border control point, where the two countries would previously shift between independent and joint customs controls, causing unnecessary delays, heightened uncertainty and transaction cost increases for traders.

Similarly, the Chongqing-Duisburg international railway, which was finalized in 2011 and spans from southwest China to Germany, has been a pivotal transport development in China’s New Silk Road trade strategy. The 13-16-day trip has benefitted from special wagons which facilitate gauge changes between countries. More specifically, this has simplified delays at the border while the train also enjoys streamlined cross border formalities between the Russian Federation and Kazakhstan, which were further shortened since the establishment of the EAEU. This provides evidence that trade barriers can be dismantled, when the political will to do so is there.
II. TRADE AND INVESTMENT

Notwithstanding the optimal geographic position of NCA on Eurasian value chains, at present the subregion continues to remain among the least integrated in the Asia-Pacific region, accounting for 5.9 per cent of intraregional (import) trade, as compared to 29.7 per cent for South-East Asia, for example, as shown in table 1 below. Furthermore, the subregion’s trade structure lacks diversity, be it in export products, origin countries, or destination markets. This situation has changed little over the past two decades.

Export products from NCA consist mainly of low value-added commodities. Parts and components, as a percentage of manufactured goods exports in 2013 amounted to only 2-6 per cent, compared to 23-39 per cent for emerging economies in East and South-East Asia. Consequently, excluding the Russian Federation, the subregion’s biggest exporting countries are Kazakhstan, Azerbaijan, and Turkmenistan, and together account for over 80 per cent of exports. Oil and gas exports make up the largest sectoral share. Labour remittances, while small within the overall export profile of the subregion, continue to be the primary national export for the poorer countries. In 2013, Tajikistan’s remittances/GDP ratio was 48.8 per cent and Kyrgyzstan’s was 31.5 per cent, which are the world’s two highest. Country rankings by complexity indices, provide further insights into the value-added of traded products. Out of 124 countries, with the exception of Georgia and the Russian Federation, all other NCA countries rank at, or lower than 80. A similar lack of diversification is seen in terms of destination markets. While commodity exports are largely directed to global markets (despite China’s growing share), non-commodity exports are destined within the NCA subregion itself, demonstrating a lack of global competitiveness, as will be discussed further below.

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Notes: The sum of intra-regional merchandise imports divided by the value of GDP, which is weighted by GDP in current USD. The GDP figures up until 2013 are from UNSD National Accounts Main Aggregates Database.
The persistence of non-tariff barriers

The persistence of non-tariff barriers in NCA continues to challenge the subregion’s ability to become a competitive player in regional markets. Reduced trade costs are especially important for small and medium-sized businesses to participate in global value chains (GVC) and for countries to enjoy a more broad-based and inclusive growth process.

The 2015 ESCAP-led Global Survey on progress in the implementation of trade facilitation and paperless trade aligns countries of NCA with those of South and South-West Asia, with both subregions showing significantly lower progress than other subregions (figures 1 and 2). In comparison, the economies of the Association of South-East Asian Nations (ASEAN) in transition have made notable improvements in customs management and transit transport facilitation within the framework of ASEAN cooperation, and have thus been able to gain from their central geographic position. NCA has yet to capitalize on its potential as a transit route for goods moving between East Asia and the European Union.

With regards towards trade facilitation within NCA, Uzbekistan ranks below Kazakhstan and Kyrgyzstan, while interestingly, Tajikistan ranks highest among the four Central Asian countries. This may be due to more than the absence of a paperless trade system, as physical disruptions, which are amongst the highest in the world, are the key obstacles in these countries. Similarly, NCA also does poorly on transit transport facilitation. These constraints are not captured by the Survey and could thus account for the relatively high positive results obtained. Further ground testing with NCA traders could add depth to these results, particularly with regard to identifying the areas in which NCA lags behind the most.

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**Figure 1**

Implementation of trade facilitation measures by NCA countries

A less measurable, but nevertheless important, impediment to trade facilitation in NCA is the ‘reluctance to reform’ mind-set that has blocked innovative reforms. NCA countries inherited a system from the USSR that emphasized revenue collection and full inspection, rather than risk assessment methods that monitor selective goods while facilitating legitimate trade. Georgia has been the only country in the subregion to introduce major customs reforms. These reforms have been centred on streamlining procedures, creating a single electronic window, as well as upgrading infrastructure and IT equipment at border control points. Other countries in the subregion have, however, been reluctant to follow Georgia’s innovative path.

The situation appears to be changing, albeit slowly. Importantly, the first systematic evidence is the World Bank’s data shown in table 2. Up until 2014, four Central Asian countries were among the world’s seven worst for the “trading across borders” subcomponent of the index. In 2015, however, Armenia, Azerbaijan and the Central Asian countries all show substantially improved rankings, notably in the “trading across borders” sub-index. In 2016, improvements in border access continue in Georgia and Kyrgyzstan, in addition to further improvements in overall rankings for most NCA countries.

In conclusion, change appears to be underway, but there is still much scope for improvement in border crossing management services, if NCA is to capitalize on its potential as a transit route for goods moving between East Asia and the European Union.
Institution – rather than market-driven trade: a double-edged sword

A key characteristic of market integration in NCA is that its model remains driven by top-down agreements in which strategic political priorities, rather than economic rationale, have tended to take precedence. This contrasts with East and South-East Asian economies which have flourished under a market-driven trade model. Although this has begun to change, the emerging picture remains ambiguous. Until quite recently, no states seriously discussed or implemented trade policies which would increase trade either on a preferential basis within the NCA, or with third parties. Despite this, a number of treaties and agreements were signed to preserve the common economic space of the former USSR. Notably, the Commonwealth of Independent States (CIS), created in 1991 and intended as a mechanism to maintain economic ties between the (non-Baltic) Soviet successor states, quickly became entangled in strategic and political decisions, with little if any trade and investment integration. In this regard, NCA remains the only subregion in Asia-Pacific with no inclusive subregional institution dedicated to the promotion of regional cooperation and integration similar to ASEAN, the South Asian Association for Regional Cooperation (SAARC), or the European Union, for example.

In an important policy overhaul, in 2009 the Russian Federation shifted its focus from the CIS to bilateral or plurilateral relations with like-minded countries from the former USSR. A customs union was formed between Belarus, Kazakhstan, and the Russian Federation, which served as a significant confidence-building step that quickly led to further deepening and widening, with the EAEU established by January 2015, followed by the accession of Armenia and Kyrgyzstan. For NCA, the significance of the EAEU is that it is the first subregional institutional cooperation mechanism that provides concrete economic benefits, especially for much-needed labour migration from poorer countries in the subregion. In that regard, the EAEU has been major beneficiaries of these agreements, and

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<td>146 141 87</td>
<td>189 159 165 129</td>
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Notes: The LPI covered 160 countries in 2014; the Doing Business rankings cover 189 countries - Turkmenistan is not ranked in Doing Business. The DB columns refer to the benchmark dates, not the date in the publication’s title (e.g. Doing Business 2016, published in 2015, contains the June 2015 data, while June 2014 data are in Doing Business 2015. Online data are sometimes revised).
remittance-dependent Tajikistan could also be a major beneficiary if it joins in the future.

On the other hand, and in parallel, in January 2015 the Russian Federation introduced new regulations for labour migrants from non-EAEU countries. Thus, Kyrgyz workers have an advantage over migrants from Uzbekistan, for example. Of equal concern is that the model depends on favourable market entry into the Russian Federation, with exporters hoping to thrive in its much larger market. Market integration thus relies heavily on administrative policy to gain competitiveness, though further evidence and insight from systematic studies abound. For example, it has been reported that average border-crossing times for trucks leaving Kazakhstan for the Russian Federation fell from 7.7 hours in 2011 to 2.9 hours in 2012, while for trucks entering Kazakhstan from outside the customs union, the time increased from 8.6 to 21.5 hours, with “waiting in queue” accounting for the biggest part of the delays experienced (CAREC, 2012, 38-9). Similarly, tighter controls on the customs union’s external borders discouraged informal imports into Kazakhstan from Kyrgyzstan (prior to its EAEU membership) and China (Mogilevskii, 2012b). The empirical information available is further supported by ESCAP research which shows that the NCA subregion imposes the highest non-tariff barriers of Asia-Pacific, reaching a tariff equivalent of 351 per cent of the subregion’s trade with ASEAN. Thus, while import substitution as model of industrial development has largely been discredited in other parts of the world, such as the ASEAN experience with the car industry shows (box 2), this has not been the case in NCA. Finally, it should be noted that intra-NCA trade costs are high, amounting to 121 per cent, in comparison to 43 per cent for intra-EU trade. Once again, this further highlights ambiguities in market integration policies at the subregional level.

Lessons learnt from the ASEAN car industry

The contrasting experiences of Thailand and Malaysia in the ASEAN car industry offer an example of the drawbacks of import substitution policies. The Thai car industry, which by the early millennium had become the largest assembler of cars in Asia, employing some 550,000 people and producing 2.85 million vehicles by 2013, evolved around participation in global supply chains. Meanwhile, its Malaysian counterpart, the Malaysian Proton, which developed as a national, import-substituting car industry, stagnated, with domestic buyers paying up to 50 per cent more for the same cars sold on export markets (Baldwin, 2011). By 2005, Malaysia had little choice but to withdraw cars from its ASEAN Free Trade “Exclusion List”, in a highly symbolic retreat from import substitution in favour of participation in regional and global supply chains for the industry.

Overall, it appears that the impact of the EAEU on cooperation and integration in the subregion may be double edged. On the one hand, it has created a more deeply integrated area among its preferred members. On the other hand, for those Central Asian (and other) countries that remain outside, the costs have increased, and this could exacerbate the fault lines running across Central Asia and hamper much-needed long-term economic integration at both the subregional level and across the wider Asia-Pacific space.

In this context, a key question is whether the EAEU will manage to reduce its common external tariff and non-tariff barriers to mitigate discrimination against non-members. This is crucial if the subregion is to develop along the same principles of open regionalism that evolved over time in ASEAN and the Asia and Pacific Economic Cooperation (APEC), among others. Of late, there are encouraging signs that the EAEU is expanding its membership, albeit with slow progress in Central Asia and the Caucasus. In 2015, the EAEU signed a free trade agreement with Viet Nam and in 2016, several other countries were reported to be interested in a similar arrangement (e.g. Egypt, Islamic Republic of Iran, Israel, Pakistan, Serbia, and Thailand). Furthermore, with all EAEU members (except Belarus) now World Trade Organization (WTO) members, the EAEU is underpinned by non-discriminatory foundations that reign in rampant protectionist forces.
After dissolution of the USSR in December 1991, Kyrgyzstan adopted the most open economic system in Central Asia, and in 1998 became the first Soviet successor state to join the WTO. One consequence was that it became the entrepôt through which consumer goods entered Central Asia, and during the 2000s the country’s bazaars became major trading hubs. In 2008, the Dordoi bazaar in Bishkek employed 55,000 people, had 40,300 sales outlets and annual sales of $2,842 million, of which $2,131 million are estimated to have been foreign sales (customers in Uzbekistan, Kazakhstan, and the Russian Federation).

The open Kyrgyz economy has also had some success in agriculture, importing know-how and inputs as well as benefitting from foreign intermediaries with knowledge of export markets. With the introduction of new bean varietals, primarily from Turkey, the land devoted to bean production in the Talas province increased from 5,000 hectares in 1999 to 45,000 hectares in 2012, as small-scale farmers became competitive producers supplying export markets in Turkey, Bulgaria, and the Russian Federation (Tilekeyev, 2013). Many small and medium enterprises offering intermediary services also sprung up. They imported cleaning equipment, as well as graded and packed the beans in standard 25kg and 50kg polypropylene bags, as know-how and investments are underway for higher value-added quality, packaging and marketing services for direct access to the EU market, rather than through Bulgaria as an EU member, and thus gateway into the EU.

Tilekeyev uses household survey data from May-June 2011 to show that households specializing in beans were significantly better off than non-bean-producers, and although still a minor player in the global market, Kyrgyzstan was one of the top twenty bean exporters (Hegay, 2013) in the world. The basic lesson is that with an enabling policy environment supported by infrastructure connectivity, new products and markets can develop, including in niches that previously did not exist and whose existence was not predicted.
III. INFRASTRUCTURE CONNECTIVITY

Government plans that prioritize crossborder infrastructure connectivity are the essential, albeit insufficient contributor to economic efficiency and export competitiveness. Thus, leaders of NCA countries have prioritized the modernization of infrastructure for transport, power generation, and communication as the foremost item in their agendas for regional economic cooperation and integration. Historically, infrastructure connectivity efforts were largely concentrated on improving connectivity northwards towards the Russian Federation, and as such, connections with the Russian Federation have been well established, with road, rail, and energy grids linked with Russian systems.

East-west corridors have developed quite rapidly in recent years, due largely to support from Chinese investments. The gas pipeline from Turkmenistan through Uzbekistan and Kazakhstan to China, completed in 2009, provided both the strongest demonstration of China’s potential role in Central Asia and the first meaningful collaboration of three Central Asian countries in a mutually beneficial project. Specifically, it showed the ability of Turkmenistan, Uzbekistan, and Kazakhstan to reach an agreement on complex issues such as pipeline routes, transit rates, and options for Kazakhstan and Uzbekistan to provide their own gas exports on the Turkmenistan-China pipeline. Today, cooperation on the pipeline continues amongst all parties. Furthermore, annual capacity is being expanded, and the pipeline will be extended to link to the systems of Kyrgyzstan and the Islamic Republic of Iran.

Connectivity southwards represents the last geographic frontier for the full spatial integration of the NCA subregion. Among other things, security considerations have made connectivity to Southwest Asia difficult. Despite this, there have been renewed signs of cooperation among Central Asian countries which have been supported by the Islamic Republic of Iran’s re-entry into the global economy, gradual stabilization in Afghanistan, and prioritization on Pakistan’s national development agenda.

TRANSPORT CONNECTIVITY: MULTI-DIRECTIONAL INTEGRATION

The time is ripe for the NCA subregion to actively pursue the RECI agenda along three principal axes of infrastructure connectivity:

Eurasian rail link

Chinese investments in high-speed and ultra-high-speed railway infrastructure are evolving as the connectivity game-changer in Asia-Pacific. Rail connections established since 2010 have almost all gone in a northerly direction via Urumqi, Astana, and Minsk towards Europe (figure 3). This includes the important Chongqing-Duisburg route (see box 1), which became operational in 2011-12. The journey which is now being completed regularly in under 16 days (as compared to 36 days over maritime routes), is used westwards by China’s increasingly time sensitive products in the global supply chain, notably electronics (e.g. Acer, HP, Foxconn). On the eastward bound return train, automobile firms ship parts to their Chinese assembly operations (e.g. Volkswagen, BMW, Audi), and as China’s consumption of luxury and perishable goods continues to increase, the route is offering a commercially expedient middle way between inexpensive but slow maritime routes and fast but expensive air transport.

The speed with which China has constructed its domestic high-speed rail network suggests that it is not implausible for Shanghai and Berlin to be linked in the future, with two days traveling time via Astana. Illustrating the potential of these high-speed links, in 2014 China completed the 1,776 kilometre Lanzhou-Urumqi segment, which now takes 10 hours. Extending this line by 460 kilometres could allow for Alashankou on the Kazakhstan border to be reached from Urumqi in less than three hours.

China is also developing a southern rail link and has lent $450 million to Uzbekistan for railway construction, the largest Chinese loan
for this sector in Central Asia. China’s Silk Road Economic Belt also envisages a Southern main line through Tashkent, Tehran, and Istanbul (figure 4), with Moscow featuring as a circuitous spur (figure 5). The current northern route and an envisaged southern route have important differences, as the former passes through Astana and includes the Russian Federation as a transit country to the EU, while the latter passes through Tashkent, transits through Turkey to Europe and links up with maritime routes of the Middle East and North Africa. Given the large fixed costs of upgrading rail systems, the two routes might be mutually exclusive, if the intention is to build ultra-high speed railway systems.

**Trans-Caspian route**

The second major axis of integration involves Corridor 2 of the Central Asia Regional Economic Cooperation (CAREC) programme across the Caspian Sea. This has, as a result, increased Azerbaijan’s attractiveness. Kazakhstan has also introduced a rail/ferry trans-Caspian route via its port of Aktau, with the first container from China arriving in Alyat in August 2015, having travelled over 4,000 kilometres in six days. It is expected that Alyat will handle between 300,000 and 400,000 containers per year by 2020. The route of CAREC Corridor 2 is being extended further westwards, as Azerbaijan provided Georgia with a $700 million loan to complete the missing links in an Azerbaijan-Georgia-Turkey route. Another version of this Corridor would pass south of the Caspian Sea through the Islamic Republic of Iran to Turkey and the Middle East.

**Connectivity to South and South-West Asia**

Connectivity southwards represents the third axis of integration. This presents a rare opportunity whose timing has matured for several reasons. One is the political will amongst the countries directly concerned. Illustrating this, in recent reciprocal visits by the Heads of State of Pakistan and Tajikistan, the Prime Minister of Pakistan...
has emphasized that regional connectivity would transform the economic outlook for the entire region and added that connectivity projects with Tajikistan will prove to be the game changer for the NCA sub-region. Issues related to the importance and benefits from south-bound connectivity also featured prominently during the Prime Minister of Pakistan’s recent visits to Kazakhstan, Kyrgyzstan, and Turkmenistan.

China’s plan to invest $46 billion to strengthen the China-Pakistan Economic Corridor will also have important implications for the development of South-Central Asia connectivity, as it involves upgrading the Karakoram Highway. In this regard, the 2020 CAREC Transport and Trade Facilitation Strategy has recognized the Karakoram Highway as an important alternative route for Corridor 5 (see segment 5b in figure 6 below).

Plans are also underway to develop rail links between the main cities along the north and south of Afghanistan, linking up with Pakistan and the Islamic Republic of Iran. Despite the delays posed by convoy requirements on route segments in both Afghanistan and Pakistan, bottlenecks at border control points between both countries represent a key barrier to connectivity. Illustrating this, in 2014 trucks took an average of 34 hours to pass through the Peshawar border control point, and 39.5 hours to pass through Torkham on the Afghan side. Crossing times were even longer at the Chaman (Pakistan)-Spin Buldak (Afghanistan) border control points, at 36 and 60 hours respectively. While improvements in the overall security situation would help shorten travel times, especially on the Kandahar route, improvements in physical infrastructure and customs procedures at border control points would help even more. For example, the border control points could be better designed to separate passenger traffic from goods. Even difficulties related to the sharing of freight information could be resolved relatively easily with the necessary political will.
In another important initiative, in December 2014 the Presidents of Kazakhstan, Turkmenistan, and the Islamic Republic of Iran formally hammered the last spike in a new railway along the eastern coast of the Caspian Sea (figure 7). This route is important because it offers a North-South corridor between the Russian Federation and India through the Islamic Republic of Iran’s extensive railway network and the Chabahar Port, the Islamic Republic of Iran’s only deep-sea port (figure 8). It also reflects an increased engagement of Turkmenistan and the Islamic Republic of Iran in international trade, and Kazakhstan’s desire for links to Southwest Asia and the Middle East as an alternative to the trans-Caspian Sea crossing, or transiting through the Russian Federation to Black Sea ports. Rail connections between China and Southwest Asia could also be improved by directly connecting into Kazakhstan’s rail network. The first train along this route travelled with 32 containers of goods in early 2016 and arrived in Teheran after a 14-day journey from Zheijang Province on China’s east coast, via Urumqi, Kazakhstan, and Turkmenistan. The transit time compared favourably to the 45 days needed to ship goods by sea from Shanghai to the Bandar-e Abbas port, in line with the Islamic Republic of Iran’s desire to be a key link in China-EU rail connectivity (figures 4 and 5).

The significance of these new links to South and Southwest Asia is that what was previously a transport system centred on one or two major corridors, subject to chokepoints, is now becoming a networked system of corridors where end-users can choose between different routes and combine modes of transport, as needed.

Notably, although the journey from Central Asia to South Asia eastwards through Kashgar (Xinjian Province, China) and then southwards along the Karakorum Highway (segment 5b of the CAREC corridor) will always be more geographically challenging than the trans-Afghan routes from Central Asia to South Asia, investment in this
route opens up a complementary road that can serve as an alternative in case conditions deteriorate in Afghanistan. Moreover, the availability of options permits traders to avoid the uncertainty of hold-ups at any border checkpoint. Having alternative routes also raises the opportunity costs for the country imposing the border point blockade. Similarly, although the Kazakhstan-Azerbaijan Trans-Caspian Sea link will likely face serious challenges from Southern and South-western railway initiatives discussed in the previous section, the expansion of options is in itself trade-creating. In the same vein, the Kazakhstan-Turkmenistan-Iran railway could stimulate increased trade not only among those three countries, but also between the Russian Federation, China, and Southwest Asia.

**ENERGY CONNECTIVITY: CENTRAL ASIAN - SOUTH ASIAN INTEGRATION**

The ambitious connectivity plans southwards also extend to the energy sector. Two projects are significant in this respect. One is the Central Asia-South Asia (CASA-1000) flagship project, a 1,200-kilometre-high-voltage electricity line, designed to bridge the gap between the untapped export potential of renewable hydro-energy from Kyrgyzstan and Tajikistan, and unmet needs in energy-deficient Afghanistan and Pakistan. CASA-1000 also represents a first step in the development of a wider Central Asian-South Asian Regional Electricity Market (CASAREM). Second, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, which has been under consideration since 1994, was recently revived, with the much-awaited ground-breaking ceremony for the Turkmen segment of the pipeline taking place on December 13, 2015. Construction for the East-West national pipeline is currently underway and in the future, this pipeline has the potential to link up to various cross-border pipeline projects, such as westwards for gas exports to Europe through trans-Caspian lines (Turkmenbashi to Baku), as well as eastwards to China.

CASA-1000 and TAPI are, however, dependent on the security situation in Afghanistan. Likewise, if commodity prices remain at historically low levels over the long term, both projects may become financially less viable given the size of investments required for the generation, transmission, and distribution infrastructure. Despite these concerns and given the long-term planning horizons involved, even opposing countries should view these initiatives as mutually complementary. They offer route diversification, in addition to solutions which present triple-win outcomes between energy-deficient and energy-surplus countries, as well as proponents of renewable energy.

With the adoption of the 2030 Agenda, the profile of the NCA subregion as one of the world's largest repositories of renewable energies (wind, solar, hydropower) has been raised. As the most effective mode of energy trade for renewables is electricity (in contrast to traditional maritime or rail transport for trade in coal and oil), and as technological innovation has increased the transmission capacity over longer distances through ultra-high-voltage grids, opportunities for trade in green energy are multiplying. Towards this end, the ESCAP Asian Energy Highway (AEH) initiative, through the development of an integrated regional grid, aims to increase the transmission capacity over longer distances through ultra-high-voltage grids, opportunities for trade in green energy are multiplying. Towards this end, the ESCAP Asian Energy Highway (AEH) initiative, through the development of an integrated regional grid, aims to increase the transmission capacity over longer distances through ultra-high-voltage grids, opportunities for trade in green energy are multiplying. Towards this end, the ESCAP Asian Energy Highway (AEH) initiative, through the development of an integrated regional grid, aims to increase the transmission capacity over longer distances through ultra-high-voltage grids, opportunities for trade in green energy are multiplying. Towards this end, the ESCAP Asian Energy Highway (AEH) initiative, through the development of an integrated regional grid, aims to increase the transmission capacity over longer distances through ultra-high-voltage grids, opportunities for trade in green energy are multiplying. Towards this end, the ESCAP Asian Energy Highway (AEH) initiative, through the development of an integrated regional grid, aims to increase the transmission capacity over longer distances through ultra-high-voltage grids, opportunities for trade in green energy are multiplying. Towards this end, the ESCAP Asian Energy Highway (AEH) initiative, through the development of an integrated regional grid, aims to increase the transmission capacity over longer distances through ultra-high-voltage grids, opportunities for trade in green energy are multiplying.
As information and communications technology (ICT) provides ever-increasing knowledge and development-enhancing applications through broadband internet, optic fibre cables have been deployed at the national level and now reach major domestic population centres in most countries in the form of a meshed grid network. Cross-border link-ups however, are often missing or of low capacity. Consequently, up to 90 per cent of international traffic is routed onto submarine cables. This results in connectivity prices that reflect the margins that telecom carriers in countries with sea-access are able to impose on landlocked neighbours, over and above the price for capacity sold through the submarine cables. Prices for international data transit are therefore very high: for example, twice-landlocked Uzbekistan faced a hefty $347 per Mbps per month for international connectivity in 2012, and most other Central Asian countries faced prices of more than $100 per Mbps for international capacity.

Azerbaijan and Kazakhstan constitute exceptions in that they enjoy considerably lower transit prices ($20 and $15 per Mbps, respectively). They stand out because during the resource-boom years, they had a headstart and were able to make significant investments in multiple cross-border points of connectivity to international networks. Both countries are increasingly functioning as transit countries for data through traffic of third countries. In the process, they import large international bandwidth capacity and trigger economies of scale that allow them to command much lower prices than most other landlocked developing countries.

In order to better understand the status of ICT infrastructure throughout the Asia-Pacific region, ESCAP (2014) identified missing cross-border links and ranked them into high, medium, and low priority investment needs. NCA emerged as one of two subregions with the most missing links. Nevertheless, while such investments in bilateral solutions can improve the situation in terms of competition, pricing, and network robustness, the benefits would be even higher if they were integrated into a regionally cohesive networked approach. Towards this end, ESCAP has developed a Masterplan and Regional Cooperation Framework for an Asia-Pacific Information Superhighway (APIS) that provides seamless Asia-Pacific digital infrastructure connectivity. Azerbaijan has also begun to position itself as a transit hub for the region through a number of recent projects, that include the Europe Persia Express Gateway, as well as the Trans-Eurasian Information Superhighway (TASIM) aimed at establishing a seamless connectivity route from Frankfurt to Hong Kong, Special Administrative Region (SAR) of China.

The digital revolution has also accelerated the inter-linkages, interdependencies, and synergies across all infrastructures. Examples abound of where such synergies can be reaped. ESCAP was one of the first international organizations to document best practice and encourage countries to design policies that capture these synergies. The key policy recommendation emerging from these studies was that the co-location of intercountry terrestrial fibre optic networks, with common passive infrastructures (for example roads or railways), can result in new international transit digital traffic for NCA countries at next to no additional investment cost.

In follow-up and in support of this principle, amendments to two intergovernmental ESCAP agreements on transport are now under consideration. Furthermore, the ESCAP Agreement on Dry Ports can provide high dividends for landlocked countries. Dry ports promote a spatially more inclusive development process, while reducing the negative environmental externalities of transport in congested urban areas. Importantly, as dry ports are nodes located along the Asian Highway and Trans-Asian Railway, by running fibre optic cables along these routes, ICT infrastructure will naturally converge at dry port nodes. Internet exchange points could thus evolve alongside dry ports. Such a convergence can augment operational capacity, modernize processes, and increase the competitiveness of dry ports vis-à-vis maritime ports.

To date, these opportunities have barely been captured in infrastructure projects, not just in Central Asia but the region at large. For one, multilateral funding is still overly focused on a self-contained sectoral approach. Of interest, however, is the World Bank’s Digital CASA project as it builds on the principles and norms promoted by the ESCAP APIS. The plan is to leverage the optical ground wire embedded in the power transmission of CASA-1000 to provide additional telecom capacity while electricity is being traded. Optical fibre ground wire can thus be used to perform the shared task of grounding electricity, as well as providing communications.
IV. FINANCIAL COOPERATION

Financial sector reforms are one of the most important elements for the full transition to market economies. The development of the banking and non-banking sectors enhances the intermediation function between savings and long-term investments. This is crucial for mobilizing domestic and foreign financing for private sector-led growth and economic diversification. The experience from the rest of Asia-Pacific shows that the level of financial sector development influences the depth and breadth of trade, and in turn, trade openness influences financial sector development.

The subregion’s financial sectors are poorly integrated into global and regional financial markets. Even under the EAEU, progress has been slow, and overall, this is the sector that has lagged behind most in terms of integration. Now the time is ripe for deeper reforms and policy cooperation. Such reforms are complex because they involve a mix of liberalization through deregulation (the dismantling of barriers to market entry and the promotion of competition) and re-regulation (the establishment of a transparent, predictable, and enforceable legal environment, with strengthened and independent regulatory agencies). For the formerly centrally planned economies, the policy challenge is particularly complex as there are more regulatory barriers to dismantle and no benchmarks to guide effective regulation. In other words, the countries of NCA are faced with the need to enhance competitiveness by increasing the contestability of markets (i.e. by allowing the entry of new domestic and foreign service providers), while at the same time implementing effective regulatory supervision of both domestic and foreign financial operators. These risks are further heightened by the asymmetric nature of information in economic systems in transition.

WTO membership is important for further integration, as the common thread of WTO rules is to level the playing field between foreign and domestic service providers. This is an important step towards creating a competitive within-country financial services supply. It also instils confidence in potential foreign investors and trade partners that liberalization policy stances will be followed through, as WTO commitments are legally binding. In this regard, both Armenia and Georgia, early WTO entrants, have relatively open financial sectors and transparent regulatory frameworks. Of the most recent group of NCA entrants to the WTO, Kazakhstan has inscribed full liberalization commitments in financial services, while the Russian Federation and Tajikistan have made extensive use of partial commitments in financial services.

Besides the WTO process, the EAEU can also serve as a platform for promoting financial cooperation, if not financial integration in the subregion. The EAEU envisions the creation of a common financial market, for which two consultative committees have been set up on financial markets, which focus on tax policy and tax administration, respectively. In this regard, it should be noted that slow progress specifically impacts the poorer countries that are unable to benefit from the wider range of financial services typically offered by an economic union. These could entail, among others, heightened transparency and regulatory supervision in the allocation of capital, diversification of financing instruments, and the pooling of risks. Deepening financial integration in the EAEU could also further strengthen trade and investment integration processes, as augmented access to financial resources through cooperation is an essential pillar for a fully functioning customs union.

Having said this, deeper financial cooperation requires high levels of political and economic trust. Drawing from its rich experience in analytical and normative work for development, ESCAP could provide a platform for best practice sharing in the Asia-Pacific region. In this regard, the ESCAP secretariat and the Eurasian Development Bank (EDB) have launched a joint study that will, inter alia, draw implications for NCA emerging from the experiences of ASEAN in promoting an integrated investment area and investment financing.
V. SHARED VULNERABILITIES

Disasters and climate change

Shared vulnerabilities in the NCA subregion emanate from the transboundary nature of disaster and environmental risks. Furthermore, the inherent difficulties in resolving these issues on a mutually cooperative basis have increased the stakes in strengthening joint efforts that effectively mitigate ex-ante risks.

Not unlike other subregions of Asia-Pacific, the occurrence and intensity of disasters in NCA are on the rise and this semi-arid region is one of the most vulnerable to climate change globally. Some disasters are acute, difficult to predict, and typically entail large losses in human life and economic costs, such as from earthquakes. Other disasters can be linked to extreme-weather conditions and climate change effects. This includes disasters that are more predictable (e.g. mudslides, glacial lake outburst floods). Other disasters evolve slowly, such as droughts, but nevertheless can also have very high costs if timely mitigating actions are not taken. One aspect of disasters that remains true with hardly any exception is that disasters are transboundary in origin and impacts.

Mitigating action to reduce risk thus lends itself well to measures taken on a subregional, regional, and even international, cooperative basis. For example, in 2000 a severe drought hit the Caucasus, but Tajikistan, Turkmenistan and Uzbekistan were not spared, and effects even spread as far as the Islamic Republic of Iran, Afghanistan, and western Pakistan. Almost 60 million people were affected, and national economies suffered from sizeable losses. In 2005, the two main rivers of Central Asia, Amu Daria and Syr Daria, as well as their tributaries, flooded and damaged infrastructure, settlements, and farmlands. Likewise, the areas comprising a) Georgia, Armenia, and Azerbaijan, b) Kyrgyzstan, Tajikistan, and South-East Kazakhstan, and c) South/South-West Turkmenistan, are highly exposed to trans-boundary seismic risk, as was the case in 1988 in Armenia or in 2008 in Kyrgyzstan.

The need to strengthen regional programmes to address shared vulnerabilities is well recognized in the Sendai Framework for Disaster Risk Reduction 2015–2030. As the most disaster-affected region of the world, Asia-Pacific has a number of noteworthy initiatives in this regard. For example, Afghanistan, Bangladesh, Bhutan, China, India, Myanmar, Nepal, and Pakistan created the Regional Flood Information System to reduce flood vulnerability through improved flood forecasting and management in the Indus, Ganges, Brahmaputra, and Meghna basins; and, Kazakhstan and Kyrgyzstan established a Centre for Emergency and Disaster Risk Reduction. ESCAP has provided technical assistance to support the development of the Centre’s programme.

An institutional framework for addressing shared vulnerabilities

In NCA, disaster risk reduction initiatives involve coordination between the sectors of water, energy, and food/land. This is challenging because policy processes at the national level generally follow a sectoral approach which does not take into account the interconnections and interdependence among the three sectors. This complexity increases substantially across national boundaries, and at all times there is tension between the three interfaces, as a balance must be sought between the competing sector and inter-country needs. To further support disaster risk reduction initiatives in the NCA subregion and Asia-Pacific as a whole, in-depth studies and inter-country coordination efforts are needed to promote efficient resource use and policy coherence that minimizes trade-offs and maximizes synergies. Although the concept of a water–energy–food nexus is gaining momentum, more efforts will be needed to understand the linkages and promote an integrated approach.

ESCAP has been at the forefront of addressing shared vulnerabilities as a regional public good. In particular, ESCAP has promoted regional cooperation as a modality for strengthening early warning systems through the Regional Integrated Multi-Hazard Early Warning System for Africa and Asia (RIMES), in which Armenia, the Russian Federation, and Uzbekistan participate in the system’s work as collaborating countries.
Collective early warning systems are more cost-effective and can help mitigate the worst impacts of disasters. Furthermore, trans-boundary cooperation can identify inter-sectoral synergies and determine policy measures and actions which could alleviate conflicts related to the multiple use of, and needs for, common resources.

ESCAP set up a regional mechanism for drought monitoring and more recently, a new regional institute, the Asian and Pacific Centre for the Development of Disaster Information Management (APDIM), which was established in Teheran, with the support of the Islamic Republic of Iran. APDIM will initially focus on disaster-prone countries in NCA, as well as South and South-West Asia, with a view to strengthening information and knowledge management in seismic risk reduction, as well as desertification, drought, and sand and dust storms. Furthermore, Kyrgyzstan recently expressed interest in becoming Central Asia's focal point in the drought monitoring mechanism.

On a subregional scale, interstate bodies promoting cooperation between countries in several sectors already exist, notably, the Interstate Commission for Water Coordination (ICWC), the Basin Water Association Syrdarya (BWO), the Interstate Council for the Aral Sea (ICAS), and the International Fund for Saving the Aral Sea (IFAS). Nevertheless, these entities have limited powers and without the required political will to cooperate, they are unable to formulate cohesive planning for sustainable basin resources use.
VI. ESCAP RESPONSES AND POLICY RECOMMENDATIONS

NCA countries continue to sit at the historical crossroads of the flow of goods (and increasingly digitized exchange of knowledge) between Europe, South Asia, West Asia, and East Asia. With China’s determination to revive the ancient Silk Road and reinstate the vast Eurasian steppe as a crucial linking hub for East and West in the twenty-first century, many of the laggard post-Soviet cities are being offered the chance to once again become trade hubs. For example, Khorgos, on the Kazakh-Chinese border, has attracted billions of dollars through investments in the Kazakhstan Railways-backed dry port that now has a cargo-handling capacity of 200,000 containers. Similarly, the economic and socio-political dividends that can be reaped by reviving the 2,000-year old trade exchanges between China and Central Asia will extend beyond bilateral trade relations that exploit raw materials and source markets for Chinese exports. The BRI offers to create a “belt of economic prosperity” that can open up dormant economic relations among countries previously barred by inward-oriented economic policies.

The ESCAP agenda for RECI is built on the premise that political leadership will embrace the forces of transformation and align policies and institutions with sustainable development outcomes. In NCA countries, this implies that investments in physical infrastructure will lead to lasting development gains if they are accompanied by an architecture that builds inter-country cooperation and extends opportunities to multiple stakeholders. With most NCA countries already committed to modernization and participation in global markets, the facilitation of cross-border collaboration by the unprecedentedly large investments in Eurasian connectivity, driven by China, offers what would appear to be easy gains to fuel economic growth. The subregion’s changing political dynamics includes new integration frontiers opening up, such as the Islamic Republic of Iran. Combined with the overarching framework of ESCAP norms, these can help build the soft infrastructure for a network of corridors linking Central Asia to Southwestern and South Asian economies in an innovative, invigorated, interconnected, and inclusive way.

The pathway to integration will not be easy and will require a political commitment carried out in unison to remove the entrenched barriers outlined in this paper, and to amicably solve territorial claims and disputes. To this end, ESCAP offers a vital platform through, inter alia, its annual Commission session, the United Nations Special Programme for the Economies of Central Asia (SPECA), and the Asia-Pacific Forum on Sustainable Development. On such a platform, governments may work together to simplify processes and build export competitiveness in response to growing market demands from Asia-Pacific’s trade partners. As trade will become a crucial component of growth for NCA, particularly for key commodities such as gas and oil, working together to create a conducive environment for regional value chains will be a key pathway towards diversification for inclusive and sustainable growth.

**DRAWING FROM THE ANALYSIS ABOVE, FIVE RECOMMENDATIONS AND POLICY ACTIONS FOR NCA ARE PROPOSED:**

1. **Consolidate the Eurasian Economic Union by broadening membership in support of BRI and RECI**

Important NCA countries have been involved in building the EAEU, such as Kazakhstan and the Russian Federation. However, with only five participating economies that account for less than 1.9 per cent of global Gross Domestic Product (GDP), there is much to be gained from an expansion of membership that includes not only key transit countries of NCA, such as Tajikistan and Uzbekistan, but also rapid growth countries, notably those of South and South-West Asia. By
providing BRI with an overarching and supportive “soft” policy architecture, commercial returns on hard infrastructure investments would increase substantially. The twenty-one-member Free Trade Area of the Asia-Pacific (FTAAP), which accounts for 58 per cent of global GDP, could serve as a useful example. As a member of both the EAEU and FTAAP, the Russian Federation’s leadership will be essential, as will policy coherence with China to ensure that the EAEU and BRI evolve in mutual support of each other. With most countries now members of the WTO, the EAEU has the potential to evolve into a platform of wider outward oriented liberalization commitments in line with the new wave of mega trade initiatives that Asia-Pacific is involved in.

2. Promote plurilateral model agreements on intermodal transport and cross-border trade facilitation as building blocks of wider EAEU integration

ESCAP can help build the soft infrastructure to support CAREC Corridors 5 and 6, linking Central Asia to the large economies of South-West and South Asia, in addition to Corridors 1 and 2. Using the multidisciplinary structure and regional coverage of ESCAP membership, ESCAP can provide its members and associate members with an overarching framework of norms to which national policymaking and interconnectivity can be anchored.

As a start, the focus could be on subsets of like-minded countries that are business-oriented and interested in deeper integration, as ASEAN has done with the establishment of single windows, integrated border crossings, mutual recognition agreements, and other measures. Such goals may be best addressed through the flexibility that plurilateral approaches offer. Two subsets of countries are proposed: Pakistan-Afghanistan-Tajikistan and Kazakhstan-Azerbaijan-Georgia-Turkey. This can be extended to other country groupings in the future, so that the plurilateral approach serves as a building block for an integrated and regionally cohesive strategy. Interested countries may opt-into the subset at any time, while a country that becomes more concerned about policy sovereignty and/or autonomy, may opt-out at the cost of remaining outside the international value chains. For those who chose to opt-in, the existence of multiple route configurations would help to ensure that non-participants do not disrupt the entire chain.

3. Promote cross-sectoral infrastructure synergies

With the revamping of transport routes, ICT analysts have suggested that simultaneously installing upgraded fibre ICT infrastructure will spur industry demands, production, innovation, and cross-border relations. Evolving technologies offer the prospect of developing open and expanding internet ecosystems, capable of overcoming the tyranny of distance and isolation faced by many of the landlocked communities forced overseas for work due to the lack of employment opportunities. Telecommunications infrastructure in the subregion is currently limited, which slows the expansion of trade for the three largest markets of Azerbaijan, Kazakhstan, and the Russian Federation across the subregion. Digital connectivity is also a way to boost resilience in increasingly volatile climates, with the rapid spread of information spurring both recovery and preparedness, instrumental for the 2030 Agenda on Sustainable Development.

ESCAP was among the first international organizations to encourage deployment of ICT infrastructure along passive infrastructures to integrate peripheral areas into larger networks and production chains. Dry Ports are key to ensure that landlocked countries are not excluded from the economic gains of coastal access, and when combined with ICT connectivity, the development of internet hub cities can augment and diversify revenue generation for dry ports in an efficient and commercially viable way. For example, dry ports that have been constructed over the past decade in Lao People’s Democratic Republic and Myanmar are forecast by 2025 to bring in economic returns of 16.79 per cent and 19.15 per cent, respectively.

4. Strengthen financial cooperation through the EAEU

Financial cooperation needs to accelerate beyond information sharing. The stability of financial systems will need to be reinforced at the same time they are needed to cater to the emerging demands of a more inclusive and sustainable development trajectory. The EAEU,
with its like-minded members, provides an ideal platform to deepen financial cooperation for a more diverse portfolio of assets, anchored to international norms and regional regimes. Furthermore, its small membership offers some leeway to maintain various operational elements that would encompass a more decentralized and flexible approach when comfort levels of deeper integration diverge.

5. **Strengthen monitoring and early warning for transboundary disasters through enhanced cooperation**

To reduce shared vulnerabilities, there is a need to address the significant gaps that exist for cross-border hazards in the subregion. Enhanced cooperation based on a strengthened science-policy interface, supported by the right data, in addition to technical coordination mechanisms and capacity-building, are crucial. In this regard, the ESCAP drought monitoring mechanism and capacity development activities provided by dedicated ESCAP Regional Institutes, such as the Centre for Alleviation of Poverty through Sustainable Agriculture (CAPSA), the Centre for Sustainable Agricultural Mechanization (CSAM), and APDIM, which can provide multi-hazard early warning systems. These will reduce trade-offs inherent to the water-energy-food nexus, as well as climate change impacts of this semi-arid area.
ENDNOTES


2 UN ESCAP Statistical Database. Measured as intraregional imports as % of GDP, and weighted by GDP. http://www.unescap.org/stat/data/statdb/DataExplorer.aspx (accessed 05 December 2016).


5 For example, see the CAREC Corridor Performance Measurement and Monitoring (CCPMM) Reports which empirically record actual travel and border crossing times, as reported in Pomfret (2016).

6 Perhaps best epitomized by the ASEAN ‘institution-light’ informal network type of governance. See Nangia (2016) for an in depth discussion of this issue.

7 The analysis draws on Pomfret (2014) and Pomfret (2016).

8 Migrants now have to pass tests on Russian language, history and legislation basics, as well as undergo a medical examination and buy health insurance. Local governments also increased their fee for work permits, e.g. in Moscow the fee went up from 1,200 rubles to 4,000 rubles per month.


10 Nangia (2016).

11 High-speed rail links are imminent in other countries. In 2015, a China-led consortium won a contract to build a 77 kilometre high-speed line from Moscow to Kazan which will cut transport time from 12 to 3.5 hours, and could be extended to Astana and Urumqi. The Islamic Republic of Iran has signed a contract with Italy for a high-speed rail line from Tehran to Isfahan. Kazakhstan plans to provide high-speed trains to Almaty and Urumqi for EXPO2017. As with many projects, it is unclear which high-speed lines will actually become operational, but the number of projects and absence of major geographical obstacles suggest that a high-speed network is likely to be built in the near future.

12 This is not a new idea. The 1990s EU-promoted Transport Corridor Europe-Caucasus-Asia (TRACE-CA) route from Caucasus/Central Asia (CCA) to Europe, crossing the Caspian Sea, saw $800 million of investments in ports and railways, but with only modest benefits, mainly due to border obstacles between Azerbaijan, Turkmenistan, and Kazakhstan.


14 The vision of a Beijing-London rail link via Istanbul was raised by completion of the first rail tunnel under the Bosphorus in 2013. In October 2015, Turkey’s Prime Minister announced a $3.5 billion project for a three level sub-sea tunnel under the Bosphorus which will connect Europe and Asia, with a second railway and two highways.


16 Difficulties arise due to the fact that Afghanistan uses the Automated System for Customs Data (ASYCUDA) management system, while Pakistan uses the proprietary web-based One Customs System.

17 A master plan for port development was drawn up in the 1970s but shelved after the 1979 revolution. In the 1990s India contributed to some construction work, and since the early 2000s India has been negotiating more substantial involvement, with the goal of accessing Afghanistan, and potentially other long-distance rail trade, without transiting through Pakistan. In a memorandum of understanding signed in April 2015, India committed to spending $1 billion on port development. Additionally, the Islamic Republic of Iran is also seeking China’s participation in the port’s development.

18 The Central Asia-South Asia power project (CASA-1000) was launched on 11 May 2015 in Dushanbe.

19 That range from auditing, insurance, payment systems, and tax policy, including electronic information exchange between tax authorities on certain types of income and assets.