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THE IMPERATIVES OF ECONOMIC COOPERATION IN THE CENTRAL ASIAN REGION

A view from Pakistan

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SYNOPSIS

Regional economic cooperation can make progress if it situates itself judiciously within a favourable global environment. Autarky is not a viable option in today's globalized world. But, there is room for a special relationship which goes beyond immediate business concerns. Such a relationship is not without consideration to mutual material benefit which must be protected. It is, however based on a longer term vision of enlightened self interest.

While every state in the Central Asian region should make its own decisions, choose its business partners and military allies, they must not commit the error of dividing themselves in a manner that they loose their bargaining edge with other business and strategic partners. Strengthened by a special relationship with a core group, they should seek a wide range of business and military allies in the interest of wholesome development of their people.

The sale of natural resources to the world markets must, in return, enable the region to acquire sustainable sources for balanced social and economic development. The relevant choice for seeking a model is not between Turkish or Iranian variants of social behaviour; instead the relevant choice to make is between economic policies geared towards selling off natural resources without local development (the Gulf experience) and to process your own resources while participating actively in the global market (Asian NICs).

The enlargement of ECO is a positive step towards developing a core area of special relationships. Its assets should be reinforced while its constraints should be contained and minimized. The asset are: alternative trade routes, new markets, regional independence and providing an international forum. Its constraints are: internal competition, armed conflicts on the junctions of ECO and Russias' suspicion (perhaps shared by the West) of near abroad's efforts to forge regional alliances.

Central Asia has been a subject of great fascination for many of us. There was almost a romantic touch to this fascination: The area inspired fond memories, transmitted through history and literature, yet it was inaccessible during the Soviet period. Today, the situation is different. The barriers to access are no longer present. For more than six years now there is a real life exposure to the lands and people of Central Asia. This real life exposure has brought us face to face with the problems and prospects, the pains and pleasures of Central Asian life. This paper is an attempt to look at some of the problems and prospects in Central Asia and to ponder on whether the pains and pleasures of change and development can be meaningfully shared by the neighbours in the region.

A close look at the proliferating literature being written on the economy and politics of the region suggests an emerging consensus among analysts, which can be summarized as follows:

1. The newly independent states of Central Asia are rich in valuable natural resources, which are in great demand in the world markets.
2. The natural resources of Central Asia remained untapped for a number of reasons. But, a principal reason was their inaccessibility to the market.
3. International capital is keen to enter Central Asian countries and extract natural resources, in particular oil and gas. But in order to provide them to the world markets, it must lay down communication infrastructure.
4. Because of the landlocked location of the newly independent Central Asian States, there are technical, political and strategic difficulties in laying down an infrastructure for transferring Central Asia's natural resources to the rest of the world. The passage to the high sea spans over many countries and regions, which seek to benefit from any new developments in the area. Thus, the economic prospects of extracting Central Asia's natural resources carry with them many attendant political and strategic issues.

5. There is a thick maze of political and strategic discussion around the extraction of Central Asia's natural resources; some of it only obfuscates the real issues, innocently or otherwise. One such discussion is about the model which Central Asian States must follow: Should it be the Turkish secular model, or an Iranian Islamic revolutionary model (perhaps Pakistan is also mentioned on occasions); should it look to the North or the South, to the East or the West?

A FLAWED APPROACH

This basic approach of looking at the economic issues of Central Asia seems rather flawed to this author, because it distorts our vision and distracts it from the core issue.

The core issues from the point of view of the Central Asian States are:

1. The area is rich in natural and human resources which provided it the base to support a remarkably prosperous civilization in the past.
2. The area lost control over its destiny for reasons which it has not fully come to grips with. In the interregnum it lagged behind other progressive civilizations in almost all spheres of life.
3. The current economic social and political conditions of the area are quite pathetic, to say the least. The economies are under developed, societies are divided and the skills for political management of internal and external relations are weak.
4. The revival of the area requires enormous resources, including financial capital social maturity, political skills, technical know how and above all a moral edge to live honourably in a global civilization.

It is important to stress the question of approach to the problem for it would provide a soul to the body, whose constituents may remain unidentifiable from one which is healthy to another which is not.

Let us now turn to the core components of the problem which, as stated earlier, have become quite apparent through discussions over the last few years:

1. Hydrocarbons are the immediate resource base for the development of the region. Other natural resources, particularly gold are also significant.
2. Agricultural policies of the past need to be reviewed. The area is rich in cotton and grains, but apparently the patterns of production and use of these commodities were inappropriate for a wholesome development. This situation needs to be rectified.
3. The social infrastructure for education, health and welfare was quite developed within an integrated framework of the former Soviet Union. It had its strengths and weaknesses. With the breakup of the Soviet Union, the entire infrastructure of education, health and welfare needs drastic transformation. Since these sectors impinge upon the life of every citizen, they must be treated with caution and a compassionate approach.
4. The sale of natural resources must, in return, enable the region to acquire sustainable sources for balanced social and economic development. Thus it is the responsibility of its leaders to move quickly and judiciously to deal with the world markets, not to hesitate and not to leap in the dark, but to move with grace and astuteness.
5. The newly independent states of Central Asia exist as several independent States. It is best to honour those boundaries. In their neighbourhood exist other countries with whom they share a past history and culture. Beyond them lie other nations and people everyone of which has a place and a role. None of them however can serve as a model. The Central Asian States must and will shape their own distinct model. However, it is important to learn from other nations and historical experiences.

There is at least one historical lesson that needs particular attention. Internal feuding within the Central Asian region, among people who shared common culture and history was a major cause for the decline of a fine civilization. Thus, while every state in the Central Asian region should make its own decisions, choose its business partners and military allies, they must not repeat the folly of dividing themselves in a manner that they lose their bargaining edge with other business and strategic partners.

The Central Asian region is not strong enough to seek autarky or autonomy from the rest of the world; even if they were strong, autarky is not an option which is viable in today's globalized world. But, there is room for a special relationship which goes beyond immediate business concerns. This is the relationship which countries in the region must build with each other. Such a relationship is not without consideration to mutual material benefit, which must be protected. But, it is based on a longer term vision of enlightened interest.

The countries of the Central Asian region are in the midst of making key strategic decisions in terms of laying down a new physical infrastructure of communications by way of roads, railways, oil and gas pipelines and telecommunications. They are also making key decisions to choose business and military allies. Besides they are moving forward to evolve and build new social and political practices. In making those key decisions they may consider two guiding principles. ***Principle number one:*** Move quickly and judiciously to utilize your resources to acquire, in exchange, a resource base for a balanced and sustainable development. Remember there is something to learn from the experience of the Gulf countries which were in similar, if not exactly the same, circumstances a few decades ago.

Principle number two: Respect each others sovereignty but forge among yourself a special relationship which rests on material interests and longer term vision of mutual benefit. Strengthened by a special relationship with a core group, seek a wide range of business and military allies in the interest of wholesome development of your people.

II

The major components of economic cooperation in Central Asia include

- Oil and Gas exploration and Pipelines
- Rail and Road Links
- Water
- Institutional Cooperation

We shall briefly address each of these issues

OIL AND GAS EXPLORATION AND PIPELINES

The Caspian Sea Basin is estimated by a recent American State Department report¹ to contain some 15.6 billion barrels of proven recoverable oil resource with additional possible reserves of 163 billion barrels for a possible total of 178 billion barrels. Industry estimates are told to be higher at around 200 billion barrels. Such figures, while not comparable with Saudi Arabia's holdings, are significantly greater than those of Iran or Iraq. These reserves are mostly found by the shores of Azerbaijan, Kazakstan and Turkmenistan. The off shore deposits of Iran and Russia are estimated to be negligible.

The greatest hindrance to development is apparently a dispute about the *legal status of the Caspian*. There is a dispute on whether to consider it a *sea or lake*. In case Caspian is designated as a lake, it would be held in common by the littoral states. Should it be a sea, then each state can claim boundaries by extension, which would divide the sea into national sectors. In this debate, Iran and Russia favour designating Caspian as a lake, while Kazakstan, Azerbaijan and Turkmenistan prefer its being declared a sea. At a recent conference of littoral states in Ashgabat, in November 1996, Russia attempted to achieve a compromise recognising the littoral state boundaries to an extension of 45 miles (75 km). Although Kazakstan proposed a boundary extension of 80 miles from shore and Turkmenistan asked for 60 miles from Shore, Russia's proposed extension was agreed upon by Turkmenistan, Kazakstan and Iran who signed an agreement Nov. 12, 1996.

Caspian Pipeline Consortium

A Caspian Pipeline Consortium (CPC) was formed in 1992. The resolution signed December 6, 1996 in Moscow by the governments of Kazakstan, Oman and Russia and executives from 10 oil countries confirmed Russia's pipeline proposal for a 900 mile (1500 km) oil export pipeline from Western Kazakstan to a new port north of *Novorossiik on Russia's* Black sea coast, as the sole new pipeline terminal west.

The Novorossiik port, however, has one major problem: Even if the new terminal opens up on schedule in 1999, it is not definite that enough tankers could reach the port to maintain the planned output. The Turks argue that the Bosphorous is too narrow to allow the entrance of super tankers at great speed. Thus Bosphorous may become a critical bottleneck if the Caspian holds more than 100 billion barrels of oil. In that case other pipelines will have to be built.

As the following maps (maps 1,2,3) show there are several alternative routes for oil and gas pipelines: more than one option exist for shipping to the West (Map 1), to the East (Map 2) or to the South through Afghanistan and Pakistan (Map 3).

The debate about Kazakstan and the Caspian Pipeline Consortium is repeated in its basic features for another pipeline consortium which focuses on Azerbaijan. the Azerbaijan International Operating Company (AIOC) contains most of the contours of the CPL debate. Three pipeline routes have emerged as candidates to export oil to world markets. These are shown in Map 1.

The relevant issues in every case are: the state of load at the terminal port, the terrain and political problems on the way, the strategic interests of Russia on the one hand and the remaining actors on the other. It is quite clear that a forum for regional cooperation can be helpful in discussing and sometimes resolving these competing interests in an amicable fashion.

All business deals are a bargained compromises. Moreover all competitive business deals involve a number of actors each one of whom has its own commercial and other interests. Naturally this is also true for Central Asia. A recent report (November 21, 1997) in the International Herald Tribune, graphically describes the negotiating environment:

“At Blair House, the presidential guest quarters (where Nazarbayev is staying during an official visit to USA), Mr. Nazarbayev was seated in front of a chart depicting *seven pipeline proposals* including one leading from Kazakstan’s oil fields along the eastern Caspian coast and through Iran to Gulf. Ashed about the Iranian option, he indicated he would be willing to drop it, but only if the US backed pipeline materialized by next October. _____ we will support the project that can be implemented in the quickest way”.

It is clear from the same despatch that the American govt’s policy in persuading Kazakstan to drop the Iranian route is being questioned in Washington. The desptach reads:

“Oil company officials in Washington for the Conference this week also *questioned the commercial desirability* of the US backed Eurasian corridor. The Baku-to-Ceyhan portion alone would be 1200 miles long and cost 2.9 billion \$ compared with less than \$ 1 billion for an oil pipeline from the Caspian to Iran’s Gulf ports.”

While Iran and Turkey tend to their interest and are divided, so are USA and France. The same despatch mentions at another place:

“The administration is considering what, if any, action to take against the French oil company Total, which announced last month that it would invest several billion dollars to develop southern Iranian gas fields”.

The differences between USA and France should not be seen out of proportion. They are a mix of commercial and political differences. These differences are not permanent and should only be seen on a case to case basis. Similarly the differences between Iran and Turkey on the oil issue should not be exaggerated beyond their appropriate context. These two countries can also have a special relationship within a regional economic organisation despite their competing interests, every now and then.

Furthermore, it should be stressed that the situation is still in flux in which a contract appears valid today and invalid tomorrow. Partners in a regional cooperative effort should not be misled to strain their relationship on the basis of undecided plans or flimsy reports.

RAIL AND ROAD LINKS IN THE REGION

The new rail links in the region are likely to have an immediate impact prior to the maturation of energy exploration plans.

The twin towns *of Serakhs, Turkmenistan* and *Serakhs, Iran* were linked in May 1996. This involved completing and modernizing a rail link between Tedjen, Turkmenistan and Meshad, Iran. It cuts travel time to Europe from Kazakstan by four days, but more importantly, this re-orientes the Central Asian rail system away from the virtual monopoly of Russian rail system.

There is also a plan to link northern Iran to the Iranian port of Chahbahar on the gulf of Oman. This project is expected to cost around 3 billion US \$.

Kazakstan's *rail link to China* started to operate in June 1992. This link has promoted barter trade on the border on a large scale, but apparently formal statistics can not capture the magnitude of trade. Some analysts predict that Kazakstan's rail link to China may become a gateway for oil pipelines in the future.

The rail network connecting Central Asian States to each other and to the rest of the former Soviet Union is falling under desrepair, and in certain areas, particularly in the caucusus is cut off because of political turmoil.²

Central Asian republics inherited a well developed road network from the Soviet period. This road network can be connected to *Iran* and through *Afghanistan* to *Pakistan* one day. In the meantime, however, there are reports that the existing road network is being ill maintained due to falling budgets and policy neglect.

Map 4 provides a broad picture of rail links and plans for the future.

WATER

There is a certain complementarity of resources among the Central Asian states. The two states Tajikistan and Kyrgyzstan, which are not endowed with great hydrocarbon resources, have water reservoirs instead. The *Tien-Shan* and *Pamirs* fuel the head waters for Central Asia's great rivers, the *Amu Darya* and *Syr Darya*.

The Amu Darya rises in Tajikistan, where it is known as the Pyanj, but it flows through Uzbekistan and Turkmenistan before reaching the Aral Sea. The Syr Darya rises in Kyrgyzstan, where it is fed by two smaller rivers, the Navyn and the Kara Darya. It then flows through eastern Uzbekistan, Tajikistan and Kazakhstan before draining into the Aral sea. The excessive drainage of water on the way to Aral sea has been a source of tremendous environmental hazard because of depleting supply to the Aral sea.

Water shortage, both current and anticipated, is a source of conflict. There are reports that on *July 24, 1997*, residents of Southern Kazakhstan oblast staged a demonstration to protest a decision by the Uzbek government to cut the amount of water flowing from Uzbekistan to Kazakhstan. The demonstrators said the Uzbek decision threatened the corn and cotton crops on some 100,000 hectares of land in the oblast.³

It is alleged that the Soviet authorities had deliberately created a situation of water distribution which would create bad blood between various republics. Competition on water, it is believed, forced the republics to look to Moscow to adjudicate disputes among them. The Soviets had established a complex set of dams and irrigation arrangements to control the size of the flow of the two river systems as well as institutions to allocate water among the various republics and local authorities.

In view of their independence, the Central Asian States should now develop their own mechanism to regulate water movements, considering its critical importance in an acutely water scarce environment. Such a regional arrangement would also be necessary to ensure the maintenance and upgrading of the water supply infrastructure. This is a problem which can only be solved by an enlightened combination of collective and local national interest.

INSTITUTIONAL ARRANGEMENTS FOR COOPERATION

Ever since their independence, the Central Asian States have experimented with a wide range of institutional arrangements to coordinate economic integration with the former soviet states as well as with other neighbouring states of the region. Recent studies have analyzed the outcomes and come to the conclusion that such arrangements are still in a formative and experimental state.

The *Custom Union* and the *single Economic Space* between Kazakstan, Uzbekistan and Kyrghyzstan have been analyzed in detail in a recent article by Natsuko Oka (Central Asia Monitor, No. 4, 1997) Oka concludes, on the basis of analysis by Kazakstani economists, that the single economic space is not functioning. In fact there is an implied suggestion in Oka's article that the single economic space was manipulated by Russia to its advantage, leading many Kazakstani specialists to argue that Kazakstan (and other Central Asian States) should aim to create free trade areas rather than taking part in a customs union with Russia.⁴

As for the institutional arrangement for cooperation with neighbouring countries in the region, the most inclusive organisation is the ECO. So far the ECO has set up a useful forum to discuss and coordinate adequate approaches for cross border issues. The ECO agenda can cover a whole range of problems including trade. It can take up thorny issues such as border black markets, drugs and arms trafficking, ecological damages, refugees and other related issues.

A recent article (Cordier, 1996) lists the following assets and constraints of ECO. Among the assets it lists: *alternative trade routes* (providing alternative to trade through North only); emergence of *new markets* (for trading each others goods), regional *independence* (from the preponderant influence of larger powers) and availability of an *international forum* (to discuss cross border issues). Among the constraints, it lists: *internal competition* (between Ankara and Tehran in particular), *Armed conflicts on the junctions* of ECO (Nagorno - Karabagh, Kurdistan, Afghanistan), *Russias' suspicion of 'near abroad's* efforts to forge regional alliances.

Keeping in view these assets and constraints, the states of the Central Asian region should focus on policy measures which might lead to reinforcing assets and diminishing the constraints.

REGIONALISM WITHIN A GLOBAL ORDER

In an age of increasing globalization, regionalism can only be successful if it situates itself within a favourable global environment. Thus regional cooperation among the Central Asian states can proceed through an astute relationship with global powers. The Central Asian states need to establish friendly relations with Russia, Europe, China and the United States in order to preserve their independence. The Central Asian States can neither ignore nor lean too heavily on any of them. In order to seek the best bargain for their natural resources and to initiate their own balanced development, the Central Asian States need to engage with multinational business originating from every relevant quarter. In order to seek access to world markets, they must build outlets through multiple routes. And finally to rejuvenate their culture, they must open up to a variety of Muslim tendencies. All this requires arduous brinkmanship. But the Central Asians must know it well. How else could they manage 'to be themselves' despite long years of tyranny and oppression!

As for the final question: *Who should be a model?* It may be appropriate to state that the relevant question is not to choose between Turkish or Iranian variants of social behaviour. Instead the relevant choice is between economic policies geared towards selling off natural resources without local development (as was the case in the Gulf) or to process your own resources and participate in the global economy as has been the case of Southeast and East Asian countries. Despite their current problems, the resource rich Central Asian States may learn more from those OPEC countries which began by exporting oil, but soon developed their own industries to a level where their oil was being consumed by themselves, rather than those which continued to be raw material exporters. *The relevant choice is not between Turkey and Iran, but between the Gulf and NICs of Asia.*

ENDNOTES

1. Wall Street Journal, April 30, 1997
(Quoted in Peter Sinnot, Central Asias Geographic Moment, *Central Asia Monitor*, No. 4, 1997).
This shaper extensively draws upon the above article by Peter Sinnot. For an extensive discussion of the politics of oil and gas exploration and its transportation see Azmat Hayat Khan, Strategy of Energy and Communication in *Central Asia*, *Central Asia Journal No.40, Summer 1997*.
2. See Azmat Hayat Khan, *Ibid* (p-17-19)
3. Panel Globle and Bruce Pannier, *Central Asia Monitor, No.5, 1997*.
4. On the subject of institutional arrangements for integration, see Herbibert Dieter, Regional Integration in Central Asia: Current economic position and prospects, *Central Asian Survey* (1996) 15 (3/4); Bruno De Cordier, The Economic Cooperation Organization: towards a new silk road on the ruins of the cold war, *Central Asian Survey* (1996) 15 (1); Michael Kaser, Economic Transition in six Central Asian economics, *Central Asian Survey* (1997)16(1).