Introduction

S. Frederick Starr

It has been centuries since the last discovery of a new continent. Yet something like this is happening today. Long before the voyages of exploration that began in the fifteenth century it was customary to speak of Europe and Asia as separate places divided from each other by a huge and forbidding territory. The camel caravans that traversed this middle zone were too few and too infrequent to provide a permanent economic link between them, let alone to enable Asians or Europeans to recognize their regions as complementary parts of a single land mass or continent. Even when seafarers discovered faster sea routes, geographers continued to speak of Europe and Asia as if they were separate continents.

This is now changing. Thanks to the collapse of the USSR, whose closed border stood like a wall across the heart of Eurasia, to China's decision to open trade across its western border, and to the gradual return of Afghanistan to the community of nations, continental trade spanning the entire Eurasian land mass is again becoming possible. Western Europe, China, the Middle East, and the Indian sub-continent can, in time, connect with one another and with the lands between by means of direct roads, railroads, and technologies for transporting gas, oil, and hydroelectric power. These "new Silk Roads" have enormous potential for the entire Eurasian continent, and especially for the countries of "Greater Central Asia" which they must traverse.

This book reviews the state of the links of transport and trade that are bringing about this fundamental change on the world's largest continent. It explores the potential of such interchange for fifteen of the countries most directly affected by it. It identifies some of the many impediments to the full realization of this epochal project. And it suggests a few steps that might be taken to ameliorate or remove these impediments.

The studies upon which these conclusions are based were prepared by a group of eminent scholars from sixteen countries who gathered in Kabul, Afghanistan, in April, 2006. A report on this conference has been published as “First Kabul Conference on Partnership, Trade and Development in Greater Central Asia." and is available on line at cacianalyst.org. The conference and this resulting book were a joint undertaking of the Kazakhstan Institute of Strategic Studies and the Central Asia-Caucasus Institute of Johns Hopkins University’s School of Advanced International Studies. Both of the keynote speakers, Hon. Kassymzhomart Tokaev, Foreign Minister of Kazakhstan, and Hon. Richard A. Boucher, U.S. Assistant Secretary of State for South and Central Asia, welcomed the emergence of this new continental transport and trade as a development that can, if prudently managed, benefit the economic life and security of all countries involved. Both saw it as a potential “win-win” situation that is directed against no one. Equally important, they viewed the emergence of transport and trade-oriented countries in “Greater Central Asia” as a natural and inevitable process driven by the forces of the modern global economy and not by mere geopolitics.

In light of the many and complex factors impeding the emergence of these new continent-wide transport routes, this last claim may at first seem exaggerated. Yet as the authors of the paper on Kyrgyzstan argue, the only global change that might short-circuit this process is the shrinking of the globe’s northern ice-cap. This could open a year-round northern seaway between Europe and East Asia that would reduce the sea route from Europe to Japan and China by half and cut the cost of transport by 1.6 times. Whether this becomes a reality will probably be known within a decade. Meanwhile, the single most likely means of improving the efficiency and reducing the cost of continental transport of goods and energy across Eurasia involves land routes through Central Asia.

Continental and Regional Trade: Central Asia's Potential Money Machine

To date, there is no commonly accepted methodology for estimating the scale and value of trade that will develop with the opening of the main road and railroad routes across the heart of Central Asia (including Afghanistan). However, the papers in this volume offer many intriguing if partial indications. For example, experts in Azerbaijan confidently predict that the volume of inland transportation, especially the container trade, will double in size between 2002 and 2015. Almost all of the growth will come from containers that might otherwise be transported by sea via the Suez Canal. Turning to the eastern end of the Europe-China trade, the authors of the chapter on China focus on the overland route running from Lianyungang on China's East-Coast via Xinjiang and Central Asia to Rotterdam. They argue that this route will cut the transport time from China to Europe from 20-40 days along current sea-borne routes to a mere eleven days. Even the continental route via Russia is 1300km longer than this new Central Asian variant. If the so-called "second Euro-Asia land bridge were opened through Central Asia it could reduce the transit costs from $167/ton by sea to $111 by land". While the authors do not estimate the volume of goods likely to be transported over this quicker route, it is bound to be very large, especially for high-value items. Taleh Ziyadov, in his chapter on Azerbaijan, predicts a growth of 2 million tons through his country in the first two years, with an addition 6-8 million tons in the following three years.

If Central Asia were to carry out basic improvements in transport systems heading south to Afghanistan, the Asian Development Bank (ADB) predicts that overall trade would increase by up to $12 billion, a growth of 80%.

Continuing on to India, we see that even during the last three years that country's trade with Afghanistan and the rest of Central Asia has grown on average by about 49% annually. Its total foreign trade as well as trade with Europe, CIS plus Iran, Afghanistan and Pakistan has grown at about 26 % annually, a figure that is sure to increase in the coming years. In his chapter, Gulshan Sachdeva uses the lower figure of 26% to predict a total Indian trade with Europe, Russia, Central Asia, Iran, and Pakistan by 2014-15 of $500 billion annually. If only 10% of this trade is carried overland via the emerging Greater Central Asian corridors the value would be $50 billion.

A separate estimate by the Asian Development Bank found that new roads expected to be completed by 2010 should boost total regional trade among the countries adjoining Afghanistan by 160% and transit trade through that country by 113%. ADB concludes that even during the coming half decade these changes will boost exports from Afghanistan and its neighbors by 14% or $5.8 billion and imports by 16% or $6.7 billion. For Afghanistan alone total incremental exports are projected to increase by 202% and imports by 54% for the five year horizon. Masood Aziz, viewing these developments, believes that Afghanistan and neighboring countries in Greater Central Asia will quickly be able to boost their two-way trade with China, India, Russia, Turkey/Europe by as much as 50%.

The impact of expanded trade across the emerging transit corridors will affect each country differently. Thus, the new roads will enable China, Europe, India, and Russia to exchange high value goods more efficiently than is possible with ship or even rail transit, which place a premium on bulk shipment. Europe will finally achieve the benefits it projected when it launched its TRACECA east-west transport program (Transport Corridor Europe-Caucasus-Asia). Russia's economically backward Urals region and West Siberia will gain access to efficient trade corridors to India, Southeast Asia, and the Middle East. Turkey and Azerbaijan will become key transit countries on east-west routes crossing both Central Asia and Iran, and at the same time will be drawn closer to European trading partners. This will enable Turkey to increase its trade with Central Asia from the present low figure of only 1% of its total trade. Azerbaijan will also become the key link in a new north-south route linking Iran and Russia.

Kazakhstan and Uzbekistan both stand to benefit from the expansion of north-south routes linking northern Europe and Russia with the Persian Gulf and Arabian Sea, even as they compete to see which will become the pre-eminent transit country for east-west trade over the emerging road and railroad systems.

Producers of gas and oil in the Caspian region are already discovering the benefits to both their economies and security that arise from multiple pipelines. New long-distance electric lines will soon enable Tajikistan and the Kyrgyz Republic, potentially among the largest world's producers of hydroelectric energy, to gain access to eager markets in Pakistan. In a development with close parallels to the efficient marketing of hydrocarbons and electricity, Uzbekistan, Turkmenistan, and Tajikistan will be able to export their most valuable crop, cotton, directly to nearby markets in South Asia, rather than exclusively through Russia and the Baltic, 7,000 km. away. This will break the export monopoly that Russia has successfully imposed on them for a century and establish instead a market regimen. Turkmenistan, too, will gain access to multiple buyers of its gas and oil, as well as cotton.

Afghanistan, like all countries in the region, will benefit from the payment of transit fees and duties. Its neighbour Iran will be able to reclaim its traditional vocation as a moderate trading state looking eastward as opposed to its present role as a militant Shii'a state fighting for influence in the Arab lands to its West. And the reopening of ancient east-west trade corridors across Pakistan and the expansion of new ones coming south from China will break the isolation that has been Pakistan's fate since its founding and return the Indus valley to its ancient status as an entrepot for trade in all directions.

Besides these and other gains that will be specific to each country, some general benefits should be noted. It is all but certain that the emergence of continental overland trade in Eurasia will benefit the GDP of all countries involved. A report by the United Nations estimates that GDP will be 50% higher across all Central Asia within a decade if the countries cooperate with one another in fostering trade. The ADB expects export and continental trade along corridors now under construction to boost Afghanistan's annual rate of GDP growth from 8.8% to 12.7%, which translates into the creation of 771,000 full-time jobs. The authors of the China paper presented in this volume believe that such trade will increase GDP in the politically sensitive Turkic province of Xinjiang by as much as 2-3%, and will also boost income in the relatively backward western provinces along the route from China's east coast to Xinjiang .

No less important is the new governmental revenue that will accrue everywhere from the duties and transit fees levied on road, rail, pipeline, and electric line use. This is no trivial matter in countries like Afghanistan, Tajikistan, Uzbekistan and the Kyrgyz Republic, where the chronic underfunding of governments cripples the delivery of such basic services as medicine and education, undermines security, and invites underpaid local officials to engage in corruption, including drug trafficking. It should be remembered that in Afghanistan at present the U.S. government is paying the wages of nearly all local civil servants. This will not change until the government in Kabul has a reliable income stream, and the best prospect for creating one are the duties and tariffs on trade. The situation in Afghanistan is admittedly extreme, but it differs from the Kyrgyz Republic, Tajikistan, and even Uzbekistan more in degree than in kind. It is no exaggeration to say that transport and trade are matters of life and death to many of the countries of the wider Central Asian region.

Overall, the opening (or reopening) of the great continental trade routes linking China, India, Europe, Russia, and the Middle East will have a stunning impact on all countries of Greater Central Asia that these routes traverse. Without exception, these countries are landlocked, even "double-landlocked." As Masood Aziz notes in his chapter, shipping costs for landlocked countries are more than half again greater than for coastal countries, which reduces trade by 80% and forces down wages accordingly. The opening of efficient new transit corridors does not remove this "distance tariff" but it ameliorates it, and goes far towards freeing affected countries from its onerous effects.

Is it any wonder, then, that the Asia Development Bank, World Bank, European Bank for Reconstruction and Development, Economic Cooperation Organization, Shanghai Cooperation Organization, and Organization for Security and Cooperation in Europe all support programs to rebuild transit routes and corridors of trade linking the Asian and European fringes of Eurasia? Is it any wonder that the United States' State Department has reorganized its European and Asian bureaus to facilitate such redevelopment, and has even appointed a Special Ambassador for Trade in Greater Central Asia? These and many other states, notably China and Japan, have embraced the expansion of free trade across the emerging Eurasian continent as an effective engine for development, an efficient means of creating jobs, and a reliable method of generating governmental income on a continent-wide basis. Moreover, all these entities understand that open transport and free trade are not against anyone, and stand to benefit all, notwithstanding any short-term dislocations they may cause as protectionism, rent-seeking, and other barriers to trade are being cut back.

If Continental Trade is So Good an Idea, Why Does it Not Exist?

With so many powerful institutions championing continental trade, and with so many of the key states committed to its development, why does Eurasia-wide continental trade not already exist? Or, on a more modest level, when such evident economic benefits are to be reaped even from intra-regional trade, why has it been so slow to develop in Central Asia and the broader zone of which it is a part? What forces are holding back the development of land-based trade in Eurasia?

Since successful modern trade involves so many separate elements, any one of which can, by its absence, retard the broader process, one must be wary of simple explanations. Legal, economic, tax, organizational, banking, managerial, technological, human resource, security, communications, and personal issues all play a part. Given this welter of separate elements, each of which must be coordinated with the others, it may be more pertinent to ask how Eurasian trade has managed to develop as quickly as it has, rather than why it is not evolving at a yet faster clip.

Assuming that the pace could nonetheless be swifter, why have so many powerful nations and international institutions been unable to move the process forward faster? One important reason traces back to the question of complexity. A smoothly-running regimen for international trade requires the coordination of many discrete elements, and no one institution is in control of more than a couple of the many variables. An international financial institution can draft new tariff policies or design a computerized information system for tax collection, but it cannot command their acceptance by the governments of sovereign states. A national president may command the resources to rebuild a road or set up an efficient border post but this does not mean that the president of the neighboring country will do so as well.

Given this situation, it is understandable that while the promotion of regional and continental trade is a high priority for everyone, it is the *top* priority for none. With the sole exception of the Asia Development Bank, which has consistently championed the expansion of trade and even been willing to stake its reputation on progress in this area, no country or international institution has "gone to the mat" over Eurasian trade.

But perhaps the measured pace at which transport and trade are developing is a result of the great costs involved? It is true, of course, that the Tajik government is unlikely to have covered the cost of building the bridge across the Panzh River at the Tajik-Afghan border that was eventually funded by the United States, or the Chinese-built tunnel further north on that same road. Nor could the government of Azerbaijan have paid for the Baku-Ceyhan pipeline which, like many railroad projects since the 1840s, required international financing.

Yet one must question whether cost considerations are the main brake on transport development. Thus, the cost of rebuilding the "Ring Road" linking the Afghan cities of Kabul, Kandahar, and Herat, as well as the main arteries connecting this road with major international routes, is estimated at $5.6 billion. Yet this sum is less than 5% of the combined projected national investments in Afghanistan of the main participating countries. Similarly, different track sizes between China and Kazakhstan require that all cargoes be off-loaded at the border, causing delays of three days on most shipments. China has introduced a faster process but Kazakhstan has yet to do so, even though the costs are no insurmountable. And compared with security budgets, for example, the total cost of all major transport infrastructure projects in Greater Central Asia is modest indeed, and easily within the power of regional governments to assemble, were they to work together and with international donors.

Unfortunately, this discussion may overestimate the degree to which key national and international political figures really understand the potential gains to be reaped from the expansion of transport and trade. In the former Soviet states, three-quarters of a century of national autarky have left older leaders unable fully to grasp the benefits their countries might deride from freer trade. It is one thing for them to affirm free trade as an abstraction and quite another to risk alienating powerful domestic interests to advance it. The fact that Soviet citizens were long accustomed to view Afghanistan and Pakistan as primitive and unstable backwaters makes it all the harder for them to embrace the possibility that their own future prosperity might depend on them.

The hold of old habits is equally strong in most other countries. Afghan leaders have had little contact until recently with countries to their north, while Pakistan's government embraced transport and trade in the early 1990s and then backed away from them. Nor are Europeans and Indians much better at conceiving something that flies in the face of commonly accepted belief that the age of land-bound Marco Polos is past and that water transport is always cheaper.

To sum up, a major force stifling policies that might foster continent-wide transport and trade is a poverty of strategic imagination in many quarters.

Lacking the capacity to frame and embrace the bigger picture, many leaders and policy-makers are glad to content themselves with a plethora of *ad hoc* measures that are not without value but which lack any clear relationship to a broader strategy.

Those governments with anything approaching a strategy in this regard, notably China but also, to a lesser extent, Russia, tend to have highly centralized and governmentalized systems of rule that do not need to respond to the immediate concerns of their electorates. In the case of Russia, which has taken a strategic approach to transport and trade, it persists in seeing the issue in terms of nineteenth-century mercantilism and the "zero sum" thinking to which it naturally gives rise. By contrast, India, the EU, Japan, and the US, all suffer from the common problem of democratic states, namely, a preoccupation with tactical and short-term concerns at the expense of the strategic and long-term.

By no means all the factors inhibiting the expansion of transport and trade across the Eurasian continent are so conceptual and abstract in nature. A far greater number arise from the realities of daily life and the interplay of real-life interests within the many countries involved. A review of several of the more obvious practical impediments to the development of trade and commerce confirms this point, and gives relevance and poignancy to the adage, coined by U.S. Congressman "Tip" O'Neill, that "All politics are local."

A simple example of this is the unwillingness of most regional states to reckon with the vast networks of illegal and untaxed shuttle traders whose activities undermine legitimate cross-border commerce and rob the state of revenue. Thus, the Kazakh Customs Committee estimates that shuttle trade between China and Kazakhstan at US$2-3.5 billion per annum, making it comparable to the official bilateral trade. Unfortunately, such traders supply a regular flow of bribes and favors to local officials and customs officers, i.e., to the very officials on whom the state relies to thwart shuttle trading.

The most egregious example of how illegal cross-border trading can protect itself from reform is the drug trade from Afghanistan. Demand driven and feeding supply chains that stretch to the main European capitals, this commerce accounts for more than 95% of all Afghan exports. Through generous bribes to officials in every transit countries, the main trafficking organizations (which are based in Russia, Turkey, and the Balkans) are able to protect themselves against would-be reformers and also to maintain in office officials at all levels who are ready to protect them.

The mountains of paperwork required at all regional border crossings do much to promote illegal trade. Surveys of truck drivers indicate that the slow processing of vehicles at border crossings are a far more significant brake on legal transit than poor security or bad roads. Tajik government surveys indicate that a trucker passing between Uzbekistan and Tajikistan must produce seventy documents, while 31 signatures are required on the Kyrgyz border. Evidence presented in the Afghanistan chapter indicates hat the situation is no better elsewhere, with 57 signatures required for imports to Afghanistan, 45 for Iran, and 27 for Kyrgyzstan.

In some instances these procedures are defended as a means of protecting the transited country from corruption. Thus, several regional states require that truckers shipping alcoholic beverages through their territory deposit in the state bank the full value of the shipment, to be repaid only when the cargo passes into a third country. The effect of such laws is to drive liquor transit into the illegal shuttle sector, which denies duties to the state and decreases trade overall.

Further slowing the transit of goods and adding to the cost is the near-universal practice of local police setting up unofficial checkpoints at which they extort payments from international truckers. A secret Tajik survey found that a truck passing between Jambul and Karaganda in Kazakhstan had to make payments at nine such stops, increasing the cost of trade by 2-3%. An additional illegal fee was charged for the unofficial police "escorts" who accompanied the foreign truck across their territory. Kazakhstan, it must be said, is by no means the worst offender in this regard. Again, since this system of peculation is deeply entrenched among underpaid and under-professionalized civil servants, any effort to rout it out faces formidable obstacles.

A more fundamental retardant of cross-border trade of all sorts across Central Asia is the urge to protectionism. No country is immune from this seductive policy. Kyrgyzstan's decision to join the World Trade Organization (WTO) in 1998 was supposed to have proclaimed the benefits of free trade to all its regional neighbors. Instead, the resulting flood of Chinese goods on the Bishkek market convinced Uzbekistan and others that, without protection, domestic manufactures would quickly die under the pressure of cheaper foreign products.

Trade imbalances are a problem that can impede regional and continental trade. Pakistan's sales to Afghanistan far surpass Afghanistan's to Pakistan, while Tajik sales to Kazakhstan are a pittance compared with the value of the reverse traffic. And across Central Asia the trade imbalance with China is extremely lopsided, reaching 3:1 in Kyrgyzstan and 9:1 ratio in Tajikistan. If unofficial trade is added, the figures would be yet more lopsided. It is difficult to make the case that in the long run this problem is most effectively addressed through more international trade in all directions, rather than less. Politicians sensitive to the short-term impact of their actions on local publics cannot afford the luxury of a long-term view.

Closely related to the problem of trade imbalances are the unpredictable and often destabilizing fluctuations to which international trade is subject. Tajikistan and the Kyrgyz Republic, for example, both opened their doors to cross-border trade in the expectation that it would be a steadily rising tide. Instead, it has ebbed and flowed in ways that local planners find extremely upsetting. For example, the Russian economic crisis of 1997 wreaked havoc on Central Asian economies, and led to many damaging secondary effects, including a 50% drop in imports of building materials and other critical products from Turkey.

These and other unwelcome consequences of cross-border trade have encouraged protectionist sentiment across the region. When the Soviet-era Dushanbe Cement plant finally went back into operation, Tajiks welcomed it as a chance to cut off cement imports from Uzbekistan and curtail the "mafias" associated with them. Felt even in the Kyrgyz Republic, a WTO member, protectionism has found its most sympathetic home in Turkmenistan and especially in Uzbekistan. Beginning in the mid-1990s Uzbekistan has pursued a policy of grain self-sufficiency, and in recent years has extended this protection to many consumer products. This has curtailed bilateral trade with China and, if continued, will equally discourage interchange with Europe, India, and Russia.

More serious, Uzbekistan's protectionist impulse has combined with the government's concerns over security threats arising from the territories of its neighbors to justify a strict border regimen that effectively thwarts trade throughout the region.

The inevitable response to such actions is for self-identified "global thinkers" to call for more reform in the countries of Greater Central Asia. While this may indeed be the most productive path, doubters in the region can point to much that feeds their skepticism. Bluntly, many "reforms" have brought unwelcome consequences.

The negative consequences of Kyrgyzstan's WTO entry have been noted. In the same spirit, many reformers call for Central Asian countries to join the Transports International Routiers (TIR) convention that governs continental road transport. China is currently working to do so and its neighbors to the West are under pressure to follow suit. Similar pressures come from Europe, and in due course will come from India, Turkey, and Iran---all with good reason. Cargos transported under TIR are exempt from customs inspection, which is essential if goods are ever to be transported smoothly between the great economies of western and eastern Eurasia. In fact, it is probably only the pressure of TIR that will cut back the present border delays that can ground a truck for up to a month.

Yet TIR costs money. Its strict emissions requirements will force the retirement of the entire Soviet and Russian-built truck fleet that is the backbone of Central Asian and even Afghan road transport. Vehicles meeting TIR standards are far more expensive---up to $100,000 each, a figure that is far beyond the capacities of most Central Asian shippers. Until they gain access to credit for new trucks, this means that the very trucking firms which should benefit from their central position on the Eurasian continent may be sidelined as Chinese, European, and eventually Indian and Turkish truckers dominate the field.

Thanks to the bitter experience of the past, even proposals to establish customs unions and free trade zones are viewed in Central Asia with suspicion. The Economic Cooperation Organization (ECO) and Commonwealth of Independent States (CIS) both long championed free trade zones, but failed to overcome the skepticism of some of their members. More recently, Russia has promoted the Eurasian Economic Community (EAEC or EURASEC) as a customs union that would combine Russia, Belarus, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan in a free trade zone. Kyrgyz experts, however, calculate that EURASEC will likely have a sharply adverse impact on their country and Tajikistan. The Asian Development Bank reached similar conclusions even for Kazakhstan which, it argues, would suffer a $10 billion loss and slow-down in GDP growth if this project were to be implemented as planned.

Beyond these many practical issues inhibiting continental and regional trade in Central Asia are various political disputes that find expression at the region's border stations. For example, political tensions between Tajikistan and Uzbekistan have led to extremely slow border crossings between those countries. Many Kazakh, Russian and Uzbek shippers therefore choose to avoid these by proceeding instead through the Kyrgyz city of Osh and thence to Irkeshtam. Crossings along the Uzbek-Turkmen border are similarly slow. Chinese concerns over Islamic and secessionist activists have caused the processing of trucks at the border between Xinjiang and Pakistan atop the Karakuram Highway to slow nearly to a halt for long periods.

In spite of these persisting problems, political problems today are far less serious an impediment to continental and regional trade than a decade ago.

Not only has China opened up its western border in way that encourages neighboring countries to do likewise, but Afghanistan, which had been an impassible barrier to both east-west and north-south transit headed towards Pakistan and the Indian sub-continent, has emerged with a normal government committed to expanding trade in every direction. This development has done more than anything since 1991 to raise hopes about the renewal of continental transport.

The great exception to this positive trend is the on-going conflict between India and Pakistan over Kashmir. It is above all for this reason that total two-way trade between India and Central Asia is a mere $200 million, a pittance compared with Turkey’s figure of $2 billion, which itself reflects undertrading, or that Turkish imports from India are a mere $1.2 billion. To appreciate the importance of this impediment, it is necessary to recall the region’s history.

For 2,500 years trade between West and East meant trade between the Mediterranean world (including Europe) and both China and India. In many ways the Indian courts were more open to such interchange than their counterparts in China. The so-called “Silk Roads” headed equally to India and China. Even Marco Polo began his trip as if he was intending to go to India and only at some point three quarters of the way across Afghanistan did he take the left turn up the Vakhan Corridor towards China rather than continuing straight to the Indus valley.

Indians, unlike Chinese, participated actively in continental trade. Whereas Chinese left transport along the “Silk Roads” mainly to Central Asians and Persians, Indians themselves established mercantile centers in all the major cities of Greater Central Asia. Called “Hindus” but in actuality including both Hindus and Muslims, the Indian trading houses were among the best-organized commercial presences throughout Central Asia, Iran, and even in the Caucasus.

In light of this, it is all the more astonishing that the reopening of Afghanistan did not unleash a flood of overland transit and trade extending clear across the Indian sub-continent to Southeast Asia and, in the West, to the Middle East, Europe, and Russia. But it did not, and the main reason has not been the many impediments discussed above, but the conflict over

Kashmir. Because of this, what should be one of the main trade corridors on earth does not function at all. The economic cost of this stand-off to both India and Pakistan is far greater than either country has acknowledged, for their calculations fail to include estimates of lost opportunities.

Gulshan Sachdeva, in his insightful paper on India, enumerates a number of positive developments that have occurred recently. Looking hopefully to the future, India has even set up bilateral trade commissions with all the countries of Central Asia. But when a series of terrorist bombs exploded in Bombay in 2006 were traced to activists from Kashmir, it understandably hardened India's resolve to address this issue before opening its western door to trade through Pakistan.

One thing is certain: when these trade portals are finally opened, both countries will begin a new era of land-based trade with the West and with China. While the scale of this activity may pale in comparison with the Indian economy as a whole, it will have a transforming effect on Pakistan, returning the Indus valley to the status of continental entrepot it enjoyed from the Mohanjo-Daro age four millennia ago. And the impact on all other countries on Eurasia will be equally great.

"Undertrading" and Opportunity Cost

Economics being a practical field, it does not tend to dwell on what does not exist. Nonetheless, it acknowledges that in the modern world, certain levels of trade between neighboring countries can be considered "normal," the actual level being based on a series of economic performance indicators on the two countries in question. Those paired countries that fall under this norm can be said to be "undertrading." By any such measure, undertrading is the universal pathology of the economies of Greater Central Asia. Due to such undertrading, the ranking of trading partners among most countries of the region is the same today as fifteen years ago, just after the Soviet collapse. The papers in this volume are a record of this undertrading, and a kind of Linnean inventory of the forms that undertrading can take.

Economics also recognizes that every opportunity foregone is a cost incurred. This foregone benefit is called the "opportunity cost," and for many situations this cost can be estimated. We do not know the total volume of undertrading across the many countries of Greater Central Asia. Hence we cannot calculate the opportunity cost that is foregone each year that the Eurasian states and their partners further afield fail to develop continental trade. However, it is clear that the opportunity cost is huge, an enormous figure for any country but a staggering sum for the emerging economies of Central Asia. More to the point, the sums involved are grossly incommensurate with the modest scale of the many practical problems that to date have impeded the development of this trade. One might reasonably argue that, with the exception of the Kashmir issue, all the various impediments would long since have been swept away if the bureaucrats responsible for them had ever paused to reckon the opportunity cost of inaction.

What is Being Done?

What, if anything, is being done to narrow the yawning gap between reality and potential in continental trade across Eurasia? Had this issue been raised a mere decade ago the answer would have been "close to nothing." The Central Asian states had by 1996 launched and abandoned two different attempts to bring about a customs union. The Economic Cooperation Organization had set forth ringing goals but done nothing to achieve them, and the European Union had launched its TRACECA program with far more fanfare than action. Today the situation has changed dramatically for the better, as is evident from a quick review of the major emerging corridors of trade.

East-West Transit

East-West transit is on the eve of a boom. The opening of the Baku-Ceyhan pipeline and pressures by Russia's Gazprom on western consumers have revived prospects of gas and oil being shipped across the Caspian by pipeline. EU countries are finally acknowledging their strategic interest in the Caspian region and two EU presidencies, Finland and Slovenia, have proposed to translate that recognition into action. Kazakhstan has already committed to the trans-Caspian project, and Turkey is pushing its related Nakubo project to transfer energy onward to Austria and the heart of Europe.

Parallel with this, China and Kazakhstan are working on a major pipeline to transmit Kazakh gas to the heart of China, and both Uzbekistan and

Turkmenistan are also planning to send gas eastward to Xinjiang. The Kyrgyz Republic has found in neighboring China a new customer for electricity from its Toktogul hydroelectric plant. This activity has in turn revived plans for completing an East-West railroad from China to Europe via Central Asia and the Caucasus. This 7077 km. undertaking calls for an as yet unbuilt railroad across the breadth of Kazakhstan (or, as Tashkent would prefer, Uzbekistan), as well as a reconstructed rail line from Baku to Batumi or Poti on the Black Sea. A related project would link the above railroad at Tbilisi with the Turkish railhead at Kars, opening the possibility of direct rail shipment from China to Istanbul and beyond.

Ill-founded Armenian resistence to this phase of the project is holding up the link to Kars but is unlikely to prevail for long against an undertaking grounded in such powerful commercial logic. Meanwhile, old hopes for the construction of a Europe-Asian highway through Central Asia are being pushed from both ends of the Eurasian continent. While progress has been slow, the unacknowledged but real competition between Uzbekistan and Kazakhstan to serve as the Central Asian link of this project attests to the growing expectation that it will be realized.

Absent so far is any comprehensive plan for more southerly east-west railroads and highways from the Middle East to India. Political problems plague such a project at both ends (the Iran-Iraq border and Kashmir) and in the middle (blockades against Iran). The only concrete proposal utilizing this southern route was for a gas pipeline from Iran to India via Pakistan. Announced with much publicity in 2006, this project has been judged unfundable and appears to be stillborn.

North-South Transit

For many years, both of the two main projects for north-south transport across the belt of the Eurasian continent deliberately avoided Afghanistan. Historically, the first of these was China's plan to build a highway connecting its western province of Xinjiang and the Arabian Sea via Pakistan's Indus valley and Islamabad. The Karakuram Highway was built over twenty years beginning after the Soviet-Chinese conflict of the 1960s. After years of neglect, the deeply rutted roadway of the Pakistani section of the highway is being reconstructed and extended southward. Its terminus is the new Pakistani port at Gwadar, which is being built with Chinese support.

The second of these is Russia's scheme to build a a road and railroad connection between Russia and the Persian Gulf, crosses Kazakhstan, Turkmenistan, and Iran, culminating at the port of Chahbahar. India has joined as a sponsor, and many other countries have associated themselves with the project, officially called the International North-South Transport Corridor. Related north-south routes are the railroad being built by Azerbaijan, Iran, and Russia across Azerbaijan and Russia's large investment in its Volga/Caspian port of Astrakhan.

These two projects are both complementary and competitive with one another. The opening of Afghanistan has increased the competitive element, for both Chahbahar and Gwadar aspire to become the main southern port for Central Asia as a whole and for routes crossing Afghanistan. There is surely a place for both, however, since geography favors Chahbahar for shipments to the Gulf states and Africa, and Gwadar as the main port leading to India and southeast Asia. The fact that India has invested in Chahbahar even though the shortest route to Central Asia and the West would be through Gwadar or Karachi testifies further to the opportunity cost of the conflict over Kashmir.

Since these projects were inaugurated, Afghanistan has opened up to transit trade, leading to a rush of interest in more traditional routes through Uzbekistan, Tajikistan, and Turkmenistan. Usually grouped under the heading "north-south routes," these are also continuations of transport corridors beginning in both Europe and China. The principal routes today, as in the past, cross the Panzh River either through Termez in Uzbekistan, where the Soviet era bridge remains, or at the Tajik-Afghan border, where the United States has costructed a new bridge. New tunnels speed transport northward on the route acrosss Tajikistan, while an alternative highway is now open to the northeast to China via Khorog and the Kulma Pass. Since the processing of shipments on the Uzbek-Tajik border is slowed by political blockage, much of the traffic north to Kazakhstan and Russia has shifted eastward through Khorog and Osh to Bishkek, or westward through Uzbekistan.

Further routes from Afghanistan run directly west from Herat to Mashad in Iran via a highway newly reconstructed by Iran, or northwest to Turkmenistan. India has financed the construction of a southwestern road connecting the Afghan Ring Road with the new port at Chahbahar, but the analogous southeastern link between the Ring Road and the new port at Gwadar in Pakistan is being held up by political disputes between Pakistan and Afghanistan. The continuing failure of Pakistan to reach accord on this project will effectively cancel out the large investment which that country and China have made in the facilities at the new port.

The same political stand-off between Pakistan and Afghanistan that is holding back this project is thwarting the rapid expansion of transport over existing roads through Afghanistan. A Pakistani trucking company with links to the military long prevented Afghan drivers from delivering goods to the Karachi port. Afghanistan, citing drug smuggling and tax evasion, prevents Pakistani drivers from passing through Afghanistan. The result is a bizarre system of off-loading and on-loading at the Afghan borders that costs both countries an estimated 5% of the value of products shipped. Interestingly, truckers themselves are cooperating effectively even when their governments are not!

Whatever the timing of the above north-south corridors through Afghanistan, it is probable that in time all of them will be built. Support from the Asia Development Bank, Islamic Development Bank, World Bank, India, Iran, Japan, Kuwait, and Pakistan, as well as Tajikistan, Turkmenistan, and Uzbekistan, makes this outcome more than likely.

These highway corridors are not yet being supplemented by any planned rail line across Afghanistan. The absence of such a project leaves a significant gap in an otherwise rapidly developing transport system. Such a project has not yet been taken up by the Central-South Asian Transport and Trade Forum (CSATTF), an ADB-assisted entity for exchanging information on new transport corridors across Central and South Asia. However, the construction of a much-discussed gas pipeline from Turkmenistan across Afghanistan to Pakistan and eventually India could provide the necessary stimulus for constructing a rail corridor as well.

The 1,700 km. trans-Afghan gas pipeline project was stuck in limbo while a new government was being formed in Kabul but is now under active consideration once more, this time with strong support from the ADB. The Turkmen government claims that studies it has commissioned from an American firm lay to rest accusations by Russia's Gazprom that southeastern Turkmenistan lacked the gas to justify such a project. Moreover, India, having earlier been committed to the Iran-Pakistan-India route mentioned above, has not only joined the project but proposed that it be expanded to include an oil pipeline as well.

Yet another emerging north-south transport corridor are the long electric lines that will bring hydroelectric power from Tajikistan to Afghanistan and on to Pakistan. Built with American assistance, these lines will provide a much-needed income stream to the Tajik government. It remains to be seen whether and how the Kyrgyz Republic and Uzbekistan will join in this emerging industry. Turkmenistan, though, is already sending electric power across the border to Afghanistan.

The fact that India bid (albeit unsuccessfully, losing out to China) for Kazakhstan's Petrokazakhstan firm indicates that one way or another India is determined to import gas and oil from the Central Asian region in the coming years.

However, this, too, remains subject to the unresolved Kashmir problem. Until this "Rubic's cube" is either solved or Pakistan and India are willing to segregate the transport of goods and energy across their common border from their outstanding unresolved issues, the obstacle will remain. As noted earlier, the negative effects of this blockage are to be felt clear to Europe and China.

Does the Necessary National and International Resolve Exist?

The establishment of Eurasia-wide corridors for transport and trade involves a bewildering array of separate projects, many of them linked to one another in sequences that are by no means obvious. In the words of Robert S. Deutsch, the American official responsible for fostering transport across Greater Central Asia, "There are many eggs and many chickens." During the 1990s, the opening of Central Asian trade routes was seen principally as a regional affair and therefore left mainly to the countries themselves to achieve. Not only did they fail to do so, but they allowed many old Soviet-era routes and corridors to fall into decay. Today this is generally understood to be a global project, requiring close cooperation among regional states and between those states and the world's major economic powers and financial institutions. However, all of these countries and institutions face other concerns besides reopening the "Silk Roads" of Greater Central Asia. It is therefore pertinent to ask, "Does there exist the political will that will be required to reopen continental trade across Eurasia?"

Any answer to this question must begin with the regional states themselves. Surveying governments across Central Asia, Afghanistan and the Caucasus, it is clear that their understanding of the issues has increased enormously, as has their level of interest in addressing them. Basic geopolitical concepts have begun to shift as Soviet borders fade into history and new relationships based on economic and geographical reality begin to emerge. It would be too optimistic to claim that regional leaders adequately understand the opportunity cost of inaction, but they are increasingly aware that progress in this area will produce measurable gains for their countries. At the same time, all of the local interests that have thwarted continental trade in the past are still present and must be faced.

The country that has come furthest in championing continental trade across Greater Central Asia is Kazakhstan, which is now the clear regional leader in this regard. By promoting the International Transport Consortium and a Common Transport Policy it hopes to bring about a united regional voice on the modernization of transportation infrastructure and to coordinate that voice with all Eurasian powers.

Overall, regional leaders are ready to act on transport and trade if other leaders do so, and if they are backed up by major powers and international organizations. Even Uzbekistan, with its history of protectionism, may be ready for change, since its policy of autarky has failed to sustain the GDP gains that were achieved throughout the 1990s. But this will happen only when the international environment makes change unavoidable.

What, then, of the main Eurasian economic powers whose economies will drive the growth of transport and trade along the emerging corridors? Do they grasp the potential and are they translating that understanding into constructive programs?

China, for one, clearly perceives the importance of continental trade and has moved in a purposeful manner to promote it. Its main failure to date is to drive its Gwadar project to completion and to engage Pakistan in the development of access roads from central Pakistan and Afghanistan.

Russia, too, perceives the trend towards continental trade and has moved decisively on two fronts: first, to oppose all east-west transport routes (roads, railroads, and energy) not running through its own territory, and, second, to promote its own North-South corridor to Iran while at the same time discouraging former Soviet states of Central Asia and Afghanistan from opening direct links with Pakistan and India. On the first front Moscow has largely failed, while its North-South link is fast becoming a reality, with some twenty nations now committed to participate. Meanwhile, Russia has been unable to slow the formation of transport ties between India, Pakistan, Afghanistan and Central Asia.

For a decade the European Union's commitment to continental trade was more rhetorical than operation. Now that it recognizes that its interests are clearly at stake in the Caspian energy sector, it is working to find a new role for itself. Cooperation with the United States in this area looks more likely than ever, and holds much promise.

India, a late-comer to these issues, is running hard to catch up, having signed bi-lateral agreements with all regional countries in support of regional and continental trade. For the time being, India is supporting Russia's north-south corridor but in the long run its interests in road, rail, and energy transport clearly lie with the more direct routes across Pakistan and Afghanistan. These corridors, however, remain hostage to the on-going disagreements with Pakistan over Kashmir.

Japan has demonstrated a subtle understanding of the economic and geopolitical issues relating to continental transport and trade and has moved deftly to advance its interests in this area. Japan has sponsored major road construction projects in Afghanistan and developed its "Japan Plus Central Asia" initiative as a forum for addressing future joint activities in trade and transport, as well as other areas.

During the 1990s the United States concentrated mainly on intra-regional trade in Central Asia. With its decisive intervention in Afghanistan, however, it opened the door to continental trade. After first insisting that its interests in the region were confined to its anti-terrorism project and were therefore temporary, it then acknowledged its long-term interests there. This is affirmed by Congress in a new Silk Road II Act and has been given institutional reality by the reorganization of the State Department to bring Central and South Asia together under a new combined bureau and by the appointment of a special ambassador for transport and trade issues in Central Asia and Afghanistan. U.S. assistance has been crucial in major infrastructure projects in Afghanistan and Tajikistan.

No less than the major countries, international agencies and financial institutions play a central role in advancing a continental trade regimen across Greater Central Asia. Funded by national governments, these bodies are able to stand above national interest in a way that is difficult, if not impossible, for their sponsors.

Among international agencies, none has come close to the Asia Development Bank in its clear and sustained grasp of the issues affecting continental trade and in the range and effectiveness of its programs to address them. Sponsored mainly by Japan, the ADB has founded the six-nation Central Asia Regional Economic Cooperation (CAREC) and within CAREC a Trade Facilitation Program that is working to develop a common systems of customs across Greater Central Asia. Agreements signed by the participating countries will, if implemented, bring about the standardization and simplification of customs practices.

The World Bank has carried out important research on the status and prospects for regional trade within Central Asia. Its many programs emphasize more the revitalization of important infrastructure and trade links with the Russia that lapsed after 1991 than the creation *de novo* of new continental corridors, yet its field of vision has steadily broadened to embrace longer routes as well.

The World Trade Organization is arguably the single most important framework organization for the countries of Central Asia and their prospective continental trading partners. China's accession and Russia's likely future accession leaves Central Asian countries (other than Kyrgyzstan, which joined in 1998) isolated as non–members between four major poles of members, China, Europe, India, and Russia. As Sanat Kushkumbaev states in his chapter on Kazakhstan, "WTO membership will provide a base to these countries to establish a realistic mechanism to overcome their trade related problems."

Until recently, the South Asian Association for Regional Cooperation (SAARC) has been oriented towards trade from India to Southeast Asia rather than towards Afghanistan and the North. When SAARC approved Afghanistan for membership in 2005 the organization became a significant presence in the promotion of continental trade, not least through its 2004 Agreement on South Asia Free Trade Area (SAFTA). As Gulshan Sachdeva observes in his paper, "Afghanistan's membership to SAARC has the potential to fundamentally change and rejuvenate regional economic linkages between the South Asian and greater Central Asian regions."

The Economic Cooperation Organization is an old organization (founded 1985) that has expanded to include all countries of Central Asia, along with Afghanistan, Iran, Pakistan, and Turkey. As such, it has important long-term prospects for playing a role in the opening of a southern east-west route from Turkey to India across Iran, Afghanistan and Pakistan, as well as in the improvement of Central Asian links across Afghanistan and Turkmenistan to Iran. To now, though, ECO has been a passive force, impeded by internal organizational issues and regional politics from fulfilling this larger mission.

The Eurasian Economic Community initiated by Russia and involving four states of Central Asia (Kazakhstan, the Kyrgyz Republic, Tajikistan and Uzbekistan) along with Belarus, is the economic successor to the Commonwealth of Independent States, and also to the locally-based Central Asian Economic Community, which it absorbed. Besides the likelihood that the implementation of its programs might harm the Central Asian economies, it is not clear that this project can survive the entry of member states into the WTO. Under any circumstances, its rise leaves open the possibility of Central Asian governments establishing a purely Central Asian economic organization, for which the presidents of both Kazakhstan and Uzbekistan have called.

The Shanghai Cooperation Organization began in 2001 with a focus on security issues but has since broadened its purview to include transport and trade. At the same time it has expanded its original membership to include Uzbekistan, with Afghanistan, Iran, and Pakistan as possible future additions. While SCO can certainly play a constructive role in improving the basis for continental transport, it remains unclear what its specific mission in this sphere might be, given the existing high level of activity of its chief sponsors, China and Russia, and the plethora of other entities already active.

The Organization of Security and Cooperation in Europe may seem an unlikely player in transportation and trade issues in Greater Central Asia. Nonetheless, it has hosted successful conferences in Dushanbe and Istanbul on continental trade and intends to use its convening power further to promote investment and transport.

Finally, the United Nations figures at least marginally in the skein of institutions fostering continental interchange across Eurasia. In 2003 it organized a major conference of landlocked developing countries in Almaty, Kazakhstan, at which ministers and experts from seventy five countries adopted an "Almaty Action Plan." The aims of this document are expansive, embracing infrastructure, the simplification of trade, and technical assistance. More important in the long run is the UN's active role (through the United Nations Drug Control Program) in the struggle against illegal trafficking in narcotics. Since drug trafficking remains the one Central Asian industry besides oil and gas that is thoroughly integrated on a continental basis, and since it is also the region's most lucrative export (even though the profits mainly go elsewhere), the UN's paramount role in fighting it is all the more critical.

Conclusion

These many states and diverse international institutions are but a sampling of the many entities actively involved in the development of continental trade across Eurasia. Numerous other bodies are involved in the most direct way. Many are private. Among these are the professional shippers in eastern Turkey, the Russian Urals, or Pakastani Punjab who see an opportunity in forwarding cargoes across the vast continent; the cotton farmer in Turkmenistan who borrows a truck from his cooperative to try to deliver a load to a Karachi spinning mill; the cement maker in Dushanbe who discovers a market in southern Tajikistan; the European manufacturer of fuel additives who wants to market his product in Kazakhstan; or the Indian or Chinese appliance manufacturer with an eye on markets in eastern Europe.

Taking into account all these diverse agents of change, it is hard to conclude that the process as a whole is not extremely chaotic. It abounds in grandiose ambitions, crashing failures, overlapping initiatives, false starts, and on major issues a near-total lack of coordination. Above all, it abounds with competition among diverse nations, businesses, and even public agencies that claim to serve the common good.

Yet the fact that the process is chaotic and shot through with competing interests in no way signifies that there is insufficient will to see the task through to a successful conclusion. On the contrary, it is precisely in this chaos and competition that one can discern the will that will be essential in achieving ultimate success. More than one of our authors regrets the absence of a single grand regional coordinating body to oversee the process. However, one might instead argue that the chaotic pluralism that now exists is far better. On the one hand it prevents any single state or grouping of states from controlling the development of continental trade in a way that would inevitably serve their particular interest. On the other, it moderates the pretensions of politicians and increases their exposure to the austere discipline of market forces.

This in turn strengthens the sovereignty and independence of the countries in Greater Central Asia that form the hub of the emerging trade networks. Working with diverse partner countries and international agencies, they can play them off against each other in ways that ultimately benefit the transport system as a whole, and the region. By such a process, Central Asian countries can pursue the multi-directional foreign policies that will be essential to their long-term viability as states and to their prosperity as peoples.

To say that the best strategic and operational decisions are those that are tested by competition and market realities in no way minimizes the importance of the several political problems that are impeding the opening of the "New Silk Roads."

The India-Pakistan conflict over Kashmir is like a cork that is bottling up continental trade to the Southeast. Unresolved issues between Pakistan and Afghanistan have a similar effect. In the South Caucasus, the unresolved Karabakh conflict exerts a negative influence on both highway and rail projects through that critical corridor. Similarly, Uzbek protectionism and Afghan hostilities to foreign truckers damage prospects for trade across those countries.

Acknowledging this, the best way forward is to pursue whatever options make the best market sense under the circumstances. If one channel is blocked, let trade flow through others. This process will encourage, even force, those countries responsible for the main political blockages to calculate the *opportunity cost* to themselves of their own policies. They will see that the opening of continental trade is an elemental process that can be thwarted in one dimension but will quickly find a productive outlet in another. They will see how opportunities can quickly slip from their grasp and into the hands of others who are more receptive to the process as a whole and more committed to its success. For the first time in centuries, new Silk Roads across the Eurasian continent are on the cutting edge of change, rather than its victim.