The Kyrgyz Republic

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Problem in Historical Perspectives

Greater Central Asia is home to 1.15 percent of the world's population and covers 3.3 percent of the world's landmass, yet the countries' combined gross domestic product (GDP) is only 0.12 percent of the world's total. The region's population and GDP are smaller than those of Iran or Turkey.

During the Soviet era, Greater Central Asia was called "Middle Asia and Kazakhstan" reflecting the physical and geographical differences within the area. Southern Kazakhstan was often referred to as "Middle Asia" and northern Kazakhstan as "Southern Siberia." The climate and terrain of northern Afghanistan resembles those of Middle Asia. The region was labeled "Central Asia" in the post-Soviet period, a moniker that is not geographically justified. "Middle Asia" is a geographically appropriate term, since Asia extends from latitude 40º North at the western part of Asia Minor peninsula (in longitude 26º East) to the eastern part of Hokkaido island in Japan (in longitude 146º East). The region's six countries are wholly or partially encompassed by Middle Asia, making "Greater Central Asia" the most accurate name for the region with the center of Eurasia located in Kyrgyzstan. The region is extremely remote from sea ports, being at the center of the world's largest continent.

The difficulty of accessing world markets and trade protectionism in other countries will likely cause Greater Central Asia to trend toward centripetal trade relations. While this tendency is curtailed by the high quantity and low cost of raw minerals in regional markets, the region is inclined toward running a trade deficit due to low commodity saturation shaped by geopolitical factors, and by the fact that its export goods are largely uncompetitive in world markets. Greater Central Asia remains the weakest link within the transcontinental system of cooperation.

The development of trade across Greater Central Asia is hindered by:

- Formidable physical barriers, such as mountains and deserts, and lack of access to sea and river ports.
- Problematic or unstable political regimes and instability that create geopolitical barriers.
- Transport barriers created by poor ground-based transportation and pipeline infrastructures, and a lack of goods that can be shipped by air.
- Inconsistent customs, trade, tax, tariff and non-tariff regimes throughout the region that block free trade.
- Increasing bureaucratic impediments, which have now become the principal barriers to integration and trade.

These physical and political obstacles impede the development of trade and threaten regional economic growth and stability. They can be overcome only through joint effort and assistance from donor countries.

Geographical and Physical Characteristics

Greater Central Asia's primary physical characteristics are its central location within the globe's largest continent and its remoteness to countries with developed market economies. The Kyzylkum, Aralkum, and Moyun-Kum deserts are located in the center of Greater Central Asia, inhibiting relations between the region's states. The eastern and southern borders follow mountain ranges that inhibit the region's relations with neighboring countries. Kyrgyzstan, Afghanistan and Tajikistan are particularly mountainous; Uzbekistan, Kazakhstan and

Turkmenistan are less so. The region is open only to the north, i.e towards the Arctic Ocean.

Greater Central Asia is extremely arid, due to the surrounding mountains and its distance from oceans. The region is open to masses of cold air from the Arctic Ocean and its mountain ranges block weather systems, such as monsoons, that originate in the Indian Ocean. The result is a harsh, dry climate. The sharp variation in altitudes contributes to the marked contrast among local climates in the region. At high altitudes the climate is arctic and sub-arctic; in the deserts, summer temperatures can reach 50°C in the shade and 70°C in direct sunlight. During the winter, the temperature in high, mountainous regions can dip to -60°C. Such extreme minimum and maximum temperatures can be found in only a few of the world's regions.

The mountainous areas are hemmed by deserts, and the lack of topsoil and summertime precipitation leads to low agricultural productivity. The wide variation in regional climate also contributes to agricultural problems. For example, Central Asian riverheads, the areas best supplied with water are topographically unsuitable for farming.

Mountain communities depend heavily on agriculture, with limited employment opportunities outside the agricultural sector. Farming yields are three to ten times lower than in other countries of the world. The efficiency of animal husbandry is also low. The regions' climatic extremes and low biological productivity have led to the widespread development of a nomadic way of life. Today, up to 20 percent of Afghanistan's population is nomadic or semi-nomadic.

Prior to the Soviet war in Afghanistan, the majority of its population practiced subsistence farming. Their integration with and even awareness of, the outside world was very low. Paradoxically, a generation of war introduced Afghanis to globalization, heightening their awareness of events outside the region via the modern infrastructure of military information, the Internet, foreign military instructors and military training camps in Pakistan and other countries. People became aware of modern living standards and began to earn money, allowing the pursuit of a modern lifestyle. But it is difficult to achieve this standard of living while practicing traditional agriculture, especially under the region's harsh conditions.

Afghanistan cannot restore agriculture without increasing water diversion from the Amu Darya river. It is unavoidable that all further water resource management initiatives in the region will have to consider the potential demands of Afghanistan. The best way to meet future needs is to have all countries along the Amu Darya participate in negotiations to determine mutually appropriate solutions. The United States can assist in solving this issue by providing the requisite technical assistance.

Among the Greater Central Asian countries persists a myth about the richness of their mineral and other natural resources, and the benefits to be realized through their exploitation. The prevailing view is that these resources are in great demand abroad and that feeding this demand will enable the region's states to leap forward in economic development. In reality, the mountains indeed contain a variety of minerals, but not in great quantity.

Afghanistan, Tajikistan and Kyrgyzstan are small, landlocked, mountainous countries with weak resource bases. This creates difficulties for the maintenance of statehood and sovereignty. Countries that are 75 to 100 percent mountainous are usually poor and typically suffer from a range of associated problems. For instance, mountainous territories and peoples that have never attained sovereignty due to lack of resources include Tibet, Kurdistan and several nations in the Caucasus.

Arable land in mountainous regions is delimited by two lines of altitude: the snow line and a second line separating mountainous zones from deserts and alkaline soils. Only a narrow area, where soil moisture is liquid during the growing season, is suitable for efficient agricultural production. Thus, only about 7 percent of Kyrgyzstan's territory is farmed. The World Food Organization considers half of the Greater Central Asian countries—Afghanistan, Tajikistan, Uzbekistan—to be insufficiently nourished, although two-thirds of their populations work in agriculture.

The region's countries also have small populations and low labor productivity. Most people are trapped in a vicious cycle of poverty, intensifying social tensions that facilitate the development of extremist movements. The vicious circle of poverty is supplemented by a vicious cycle of safety: the threat posed by extremism and international terrorism decreases the region's ability to attract investment, creating yet another obstacle to social and economic development. Investment in the region is low due to lack of infrastructure, including roads to bring in equipment and materials, and ship out the goods produced.

Low economic density due to mountainous terrain reduces the value of infrastructure investments as well as broader economic investments. Mountains make development difficult by demanding greater capital and current investments, significantly increasing the cost of imported and exported goods.

International trade in Greater Central Asia requires transporting goods long distances through the neighboring countries, but the large number of mountain ranges and their exceptional height lead to a naturally low regional transit capacity. Large capital investments are required to overcome the transit resistance of the region's mountains, yet this investment is not locally available. It is difficult to build roads on mountainous terrain, and even more difficult to build tunnels through mountains. Transportation issues and climatic conditions are prime contributors to the economic underdevelopment of the region.

Regional Geopolitical and Geo-economic Status

The U.S. State Department long grouped Kazakhstan, the five Central Asia republics and Russia into the Eurasian region, while Afghanistan was considered to be a part of Southwestern Asia. Only in 2006 did it move the five former Soviet states into a new Central and South Asia bureau. The U.S. Department of Defense has always considered these six countries to be one region. But regional integration is not a pre-requisite to being considered a region by political institutions moreover and military planning, with its reliance on air transport, considers different factors than the logic of economic integration, which emphasizes ground transport. And the possibility of conducting trade does not make integration necessary or inevitable. It is important to note that international organizations working in the region do not have a coherent approach to the issue.

The Interests of Greater Central Asia and its Neighbors

Pakistan is interested in developing transport communications to open a route to the southern part of the Commonwealth of Independent States (CIS), which could yield significant economic benefits. But conflicts in Afghanistan have prevented Pakistan from realizing this goal, and the increasing instability in the Pakistani province of Baluchistan could block access to Gwadar harbor. Friction with India and tense relations with Iran further complicate Pakistan's security situation.

Civil discord in Afghanistan has distracted the Pushtun people from reuniting with Pushtuns living in adjacent areas of Pakistan. Pushtuns constitute 14 percent of Pakistan's population and they do not recognize the border established by the Durand line; nor does Afghanistan with its large Pushtun population. The Pushtun's desire for their own nation-state could lead to a lengthy conflict between Pakistan and Afghanistan. Pakistan's protectionist policies have led Afghanistan to lean toward cooperation with its western neighbor, Iran.

Iran needs a regional market. Tehran's recent anti-Israel statements and the unresolved issues regarding Iran's nuclear program undermine its foreign policy positions. Nevertheless, Iran should be given an opportunity to find its place in implementing the Greater Central Asia (GCA) project. Iran is flanked by Iraq and Afghanistan; excluding it from the project would likely drive Tehran into a corner, with unpredictable consequences.

India fears that the spread of Islamism from Afghanistan to Central Asia could create a pro-Pakistani coalition of Islamic states. Such a coalition would threaten India's security interests.

Turkmenistan's position toward Afghanistan is primarily defined by its gas export interests. Its doctrine of positive neutrality does not allow for joining any integration unions.

Uzbekistan is keen on gaining access to the sea. However, after the events in Andijan and the subsequent chill in relations with the United

States, Uzbekistan has become alert to any projects with purported "democratic" backing.

The gradually forming Kabul-Dushanbe-Moscow axis causes discontent in Tashkent, which has responded by forming a Pakistan-Uzbekistan axis. This partnership is supported by the economic rationale of building transport and communications between the two states through the territory of Afghanistan. The Tajik-Uzbek conflict seriously impacts regional stability.

Kazakhstan, along with Iran and Turkmenistan, is one of the region's largest hydrocarbons producers. Kazakhstan is the only country in Greater Central Asia that sent troops to support the current war in Iraq.

Kyrgyzstan is the only country that hosts both U.S. and Russian military bases. Kyrgyzstan and Kazakhstan are not members of 6+2 group formed under UN auspices in 1998, which includes the six countries bordering Afghanistan, Russia and the United States.

Russia is interested in maintaining a stable buffer area to limit the spread of Islamic extremism.

China is concerned about growing separatism and Islamism in the Xinjiang Uyghur Autonomous Region. China's rapid economic growth has boosted competition for natural resources, especially energy, throughout Central Asia. Goods from all over the world enter Greater Central Asia's markets, but these must cross several borders en route, making them expensive and unaffordable to most consumers. Chinese goods, which are competitive in U.S. and European markets, cross only one border and have almost no competition in Central Asian markets. China's involvement in the region is shaped in part by its interest in procuring energy assets, and is thus considered to be a serious competitor by other countries.

Regional integration processes will seek to consolidate local control over regional energy carriers and could limit economic links between Russia, China and Iran, and between these states and the other states in Central Asia. But if Russia, China, or Iran were to impede integration instead of facilitating it, prospects for success would be low.

The United States and other Western countries are concerned over possible political and social destabilization in Greater Central Asia. Destabilization would erode their influence and increase the spread of international terrorism, while strengthening Russia's position in the region. The West is keen on maintaining moderate Muslim regimes and developing economic relations within the region. Maximal economic involvement of European countries is highly important for the GCA project.

Central Asian security concerns could be addressed by the German initiative to create a "Group of Three" comprised of Russia, the United States and Germany as the European Union (EU) representative. The prospective group would work with the Organization for Security and Cooperation in Europe (OSCE) to develop measures aimed at stabilizing Kyrgyzstan and the surrounding region. Germany is a member of the anti-terrorist coalition and has an airbase at Termez in Uzbekistan.

Regional Integration Processes

The prospects for Greater Central Asia integration are not strong, since the area lacks economic integration, which typically defines the integrity of a region. During the Soviet era, the volume of foreign trade within Greater Central Asia did not exceed 10 percent of the region's total aggregate goods turnover, and the absolute values of trade decreased. For example, Tajikistan's share of Kyrgyzstan's foreign trade is several times less that that of China and the United States.

But integration is possible after partner countries have reached a threshold level of economic density. Each country's economic activity will focus abroad only when domestic saturation has been reached. To determine the trajectory of economic development, Greater Central Asia's economic density is compared below with that of the EU, a successfully integrated union.

The economic density of Kyrgyzstan's territory is, on average, 102.2 times less than that of a small EU country, while Afghanistan's density is 1037 times less. Regional integration processes will be difficult to implement in an area with such low economic density.

Table A: Economic Density of Countries

Country	GDP, in billon USD on PPP* (2002)	Area, thousand km2	Economic density, GDP/S, in million USD/ km2
Belgium	295.8	30.5	9.7
The Netherlands	432.8	40.8	10.6
Portugal	182	92.0	1.98
Switzerland	228	41.3	5.5
Average			**6.95**
Kyrgyzstan	13.6	199.5	0.068
Afghanistan	4.4	652	0.0067

* Purchasing Power Parity

A natural geo-economic region can be created by territories (either countries or regions within countries) between which trade and economic links can be established with minimal transport resistance. Transport resistance is not always related to geographical distance, yet it can be measured simply: by the amount of time spent on the road to reach a destination. Subsequent sections of this paper will show that transport resistance is quite high between Afghanistan and the region's former Soviet republics.

Tajikistan, Uzbekistan and Afghanistan border each other along underdeveloped areas, further hampering larger regional integration. This underdevelopment has caused the vectors of major economic activity to focus in diverse directions. Kazakhstan and Uzbekistan aim at the West, while Tajikistan, Turkmenistan and Kyrgyzstan orient northward. In the next five to ten years, China may become the major trading partner for Greater Central Asia, redirecting the vectors of economic activity eastward. Minimal standards of internal integration are necessary before regional integration processes can occur. For example, until local leaders in Afghanistan recognize Kabul's central authority it is unlikely that they would recognize any supra-national structures.

Economic internationalization—the process of economic interaction with surrounding trading partners—is another necessary development. But economic internationalization and integration are not the same. For instance, in the beginning of the 1990s, strong internationalization occurred with the activity of "shuttle traders" between China's Xinjiang Uyghur Autonomous Region and Greater Central Asia; this type of integration was not directed by state policy.

The low growth of trade indicators is linked to political barriers. Some Greater Central Asian states have not participated in removing transport barriers. The West's penetration within the framework of the Transport Corridor Europe Caucasus Asia (TRACECA) and Greater Silk Road (GSR) projects can have a broad impact since the removal of transport barriers has the potential of opening, decompressing and eventually destabilizing non-democratic political regimes.

Afghanistan's current regime isolates certain Afghani regions from each other and from the rest of the country. This practice directly opposes integration and the need to maximize openness. Major trunk highways are being restored by U.S.-funded development projects, but for the most part the internal road system remains in disrepair. Developing the internal road system is a key to integration, and must be addressed.

Relations between Greater Central Asia states can be internationalized, but it is unlikely that this will be accomplished in the foreseeable future, as demonstrated by the failures of the Turkish "Greater Turkic World" project in the early 1990s, of the CAC/CAEU/CAF/OCAC[1] projects that ran from 1993 to 2005, and the waning of the "Greater Middle East" and GUUAM[2] projects that were sponsored by neighboring countries beginning in 2005.

These failures created a high level of wariness in the region regarding similar integration efforts. The GCA project launched in 2006 must continue for at least 15 to 20 years; the long-term nature of the project could cause it to lose its urgency. It is critical to maintain and forecast progress—failure of yet another integration project could further increase resistance to integration and exacerbate anti-American sentiment.

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[1] CAC – Central-Asia Cooperation
CAEC – Central Asia Economic Union
CAF – Central Asia Forum
OCAR – Organization of Central Asia Cooperation

[2] GUUAM – Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldavia

Table B examines whether Greater Central Asia (excluding Afghanistan) or Pakistan and Iran are the more preferred partners for Afghanistan.

Table B: Criteria for Partnership with Afghanistan

Criteria for Partnership	Pakistan and Iran	GCA (excluding Afghanistan)
Share of Afghanistan borders, %	58.5	40
Share of the volume of the nearest market (excluding China), %	80.0	20.0
Share in the foreign trade of Afghanistan, %	Pakistani exports - 27.0	No data available
Cultural/Civilizational identity	+	-

The Iranian market is the second largest, with 65 million people, and the first in purchasing power (per capita gross national income is $1720), yet the Pakistani market, with 162 million people, is by far the largest in the area and the sixth largest in the world. The combined market of Greater Central Asia is smaller than that of Iran; excluding the Chinese market, it is only a fourth of the combined markets of Pakistan and Iran. In 2003, the foreign trade turnover between Kyrgyzstan and Afghanistan was less than 0.5 percent of total turnover for the region. It should be noted that the economic and social significance of trade for Iran is much smaller than its for Afghanistan.

The Economic Cooperation Organization (ECO), which includes Greater Central Asian countries, Pakistan and Iran, best meets Afghanistan's needs. Afghanistan also now benefits from membership in the South Asia Association for Regional Cooperation (SAARC), which includes Pakistan.

The creation of a "significant economic zone with its center in Afghanistan"[3] would be beneficial, but would also be highly difficult. It is easy for an economic powerhouse to become the center of an integrated economic zone, but weaker economies cannot assume the same role. The development of the EU demonstrated that there is no need to force

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[3] S. Frederick Starr Partnership in Central Asia. New Big Game in Central Asia: Myth and Reality – Bishkek, 2005, p. 14.

regional economic expansion, and that the regional economic structure must prove its viability.

The minimum task is to strengthen internationalization. It is necessary to formulate a strategy for regional development and to create an international development fund for Greater Central Asia.

Issues of Identity

Greater Central Asia may be the only region in the Islamic world that does not exhibit anti-American sentiment. This may be the result of its European-style education system. However, in the process of globalization, the region has experienced the growing pains of "sovereignization": rising nationalism, political extremism and ideological crises, and "socio-cultural intervention" including westernization and the penetration of extremist religious practices.

Sovereignization has fueled nationalism and cultivated national myths, creating micro-civilizations and nationalistic ideologies that erode regional cohesion and directly impede integration. Integration and the ensuing openness may lead to conflict between these micro-civilizations. The region's political regimes are in part preserved by these national myths, and are eager to strengthen them, despite the economic costs incurred.

The low level of regional identity throughout Greater Central Asia has hindered the process of regional integration. However, ethnic Turkmen, Uzbeks and Tajiks living on both sides of national borders are establishing cooperative relations across state boundaries, helping to overcome trade barriers.

Regional identity criteria, including historical elements and the current political situation, are summarized in Table C.1. By all criteria, Kyrgyzstan is the closest to the regional mean, while Afghanistan falls outside of the regional mean according to most of the criteria. It can be concluded that the regional economy is divided because of the split between the region's governments and peoples.

Table C1 Criteria for Regional Identity							
Criteria for Identity	Countries of the Region						Typical within region
	Kazakhstan	Kyrgystan	Tajikistan	Turkmenistan	Uzbekistan	Afghanistan	
Regime type	Weakly liberal	Weakly liberal	Weakly liberal	Authoritarian	Authoritarian	Weakly occupational	Weak democracy
External orientation	RF	RF	RF	RF, Neutrality	RF	U.S.	RF
History over past 150 years	Kokand khanate,* Russian empire, USSR	Kokand khanate, Russian empire, USSR	Bukhara emirate,* Kokand khanate,* Russian empire, USSR	Bukhara emirate,* Khiva khanate,* Russian empire, USSR	Bukhara emirate, Khiva, Kokand khanate, Russian empire, USSR	Buffer zone of British and Russian empire; Interventions, civil wars	Bukhara, Kokand khanate, Russian empire, USSR
Language group/ sub-group	Turkic/ Kypchaksky	Turkic/ Kypchaksky	Iranian/ Tajik	Turkic/ Oguzskaya	Turkic/ Karlukskaya	Iranian /Pushtu	Turkic
Change in alphabet over past century	Arabic, Latin, Cyrillic	Arabic, Latin, Cyrillic	Arabic, Latin, Cyrillic	Arabic, Latin, Cyrillic, Latin	Arabic, Latin, Cyrillic, Latin	Arabic	Cyrillic
Percentage belonging to titular nationality	50.6	60.6	62.3	77	75	50	64.2
Consolidated status of titular nation	Regionalism (3 zhuz)	Regionalism, tribalism	Regionalism, badakhshan people	Tribalism	Clan-based relationship	Tribalism	Regionalism
Titular national tradition	nomadic	nomadic	settled	nomadic	settled	nomadic	nomadic
Major religions, percentages	Sunni, orthodox 60/40	Sunni, orthodox 80/20	Sunni, Ismailite, 95/2	Sunni, orthodox 90/10	Sunni, orthodox 92/8	Sunni, Shiite 80/20	Sunni, orthodox 82/13
Regional integration status**	SOC, EuraAsEC, CEA	SOC, EuraAsEC	SOC, EuraAsEC	-	SOC, EuraAsEC	-	SOC
*Partially **Excludes CIS, Economic Cooperation Organization, and Islamic Conference Organization affiliations.							

Trade

Absolute trade indicators have grown while specific gravity has declined as demonstrated by a 8.4 percent drop in Kyrgyz exports since 2000. Regional imports have increased by 2.1 percent since 2003.

Figure A. Trade Balance of Kyrgyzstan's Regional Trade, 2000-2004 (Central Asian countries and Afghanistan)

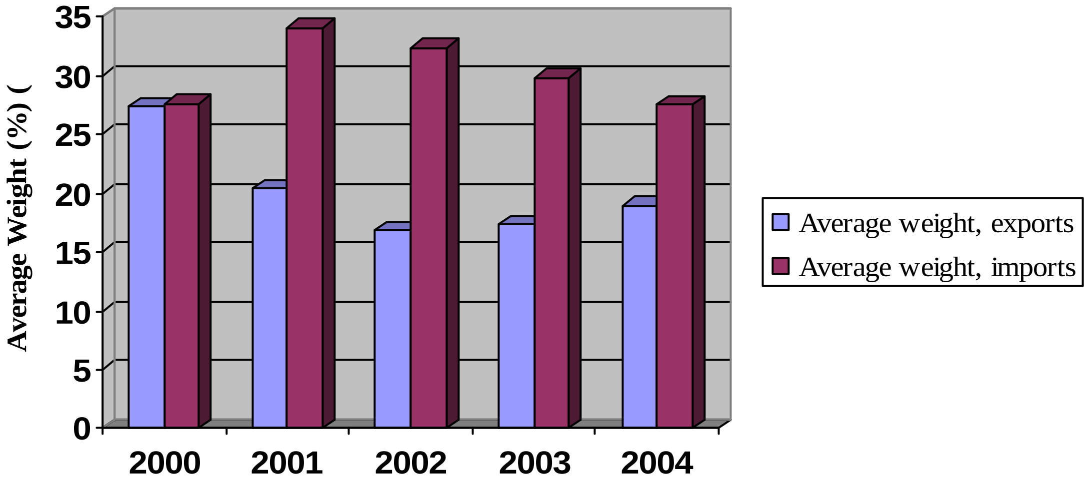

Table D: Kyrgyzstan's Goods Turnover, within large international organizations[4] *(million USD, %)*

Year	Goods turnover	ECO		CIS		Outside CIS	
		USD	%	USD	%	USD	%
1992	737.7			590.7	80.1	147.0	19.9
1993	787.4	264.4	33.6	583.9	74.2	203.5	25.8
1994	657.9	288.9	44.0	432.5	65.7	225.4	34.3
1995	931.2	410.2	44.0	622.8	66.8	308.4	33.2
1996	1343.0	592.4	44.1	880.3	65.5	462.8	34.5
1997	1313.1	506.8	38.6	755.0	57.5	558.0	42.5
1998	1355.1	418.1	30.9	671.3	49.5	683.9	50.5
1999	1053.7	290.1	27.4	442.5	42.0	611.1	58.0
2000	1058.6	346.1	32.7	505.9	47.8	552.7	52.2
2001	943.3	303.2	32.1	425.5	45.1	517.8	54.9
2002	1072.2	338.8	31.6	491.2	45.8	581.0	54.2
2003	1298.2	345.3	26.6	611.4	47.1	686.8	52.9

Table E: Kyrgyzstan's Goods Turnover, within small international organizations (million USD, %)

Year	Goods Turnover	CAEC/OCAR		EuroAsEC/CU		SOC	
		USD	%	USD	%	USD	%
1993	787.4	246.1	31.3	430.3	54.6	-	-
1994	657.1	264.8	40.3	291.8	44.4	-	-
1995	931.2	351.4	37.7	421.7	45.3	-	-
1996	1343.0	513.9	38.3	587.4	43.7	-	-
1997	1313.1	409.5	31.2	465.2	35.4	-	-
1998	1355.1	336.3	24.8	463.5	34.2	-	-
1999	1053.7	227.6	21.6	321.5	30.5	-	-
2000	1058.6	264.2	25.0	304.8	28.8	-	-
2001	943.3	243.2	25.8	287.8	30.5	376.8	39.9
2002	1072.2	284.1	26.5	369.9	34.5	544.7	50.8
2003	1298.2	293.4	22.6	518.0	39.9	658.2	50.7

Kyrgyzstan's goods turnover with ECO countries amounts to 70 percent of its total goods turnover. The next step is to develop trade relations with Iran, Pakistan and Turkey, with whom current goods turnover averages just over

[4] Data from the National Statistical Committee and the Center for Economic and Social Reforms are used here and throughout this paper.

13 percent. The importance of these countries in foreign trade, except for Turkey and Iran, is insignificant and less than 1 percent.

Figure B

Dynamics of Exports from Kyrgyzstan to Afghanistan, 2002 -2005

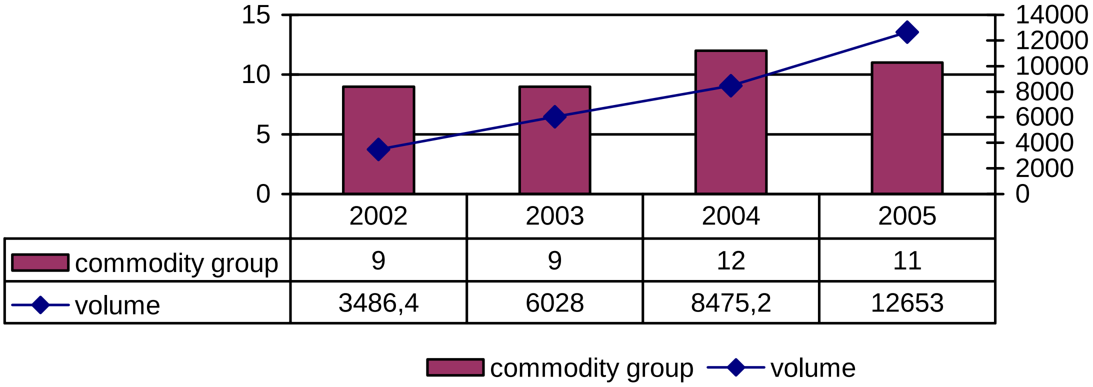

Figure B indicates that the export of Kyrgyz commodities to Afghanistan has experienced consistent growth in recent years. Export volume in 2005 had increased 3.55 times since 2002, when annual growth was over 50 percent. The specific gravity of supply to Afghanistan was valued at 2 percent of total Kyrgyz exports, while the specific gravity of exports to Afghanistan, excluding gold, was valued at 3 percent. In 2002, these specific gravities were approximately 0.7 percent and 1 percent, respectively.

The dynamics of export growth was supplemented by extension of the list of exported goods by 22 percent. Six commodity groups, or about 50 percent of all assortments, had stable indices. This indicates that Kyrgyzstan has a stable external economic position in the Afghan market that relates to high-quality foodstuffs, construction materials (including glass), ferrous metals, machinery and equipment.

Analysis shows simultaneous significant changes in the composition of Kyrgyz exports to Afghanistan. Sugar and confectioneries topped the list of exported goods in 2002, while mineral oil and distilled products were top exports in 2005. On the whole, the tendency has been toward export concentration. The commodities group accounted for 18 percent of all exports in 2002, 33 percent in 2003, 32 percent in 2004, and 73 percent in 2005.

The following six commodity groups accounted for 94 percent of Kyrgyz exports to Afghanistan in 2005:

1. fuel, oil and distillated products	$9.2378 million
2. ferrous metal products	$1.1618 million
3. glass	$0.5082 million
4. transport	$0.4934 million
5. dairy products, eggs and others	$0.2828 million
6. ferrous metals	$0.2432 million

The development of Kyrgyz exports to Afghanistan has been dynamic in recent years, the volume of exports to Afghanistan having increased 3.5 times. The existing trade dynamic suggests that the volume of exports to Afghanistan will continue to increase. A portion of the exports were re-exports—Kyrgyzstan is a straight exporter as well as a transit exporter for Afghanistan.

Impediments to Kyrgyzstan's Active Involvement in Continental Trade

Security

Regional political instability, which creates a political barrier to transit, is an important issue for investors. Drug trafficking and terrorism ties between Afghanistan and other Greater Central Asian countries could expand. However, security issues in northern Afghanistan are not as acute as those in the central, southern or southeastern parts of the country. Mosques are the only legal infrastructure the opposition has access to, which is one reason why the opposition has fomented religious extremism in the region. Poverty, coupled with rapidly increased Islamism, has the potential to destabilize the region.

Trade volume between Afghanistan and other Greater Central Asian countries surged after the Taliban regime was overthrown, proving that security is key to trade development.

In Afghanistan, geographical decentralization due to rugged terrain and increased political centralization has resulted in conflicts between central and local elites. Kabul's control over certain parts of Afghanistan—the eastern and southern areas in particular—is minimal. The country remains organized by the principle of *tanzim,* the simple aggregation of various independent military and political groups. On a practical level, local Afghani administrators and leaders lacking formal power are capable of guaranteeing the security of economic activity, communications and cargo transport, as well as insuring that customs procedures are observed and financial settlements are legitimate. But these local officials can be replaced without warning.

Close ties between Afghanistan and Tajikistan and Uzbekistan may intensify irredentism, with calls for creation of a "Greater Tajikistan" or a "Greater Uzbekistan."

Impact of Environmental Factors on Regional Stability

Traditional agriculture may not be able to feed the Greater Central Asian population due to a lack of arable land, low harvest yields and high population growth. The only crops capable of supporting the population are cash crops that are later processed into illegal drugs, such as marijuana or opium poppies. Hemp grows wild on tens of thousands of square kilometers of semiarid and arid plains not used for farming, and those profiting from illegal drugs seek the destabilization of the regions where they operate.

By some estimates, illegal drug production now amounts to 60 percent of Afghanistan's gross national product. Over 90 percent of heroin in the world market is from Afghanistan, which is becoming a "narco state" dependent on illegal drug production. Over 350,000 Afghani families—about 10 percent of the population—rely on opium cultivation or trading for their livelihood.

Isolation is a major contributor to regional poverty causing the notion of "alpine poverty" to become fixed in the literature. The Himalayas have helped to create an "arch of instability" since it is relatively easy to wage guerilla warfare in mountains, and to create and sustain terrorist groups. Historically, mountain territories have been plagued by instability, struggles for resources and armed conflicts. But the primary reason for conflicts remains the shortage of the key resources for agriculture—land and water.

There is little arable land in the region, biological productivity is low and population growth rates are high. Lack of resources deepens poverty and exacerbates social inequality, increasingly the likelihood of armed conflict.

According to American ecologist U. Odum, each person requires an average of two hectares: 0.6 hectares for food production, 0.2 hectares for settling and industrial needs and 1.2 hectares that should remain virgin.[5] The figure of two hectares per person is relevant for Western Europe and North America, these being territories with potential productivity several times greater than that typical for Greater Central Asia.

This cause and effect between scarce natural resources and conflict is especially significant in mountainous regions. Mountains are extremely prone to wars and conflicts due to their high ecological, social and economic vulnerability. Poor mountain regions supply scarce water to richer plains territories, creating yet another source of conflict. Mountainous ecological systems are typically less capable than plains of recovering from such damage as large-scale soil erosion or destruction of flora.

Due to their relative inaccessibility and harsh conditions, mountainous regions tend to lag behind the general process of development, remaining marginalized and isolated economically and politically. Because mountain zones lack resources needed to solve ecological problems, political crises can quickly develop there, particularly if they are destabilized by population growth or external pressures.

Infrastructure and Energy

Cargo shipped from Pakistan to Tajikistan must pass through the Suez Canal to Black Sea ports, and is then hauled by rail through several countries before arriving in Tajikistan. Yet only the thin Vakhan corridor divides these two countries. The situation is similar for Kyrgyzstan and Kazakhstan. For all three countries, it is critical that north-south transport connections be created, which requires transport across Afghanistan.

Due to its geographical location, Afghanistan could play an important role in developing trade and economic relations between Greater Central Asia and countries to the south. The shortest route to ports on the Indian Ocean is via Afghanistan and Pakistan, which is also a potential path for oil and gas pipelines. But instability in Afghanistan remains a serious obstacle.

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[5] Odum, Y., “Ecology fundamentals”. Moscow: Mir, 1975, p. 740.

This region's location at the center of Asia means that it lacks access to sea or lake transport routes, except in the thinly inhabited desert regions along the east shore of the Caspian Sea. Due to mountains and the harsh climate, there are virtually no navigable rivers in the region. The only navigable river is the Amu Darya. Even, here there is little water in winter, while water flows are violent during the spring and summer.

Cargo transport by ship is the most economical form of transport, and is used to move 60 percent of world trade. Rail transport costs four times as much as ship transport, and road transport costs 15 times as much. Exacerbating the cost of land transport is the rarefied air at high altitudes, which degrades truck performance: engine power output is reduced by 8 percent at an altitude of 1000 meters, by 12 percent at 1500 meters, and decreases 20 percent at altitudes over 3200 meters.[6] Thus, the cost of truck transportation in mountainous regions can be expected to be 20 times as much as transport by ship. Rail transport may not be a viable option, and transportation costs in Greater Central Asia can be expected to exceed significantly the cost of transportation elsewhere.

Since trains cannot run on a grade steeper than 4 percent, significant investment in tunnels, bridges, and overpasses would have to be made to build a railway along mountainous routes where camel caravans once passed. Prior to the Soviet era, a single east-west railway through Eurasia was impossible due to the difficulty if traversing colossal Altai-Himalayan mountain range.

Following the conflicts between Pakistan and India over Kashmir in the 1970s, the high altitude Karakorum highway was built in the Pakistani-controlled zone of Kashmir. This highway now connects Xinjiang and Pakistan.

By the end of the twentieth century, railroads from the Pacific Ocean extend to Kashgar in western China to the border with Kazakhstan. In Iran, railroads that start at the distant Bosporus terminate in Mashhad. Uzbekistan has connected Afghanistan with the region via the railway and auto bridge across the Amu Darya between Termez and the Afghani river port of

[6] N. A. Gvozdetskyi, Yu.N.Golubchikov, Moscow, Mysl', 1987.- 399 p.

Khairaton. Kazakhstan plans to build the Druzhba-Atyrau railroad with a European (and Chinese) track gauge. There are also plans to construct a high-altitude Kashgar-Torugart-Jalalabad railroad—it will be important for this railroad, too to be constructed with the European gauge.

Three principal regional corridors exist. The western corridor runs along the Caspian Sea through Iran to the Bender-Abbas and Bender-Chahbahar ports in the Persian Gulf. The middle corridor runs through Afghanistan and Pakistan to the Indian Ocean. And the eastern corridor runs from Turksib to Torugart, crossing the Khundjerab and Karakorum mountains to the Indian Ocean.

There are virtually no railroads in Afghanistan. Motor roads are seasonally passable and mountain passes are closed in winter. In August 2002, the construction of the first bridge across the Panj began; a total of five bridges are to be built between Afghanistan and neighboring countries within the framework of the Program for Restoration of Transport Traffic. Construction of small bridge in Khorog area has been completed. In July 2004, another small bridge in Ruzvay, a village in the Darvaz region of the Badakhshan Autonomous Region, was put into operation, funded by the Agha Khan Development Network. But these bridges do not solve the major transportation problems in these areas, due to their small size, lack of infrastructure on the Afghani side and the weakness of Tajik infrastructure.

At present, there are three routes by which motor traffic can pass from Pakistan through Afghanistan. The first is through Chitral to Tajikistan; the second is through Torkham, Jalalabad, Mazar-e-Sharif and Termez to Uzbekistan; and the third is through Quetta and Chaman, Afghani Kandahar and Herat to Kushka and onto Turkmenistan. It is also possible to construct a railroad connecting Quetta and Kushka.

A highway between Faizabad-Shugnan-Khorog would also play an important role and would use the new bridge over Panj. A highway route connecting Osh-Irkeshtam-Karakorum is also possible in the near future.

The tunnel through the Salang Pass in Afghanistan was reopened at the end of November, 2003, and in May 2004 an auto border-crossing between

Tajikistan and China was opened in Tajikistan at the Kulma Pass, and will operate during the summer months.

Reconstruction of the only year-round road via the Pamirs, the Osh-Khorog-Faizabad road, was completed in 2002 with emergency humanitarian aid funding from Russia, Kyrgyzstan and Tajikistan. The railroad at Osh (Kara-Suu station) defines the potential high capacity of the Pamir highway.

A 68-kilometer railroad line from Khairaton to Mazar-e-Sharif is planned, and Uzbekistan has inked contracts for the repair of existing bridges and the construction of new bridges along the Kabul-Khairaton motor road.

The objective of the TRACECA project is to transfer the bridging function between Asia and Europe from Russia to Central Asia and the Caucasus. This politicized plan envisioning routes bypassing Russia and Iran is not favorable for the region's countries, their neighbors or for Russia. The creation of a transport corridor through the Caspian Sea and the Black Sea requires the organization of an equivalent counter-flow of goods from Europe via ferries, which is problematic. Meanwhile, Turkey plans to construct a transport tunnel under the Bosporus.

There is no key reason to create an independent route with two ferries through the Caspian and Black Seas; indeed, there was no need for two ferries during the Great Silk Road's two thousand years of operation.

The Barogil Pass, the most accessible pass through the Hindu Kush mountain range, is located in Vakhan, the most peaceful region of Afghanistan. The Barogil Pass is at an altitude of 3777 meters, while the Kulma Pass is at 4352 meters. The Barogil Pass is open year-round and runs through a five-kilometer-wide saddle in the mountain range. This pass provides the easiest access to the northern Indian plains at all times of year.

An energy bridge is possible within this transport bridge, exploiting the Toktogul Cascade running from Osh to Sary-Tash to Lyangar to Barogil to Chitral. It is critical to note that the development of communication links provides a fundamental basis for the sustainable development in Afghanistan. Highway and railway construction in the mountain terrain of Afghanistan is very expensive and time-consuming.

In addition to developing telecommunications, there is a need to build power transmission lines in the immediate future. Only 5 percent of Afghanistan's demand for electricity is currently being met, and only 6 percent of Afghan citizens have access to electricity—most of them being urban residents. Lack of electricity hampers industrial development and the growth of other sectors, leaving most of the population with no alternative to the agricultural employment. Yet all neighboring countries, except China and Pakistan have well-developed electric power systems and can supply electricity to Afghanistan. Furthermore, all post-Soviet countries, regardless of whether or not they border Afghanistan, could also supply Afghanistan with electricity. This is possible via an interconnected power system built during the Soviet era.

The idea of the TRACECA project has existed for 13 years, and the idea of reestablishing the Great Silk Road has been around for nine years. During this time, the transportation volume has increased 25 percent, an annual growth of about 2 percent. If such low growth rates remain, the larger project will be a long time in coming.

During the past fifty years, the thickness of the ice over the northern seas has halved and is decreasing 3 percent every ten years; regular trade navigation along the North Pole may be possible by 2010. This northern seaway would reduce the sea route from Europe to Japan and China by half and would be 1.6 times less expensive than other modes and routes of transport.

It will be a long time before Afghanistan has the infrastructure needed to make it an alternative route connecting Russia, China and Iran. Transport via Iran is the optimal route for Caspian oil. In any case, transport communications must pass through Pakistan in order to reach the Indian Ocean; thus, it is unrealistic to exclude Pakistan and Iran from any proposed Partnership on Cooperation and Development in Greater Central Asia.

According to many authors, maintaining the integrity of a polycentric integration union is possible only when the development of integrative infrastructure has priority over economic development.[7] Infrastructure supporting transport is key to developing social infrastructure, and thus is critical for improving stability and fighting poverty in Afghanistan and throughout the region.

Legal and Institutional Issues

The Regional Trade Facilitation and Customs Cooperation Program (RTFCCP) started in 2002 aims to facilitate the reform of customs bodies. It is developing member countries in East and Central Asia. The RTFCCP has a three-part strategy to facilitate trade: modernization of customs infrastructure, including legal and material elements; development of auxiliary customs infrastructure by involving private customs brokers in trade facilitation; and solving common member problems and assisting with country-specific issues.

A project proposed under the RTFCCP is a regional effort to develop the infrastructure of customs border checkpoints in Kyrgyzstan and Tajikistan, with financial support from the ADB. The project's objectives are to improve customs processing at primary border checkpoints, to donate equipment for customs operations and the prevention of smuggling, and to facilitate training and encourage cooperation between border agencies.

Joint customs control and handling of cargoes at borders is acknowledged to be a key means of facilitating trade. But the joint handling of cargoes at border crossings requires a high degree of harmonization between customs entities, and might require the expansion of jurisdiction to the territories of adjacent countries, which must usually be ratified by legislatures of the countries involved.

International and Bilateral Treaties

Kyrgyzstan acceded to the World Trade Organization (WTO) on November 20, 1998 and grants most-favored nation status (MFN) to other WTO

[7] V.N. Knyaginin. Report for organizational and activity game "Projecting of institutions and technologies of strategic management of the Republic of Armenia", Yerevan, 2002, p.9

member-countries. By joining the WTO, Kyrgyzstan established a stable and predictable tariff regime. This includes two types of service restrictions: nationally based restrictions and restrictions on market access. However, no restrictions on the services area were instituted. Kyrgyzstan applies the most liberal foreign trade regime among CIS states and has eliminated restrictions on the participation of foreign capital in insurance companies. There are no restrictions on the import or export of currency and enterprises are free to trade. State and private enterprises can engage in import and export operations without special registration or restrictions, except for cases involving goods subject to import or export licensing in accordance with world practice.

Trade with Tajikistan and Uzbekistan occurs under the framework of bilateral Free Trade Agreements (FTAs). The basis for all bilateral FTAs was established by the Agreement on the Creation of Free Trade Areas, signed by the heads of CIS countries on 15 April 1994, and by the Protocol on Amending and Adding the Agreement, signed on 2 April 1999. These agreements stipulate that trade is not subject to customs duties, taxes or fees, or quantitative restrictions. The FTAs created a regional trade regime without customs duties or quantitative restrictions *de jure*. However, Uzbekistan is an exception. It applies exemptions from free trade treatment on goods produced in Kyrgyzstan under a free trade regime exemptions protocol enacted on 25 December 1996. These exemptions, approved by resolutions of the Cabinet of Ministers of Uzbekistan, provide for export duties on a number of goods and entail various non-tariff regulations on exports and imports.

Joint Intergovernmental Commissions, chaired by governmental members, were formed to increase foreign trade. Problems and possible solutions to problems of cooperation are considered during commission meetings.

Barriers to Trade Development

Kyrgyzstan has signed a number of agreements within CIS, ECO and the East Asia Economic Caucus (EAEC) that stipulate common principles and terms of transit across the territories of the signatory states.

Article 8 of the Agreement on Transit Via Territories of CIS Member-Countries of 4 June 1997 states that means to ensure the transit of goods shall be granted to exporters, importers or carriers in a country of transit under conditions no worse than those available to national exporters, importers or carriers.

The 1998 Agreement between countries that signed the Agreement on Formation of the Transport Union on International Motor Traffic was established within the framework of the EAEC. Article 6 of the agreement stipulates that goods transported by motor vehicle between the territories of signatory countries or within the Transport Union shall be exempt from permits.

Under Article 11 of the agreement passengers and cargo, as well as transport vehicles, shall be exempt from taxes and fees for the use or maintenance of roads, except for toll fees, and then only if toll-free roads are available. This agreement has not yet been ratified by Kazakhstan.

The agreement between the customs bodies of Kyrgyzstan and Uzbekistan "On Further Development of Cooperation in Mutual Aid in Customs Affairs" of 26 May 1998 envisages that in transit traffic only excisable goods will be subject to customs. Obviously the levying of additional fees on motor carriers would curtail the development of regional trade and economic relations.

Various issues regarding joint water supplies and regional energy resources can impact electric power supply. Issues related to economic relations and the use of water and fuel-energy resources are regularly considered by the heads of state in Central Asia and the Caucasus countries.

In addition to a visa regime that restricts trade and economic relations, Uzbekistan unilaterally imposed high excise tariffs and non-tariff barriers on a range of Kyrgyz goods—clearly the FTA is not always implemented properly. For instance, beginning in 2000 Uzbekistan unilaterally suspended observance of the Agreement on International Road Traffic enacted on 4 September 1996, and started levying a $300 fee for passage through Uzbek territory and a 200 Euro fee for customs escorting of Kyrgyz motor carriers. This action was taken despite the agreement signed between the customs bodies of Kazakhstan, Kyrgyzstan and Uzbekistan on 26 May 1998 and has negatively affected Kyrgyz exports to Uzbekistan.

These problems were addressed during joint meetings of the Intergovernmental Kyrgyz-Uzbek Commission on Bilateral Cooperation. The Uzbekistan cabinet adopted Resolution #247 on 15 May 2001 ending the levying of temporary excise rates on goods imported from the Kyrgyz Republic. This decision partially resolved the issue of Kyrgyz motor carrier transit through Uzbekistan.

Bureaucratic barriers are increasingly prevalent, however, and have become principal obstacles to trade. Current non-physical barriers fall into three categories: barriers related to border crossings; barriers of a fiscal and bureaucratic nature; and barriers created by officials with the aim of personal profit.

The first category of barriers include:

- Permits for entry and exit, transit, and transport from and to third countries;
- Visas requirements;
- Requirements for paid parking during customs formalities, for instance, if a person is detained for a customs violation, a parking fee is levied on the carrier;
- Prohibition on the transit of particular cargoes;
- Examination of transit cargoes;
- Customs deposit and customs formalities of goods, not subject to excise rate;
- Repeated weighing of cargoes.

The second category of barriers includes:

- Insurance of transport vehicles and crew;
- Ecological and sanitary fees;
- Services of various brokers;
- Various fees established by local government bodies.

The third category of barriers includes actions of officials of law enforcement and fiscal bodies for the purpose of personal enrichment, i.e corruption.

The immediate outcomes of such barriers include:

- Financial costs: Transport operators must pay numerous fees and duties, and raise transport fees accordingly. This reduces the amount of imported goods that the population and national enterprises can purchase, while domestic goods also become less competitive in world markets.
- Protectionism of national transport operators may lead trade partners to take punitive measures and create transport blockades.
- Maximal and bureaucratically enforced safety measures decrease movement across borders, thereby reducing the exchange of goods and lowering overall trade.
- When intensive control of documentation is maintained in the interests of ensuring traffic safety, the effect can be the opposite of that intended, due to higher traffic density and long waiting times in queues.

The long-term effects of these measures include:

- A drop in foreign investments, increasing economic isolation as potential trading partners are dissuaded by a country's bureaucratic trade barriers;
- A reduction in international trade, and the lowering of state tax revenue, leading to budget deficits;
- Unfulfilled commitments undertaken as conditions of WTO membership.

Together, these bureaucratic barriers form a dense obstacle to the development of motor transport and pose a serious threat to overall economic development.

The cost of eliminating these barriers is difficult to assess, although a recent initiative has defined the necessary level of financing. The World Bank implemented a Governance Structural Adjustment Credit (GSAC) in

Kyrgyzstan over three years at a cost of $10 million. The initiative was carried out within the framework of the proposal on "Formation of Good Governance in Kyrgyzstan," and other programs. The GSAC enabled Kyrgyzstan to boost its rating in the Transparency International's corruption index rating by ten points.

Projected Benefits to Kyrgyzstan from the Removal of Regional Trade Barriers

There have been various evaluations of the economic benefits that Kyrgyzstan would realize from the removal of trade barriers. A group of International Monetary Fund economists determined that trade barriers imposed by Kyrgyzstan's neighbors have had a highly negative impact on its export industry.[8] Another report states that a 50 percent reduction of tariffs and trade margins in Kazakhstan and Kyrgyzstan would increase Kyrgyzstan's real GDP of by 55 percent.[9]

This paper evaluates the impact that the transport barriers of neighboring countries have on Kyrgyzstan's economic development.[10] Despite the efficiency of rail transport, it is not heavily used due to Kyrgyzstan's small export volume. Hence, 95 percent of exports are shipped by trucks.[11] Several road transport companies were surveyed regarding the costs they incur when transporting goods into countries neighboring Kyrgyzstan. These expenses are summarized in Tables F.

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[8] http://www.akipress.kg/ Accessed on AKIpress May 5 2006.

[9] Johannes Linn, et al. Central Asia Human Development Report: Bringing Down Barriers, Bratislava: UNDP Regional Bureau for Europe and the Commonwealth of Independent States, 2005, p. 4.

[10] This section also considers trade flows into Russia; trading with Russia causes Kyrgyz exporters to incur major costs in Kazakh territory.

[11] Ministry of Transport and Communication of the Kyrgyz Republic, " Draft of the Concept of Kyrgyzstan Development as a Transit Country for the Period up to 2020.", Bishkek, 2006.

Table F: Goods Transportation Costs (per one 80 cubic meter van)*

	Bishkek-Dushanbe	Bishkek-Tashkent	Bishkek-Ashgabat	Bishkek-Kabul	Bishkek-Ekaterinburg	Bishkek-Almaty
Transportation services, total	2900	1000	3300	3500	2200	700
Escort and storage (customs terminal services) 5%	145	50	165	175	110	35
Expenses for gasoline	145	50	165	175	110	35
Depreciation (0.0833 per day)	817	233	1167	1167	233	233
Customs fees (5%)	145	50	165	175	110	35
Wage of a driver	100	50	100	150	100	30
Profit of a transportation company (30%)	870	300	990	1050	660	210
Estimate						
Direct transportation expenses	1932	633	2422	2542	1103	508
Customs expenses	290	100	330	350	220	70
Non-compulsory payments (bribes)	678	267	548	608	877	122
Decrease of tariffs of transportation companies due to the strengthening of the competition	290	100	330	350	220	70
Possible decrease: tariffs in USD	1548	567	1538	1658	1537	332
Percentage of total expenses	53.4%	56.7 %	46.6%	47.4%	69.8 %	47.4%

*Data from survey of transportation companies. Interviews were conducted by IRT employees.

Bribes and fees make up the largest share of non-compulsory expenses. Depending on the route, these expenses reach 16 to 40 percent of the cost of goods delivered. The next largest expense is customs escorting and goods storage, including customs terminal services and customs fees; this expense amounts to 10 percent of the cost of goods.[12] Another important yet often overlooked trade barrier arises from the restrictions on competition and imperfect market mechanisms in a given sector; this inflates transport tariffs. The exclusion of non-compulsory transport expenses would lower costs 46 to 70 percent, depending upon the route. This decrease in tariffs would facilitate economic development in Kyrgyzstan, where roads are the major trade routes.

Projected benefits resulting from the removal of these barriers are based on an evaluation of the transport compound of export and import trade flows was made using "input-output" models.[13] Data on the growth of export inflows and the reduction in the cost of imports for major Kyrgyz industries are presented in Tables F and G.

It is estimated that the removal of barriers to motor vehicle transport would boost export earnings by 1.7 percent of the export cost and by 2.5 percent for Greater Central Asian countries and Russia. As the share of gold in Kyrgyzstan's exports reaches 40 percent, removing the barriers will have an even greater economic impact. The removal of barriers will have also have more influence on certain priority industries, including textile.

Table G: Increase of Export Earnings due to Barriers' Removal
2002 case study, in thousand USD

	By all countries		By five countries	
Industries	Growth rate	Export structure	Growth rate	Export structure
Textile and apparel industry, leather manufacture and articles thereof;	1.5	5.9%	0.2	23.5%
Production of charred coal, oil refining, chemical industry and manufacturing of rubber and plastic articles	6.3	9.0%	5.2	5.1%
Manufacturing of non-metal mineral products	5.3	7.3%	5.3	29.4%
Machinery and equipment manufacturing	1.8	6.0%	1.7	14.3%
Total in the economy	1.7	100.0%	2.5	100.0%

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[12] Tax payments are not included; taxes are not considered to be barriers, although they complicate trade.

[13] It is assumed that barriers have a symmetric character, i.e. specific costs are applicable to both exports and imports. Simulation calculations were made using 2002 data, which is the most recent available information for the "costs-production" model.

The removal of trade barriers is projected to have an overall impact equal to 2.7 percent of total Kyrgyz imports and 3.7 percent for Greater Central Asia and Russia. Furthermore, the elimination of barriers will greatly improve regional trade relations, intensifying the process of integration.

Table H. Import Cost Reduction Due to Barrier Removal 2002 Case Study, in Thousand US$

	By all countries		By five countries	
Industries	Growth rate	Export structure	Growth rate	Export structure
Exploitation of coal, raw oil and natural gas	-2.0	8.0%	-2.0	18.5%
Textile and apparel industries, leather manufacturing and products	-1.4	6.1%	-1.4	1.0%
Production of charred coal, oil refining, chemical industry and rubber and plastic manufacturing	-5.9	24.7%	-5.8	48.6%
Manufacturing of other non-metal mineral products	-4.9	1.3%	-4.9	3.1%
Machinery and equipment manufacturing	-1.8	17.9%	-1.9	7.2%
Total in the economy	-1.0	100%	-3.7	100%

The benefits from the removal of trade barriers will be evenly distributed throughout Kyrgyzstan's economy (see Table I), resulting in a projected GDP growth rate of 2.3 percent.[14] The dominant industries will be able to increase GDP by 0.5 to 4.4 percent. Industries with currently insignificant statistical impacts on the economy will receive a greater stimulus for development, with growth ranging from 8.8 to 92.5 percent. This is due to the small scale of these industries at present, and the fact that their development is highly dependant on transport costs. The removal of barriers will stimulate less developed industries, in turn diversifying and strengthening Kyrgyzstan's economy as a whole.

[14] Estimates are based on 2002 data, the increase for 2006 will be greater due to increased production volumes.

Table I. Projected GDP Growth due to Barrier Removal

Dominant Kyrgyz industries	Industry Growth
Agriculture, hunting and forestry	0.5
Production of food stuff and tobacco	1.2
Metallurgic industry	0.7
Production and distribution of electrical power	4.4
Industries with insignificant average weight	
Coal, raw oil and natural gas production	92.5
Other mining industries	62.3
Production of wood and wooden articles	16.5
Production of paper and carton, printing industry	9.5
Production of charred coal, oil refining, chemical industry and production of rubber and plastic articles	52.5
Manufacturing of non-metal mineral products	8.8
Manufacturing of ready-made metal articles	13.3
Manufacturing of machinery and equipment	9.7
Total GDP growth	2.3

Table J: Projected Kyrgyzstan Tax Revenue Growth

Indicator	Tax base change	Tax rate	2002	Growth	
	Thous.Som	%		Thous.Som	%
VAT on export-import operations	-1390689	20	3262902.7	-278138	-8.5
VAT on domestic products	1772597	20	1530776.1	354519	23.2
Profit tax	941060	10	967614.3	94106	9.7
Road tax	3555992	0,8	336654.4	28448	8.5
Emergencies tax	3555992	1.5	651344.4	53340	8.2
Tax from turnover of retail trade and services for the population	123750	5	410388.8	6188	1.5
Total, by tax group			7159680.7	258463	3.6

The above analysis suggests that the removal of barriers to trade will boost tax revenue growth to 3.6 percent (see Table J), while income from export-import operations due to the improvement of trade balance will also grow. The growth of export volumes will in turn increase tax revenue, specifically from profit and income taxes. However, it is difficult to evaluate this impact due to the difficulty of building elasticity curves.

In summary, the removal of trade barriers will result in:

- Growth of the domestic economy and of taxable income;
- Strengthening of integration tendencies within Greater Central Asia;
- Greater balance in economic growth and improved economic diversification through the stimulation of weak sectors;
- Greater export volumes from priority industries.

Means and Costs of Removing Trade Impediments

The following recommendations derive from the above analysis of barriers to trade in Greater Central Asia.

1. Security Recommendations

Regional trade development is impossible until the main security issues are resolved. The OSCE, SCO, Pakistan and Iran should participate in this process, and Afghanistan should join the OSCE.

2. Recommendations on Infrastructure

- The most effective way to boost trade is to improve transportation.
- The possibility of developing a regional transit system should be considered.
- The direction of transportation development should be determined: i.e. whether to focus on developing hubs or service corridors, or of upgrading existing infrastructure.
- A strategy for integration of various types of transport hubsand sea ports should be developed.
- New trunk highways designed to meet international standards should be constructed.
- New gas and oil pipelines and high-voltage electrical lines should be installed to increase the volume of energy resources transiting throughthe region.
- Communication lines should be expanded, and a regional fiber-optic network should be developed.

- Cargo and passenger air equipment and facilities should be upgraded, and new airline companies created.
- The computerized transit systems of various countries should be studied to determine optimal solutions for Greater Central Asia.

3. Recommendations on Legal and Institutional Issues

- Countries of Greater Central Asia should join the Transport International Routière (TIR) Transit System.
- The transit agreement signed between Kazakhstan and the Kyrgyz Republic on 26 March 2004 was a significant step towards implementing transit initiatives. Accession to this bilateral transit agreement by other regional countries should be encouraged as an initial step toward creating a new system of regional transit.
- Insurance and banking systems should be mobilized to encourage the use of national vehicle stock in regional transport.
- Accession to major international conventions, and training to facilitate accession, is necessary for all the countries of the region.
- A common legal system should be developed to harmonize customs codes and procedures.
- Modern customs services methods, including risk management, should be encouraged.
- A unified transit system should be developed.
- Customs procedures should become more transparent and information technologies introduced to facilitate the exchange of data.
- For border trade, there should be inter-governmental agreements to identify settlements considered to be within a border territory, and to specify which goods produced in these territories shall be considered duty-free. This is particularly important to increase Kyrgyz trade with Uzbekistan.
- Customs bodies should not charge duties for border trade; this will be facilitated by a pre-approved list of allowed goods.

- When borders significantly increase the cost of trade, simplified customs procedures, agreed upon documentation, introduction of electronic processing of documentation, and the creation of favorable conditions for progress should all be instituted.
- To intensify border trade and the opening of border trade centers, area governors could reach agreement within the framework of currently applicable agreements.
- Mechanisms for implementing decisions should be determined when signing inter-governmental agreements are signed, as should joint follow-on activities.
- To attract foreign investment and wider public support, policies and procedures should be clarified, streamlined and publicized.
- Consider extending the Convention on Preferences in Trade for Island States to intra-continental landlocked countries.

4. Recommendations on Bureaucratic Barriers

- Identify the roots causes of each barrier in order to develop targeted mechanisms for removing it.
- Since international conventions and agreements usually take precedence over the domestic legislation of member countries, it is recommended that regional governments address barriers that contradict pre-existing bi- and multi-lateral agreements, as well as international agreements and conventions.
- Consider making a joint appeal to regional governments for the reduction of fees.
- Implement a step-by-step approach to eliminate existing barriers and to limit the creation of rules and regulations that could create future barriers to motor transport development.
- In order to reduce transport demurrage, it is recommended to synchronize work schedules on both sides of a border crossing, and to create a centralized location at each crossing for the different services that issue border crossing documentation.

The above recommendations should be implemented by:

- Informing organizations responsible for barriers about their unfavorable impact, and demanding either the abolition or amendment of the corresponding laws, rules and instructions. Short- and long-term consequences should be evaluated before making any changes to regulations.
- Creating a position for a single officer to serve border passes at crossings with high volumes of international auto traffic; the officer would be responsible for addressing citizens' complaints about civil servants and could referee disputes on-the-spot. Disputing parties should be able to receive instructions on acts mandatory for immediate decision making and have the right to appeal.
- Establishing joint committees within the frameworks of international agreements to consider every new law, rule or instruction that might influence motor transport. Committee approval would be required prior to document ratification.

Conclusions

Geopolitical factors—the issues of strategic partnership and balance, state preservation and national security—take precedence over such economic factors as trade balances or tariff regimes, when assessing the long-term prospects for the development of foreign economic links. Geopolitical factors are key to selecting integration partners and vectors. Economic considerations influence political relations and foreign economic ties often represent a continuation of geopolitical links.

The geopolitical peculiarities of Greater Central Asia define its geo-economic situation: risky and low-productivity agriculture, lagging economic development and high population density in areas with arable land create conflicts over scarce resources, land and especially water. These conditions can give rise to cycles of instability.

The countries of Greater Central Asia support stability and development in Afghanistan, since regional problems are often re-exported Afghan problems. Afghanistan's development serves the interests of Afghanistan and the rest of Greater Central Asia, while the means of achieving it are of secondary importance.

Afghanistan requires a three-prong strategy that simultaneously addresses security, development and culture. Modernization without the cultural component caused a reverse effect in Iran. Both Pakistan and Iran should participate in solving Afghanistan's problems. Regional trade promotion in Central Asia should start with the stabilization of Afghanistan—this will lead to the free movement of goods, people and services, in turn facilitating development.

The development of trade across Afghanistan and the rest of the region will contribute to the greater commerce between both north and south, and west and east. If this is to be achieved, decisive steps must be taken toward removing regional trade impediments..

Kyrgyzstan stands to benefit considerably from the removal of existing trade impediments. Even though, the removal of trade barriers will have the greatest positive impact on more developed countries, yet more importantly, their elimination will enhance the integration of Greater Central Asia as a whole.