

THE NEW SILK ROAD STRATEGY: IMPLICATIONS FOR ECONOMIC DEVELOPMENT IN CENTRAL ASIA



JULY 31, 2013

**Briefing of the
Commission on Security and Cooperation in Europe**

Washington: 2015

Commission on Security and Cooperation in Europe
234 Ford House Office Building
Washington, DC 20515
202-225-1901
csce@mail.house.gov
http://www.csce.gov

Legislative Branch Commissioners

SENATE

BENJAMIN L. CARDIN, MARYLAND,
Chairman
SHELDON WHITEHOUSE, RHODE ISLAND
TOM UDALL, NEW MEXICO
JEANNE SHAHEEN, NEW HAMPSHIRE
RICHARD BLUMENTHAL, CONNECTICUT
ROGER WICKER, MISSISSIPPI
SAXBY CHAMBLISS, GEORGIA
JOHN BOOZMAN, ARKANSAS

HOUSE

CHRISTOPHER SMITH, NEW JERSEY,
Co-Chairman
JOSEPH PITTS, PENNSYLVANIA
ROBERT ADERHOLT, ALABAMA
PHIL GINGREY, GEORGIA
MICHAEL BURGESS, TEXAS
ALCEE HASTINGS, FLORIDA
LOUISE MCINTOSH SLAUGHTER,
NEW YORK
MIKE MCINTYRE, NORTH CAROLINA
STEVE COHEN, TENNESSEE

ABOUT THE ORGANIZATION FOR SECURITY AND COOPERATION IN EUROPE

The Helsinki process, formally titled the Conference on Security and Cooperation in Europe, traces its origin to the signing of the Helsinki Final Act in Finland on August 1, 1975, by the leaders of 33 European countries, the United States and Canada. As of January 1, 1995, the Helsinki process was renamed the Organization for Security and Cooperation in Europe (OSCE). The membership of the OSCE has expanded to 56 participating States, reflecting the breakup of the Soviet Union, Czechoslovakia, and Yugoslavia.

The OSCE Secretariat is in Vienna, Austria, where weekly meetings of the participating States' permanent representatives are held. In addition, specialized seminars and meetings are convened in various locations. Periodic consultations are held among Senior Officials, Ministers and Heads of State or Government.

Although the OSCE continues to engage in standard setting in the fields of military security, economic and environmental cooperation, and human rights and humanitarian concerns, the Organization is primarily focused on initiatives designed to prevent, manage and resolve conflict within and among the participating States. The Organization deploys numerous missions and field activities located in Southeastern and Eastern Europe, the Caucasus, and Central Asia. The website of the OSCE is: <www.osce.org>.

ABOUT THE COMMISSION ON SECURITY AND COOPERATION IN EUROPE

The Commission on Security and Cooperation in Europe, also known as the Helsinki Commission, is a U.S. Government agency created in 1976 to monitor and encourage compliance by the participating States with their OSCE commitments, with a particular emphasis on human rights.

The Commission consists of nine members from the United States Senate, nine members from the House of Representatives, and one member each from the Departments of State, Defense and Commerce. The positions of Chair and Co-Chair rotate between the Senate and House every two years, when a new Congress convenes. A professional staff assists the Commissioners in their work.

In fulfilling its mandate, the Commission gathers and disseminates relevant information to the U.S. Congress and the public by convening hearings, issuing reports that reflect the views of Members of the Commission and/or its staff, and providing details about the activities of the Helsinki process and developments in OSCE participating States.

The Commission also contributes to the formulation and execution of U.S. policy regarding the OSCE, including through Member and staff participation on U.S. Delegations to OSCE meetings. Members of the Commission have regular contact with parliamentarians, government officials, representatives of non-governmental organizations, and private individuals from participating States. The website of the Commission is: <www.csce.gov>.

THE NEW SILK ROAD STRATEGY: IMPLICATIONS FOR ECONOMIC DEVELOPMENT IN CENTRAL ASIA

JULY 31, 2013

WITNESSES

	Page
Craig Steffensen, North American Representative, Asian Development Bank	2
Danica Starks, Senior Desk Officer for Russia, Caucasus and Central Asia, U.S. Department of Commerce	4
Eric Stewart, Executive Director, U.S.-Turkmenistan Business Council	8
Joshua Kucera, Freelance Journalist and Analyst	11

PARTICIPANT

Shelly Han, Policy Advisor, Commission on Security and Cooperation in Europe	1
--	---

(IV)

THE NEW SILK ROAD STRATEGY: IMPLICATIONS FOR ECONOMIC DEVELOPMENT IN CENTRAL ASIA

July 31, 2013

**Commission on Security and Cooperation in Europe
Washington, DC**

The briefing was held from 2:05 to 3:46 p.m. EST in 340 Cannon House Office Building, Washington D.C., Shelly Han, Policy Advisor, CSCE, presiding.

Ms. HAN. Good afternoon. I'd like to welcome you all to the Commission on Security and Cooperation in Europe's briefing on economic development in Central Asia. We're focusing our attention today on what is broadly called the New Silk Road strategy. It's a strategy that's been around for quite some time but has been resurrected as part of our post-2014 strategy for Afghanistan.

The U.S. has struggled to define a strategic value for engagement in Central Asia that goes beyond security or counterterrorism or energy, and Central Asia has become more important after the invasion of Afghanistan in 2001 and then a similar shift occurred in 2009, with the creation of the Northern Distribution Network.

Over the past few years, I get the impression that our economic and foreign policy in the region has been led by military logisticians and that it will create some challenges as we move away from the need for these supply lines and to seek other avenues of engagement.

All of the countries in Central Asia face economic challenges, even the resource-rich countries like Kazakhstan and Turkmenistan. Kazakhstan and Turkmenistan are both facing problems, even though they literally have oil and gas to burn. They're having problems creating a more coherent economic strategy that can provide jobs, and then also the high employment and the fragile economies in Tajikistan and Kyrgyzstan and Uzbekistan mean that job seekers often have to leave the country in order to find work. Remittances have become important linchpins in these economies.

Combine these economic challenges with the lack of political freedoms and we have a recipe for potential future instability.

Because we have a limited time for discussion today, we're going to leave aside an in-depth discussion of the political challenges and focus on the challenge of economic development as a key component of stability in the region. I realize that the political and the economic are always intertwined, and nowhere more so than in Central Asia, but I think that we've all heard the very good and persuasive political arguments on why economic integration is important. But what I think would be most interesting to do

today—and it doesn't get as much attention—is hearing the business case for investment in Central Asia.

I'd like to ask the panel to talk about where we are in terms of building a better foundation for that economic development and how integration to the south, east and west can help accomplish that.

Once we hear from the panelists, I'll kick off the question-and-answer period, and then we'll open it up to the audience for questions as well.

I'm going to start with Craig Steffensen, who is the North American representative for the Asian Development Bank. Craig just moved to Washington in May. I think you just came from Thailand, right? Before that, had spent time in Afghanistan and Kazakhstan, and so bring some good experience from the region. I look forward to hearing your thoughts.

Mr. STEFFENSEN. Thank you, Shelly and members and staff of the Helsinki Commission, for this opportunity to join you this afternoon. I'd like to especially thank Senator Cardin and Representative Smith for hosting this discussion on economic development in Central Asia.

By way of introduction, I'm originally from Alexandria, but I've lived and worked in Asia for 30 years, most of them with the Asian Development Bank, almost all of them in the field. I hope, therefore, that my view from the trenches that you'll hear when we move to the discussion section will be useful.

The ADB has embarked upon the rebuilding of a New Silk Road that connects Afghanistan with Central Asia—and there's no stretch to say the Eurasian supercontinent—beginning in 2001. Much of the required investment that's taken place has been administered through the Central Asia Regional Economic Cooperation, or CAREC, program to what the ADB serves as a de facto secretariat. I was the head of the CAREC unit in Almaty, Kazakhstan, for a few years, in 2004 to '07.

To date, CAREC has funded some 136 projects, focusing primarily on transport, energy and trade facilitation, valued at more than \$21 billion. Some \$7.5 billion has been financed by the ADB, \$4.2 billion by the governments themselves and another \$9.4 billion by our development partners who work with us on CAREC.

For those of you who don't know CAREC, it's a voluntary grouping of 10 countries from Azerbaijan to Mongolia, including all the "stans," together with six multilateral institutions—ADB, the European Bank for Reconstruction and Development, the IMF, the Islamic Development Bank, UNDP and the World Bank. It's not founded by a treaty or a charter. It's a very practical, results-oriented sort of building block approach to development.

The officials involved are not from ministries of foreign affairs. They tend to come from economic ministries, most of them at the technical level.

There's annual ministerial-level conference that signs off on things. There are quarterly senior officials meetings, who prioritize and sequence what needs to be done. Then there are lots of working groups in transport, energy, trade policy and in trade facilitation that meet as needed to flesh out the details of what can and should be done.

In simple terms, CAREC—it's all about projects. It's also the only ADB-supported regional cooperation program that has a results framework which has been endorsed by all the country ministries to monitor the programs' effectiveness.

Is CAREC achieving the results? Well, I'm probably not the one to say so, but I believe yes, it is. As part of CAREC's transport strategy that calls for six transport corridors running east and west, north and south, ADB has already helped build about 2,500 miles of new roads, 2,000 miles of new railways, 1,500 miles of transmission lines, and trade facilitation or the time it takes to get goods, people and vehicles across borders has seen a 50 percent improvement in time.

In Afghanistan, CAREC is helping to rehabilitate the Ring Road, a 1,367-mile highway that links major cities like Kabul and Kandahar with Mazar-e Sharif and Herat. It's also supporting the development of a north-south corridor that will one day provide improved access for Central Asian countries to the ports of Karachi and Gwadar in Pakistan.

It's also supporting a new expressway linking Kabul with Jalalabad, and a new 46-mile railway line that connects Mazar-e Sharif with Uzbekistan and, for that matter, with the railway network of Central Asia, Europe, Russia and China.

So I'd like to believe that CAREC is playing a pretty important role in linking Afghanistan with its neighbors.

You may have heard of the TAPI project or the Turkmenistan-Afghanistan-Pakistan-India natural gas pipeline project. It's something we've been supporting for about 10 years. We put about a million dollars a year into it. I used to think it was a pipe dream, but I think every time they meet there's a little bit of progress, you know, towards moving this project towards reality. It's currently envisioned to be able to transport 90 million cubic meters of natural gas a day from Turkmenistan to Pakistan and India.

In Afghanistan, I think the—my proudest moment working there for six years was the day that the Ministry of—the Ministry of Energy flipped the switch for lights to come on in Kabul via a transmission line from Uzbekistan across some pretty mountainous country in Afghanistan to reach Kabul. It currently provides about 40 percent of the town with 24-hour-a-day reliable adequate power.

Let me skip ahead here and say that the construction and formation of the New Silk Road—it's very much underway, and there's been a lot of success over the past 11 years. We project that by 2020 more than \$50 billion in additional infrastructure is required to complete the six transport corridors, improve energy security and promote new corridors.

We look forward to the continued support to our multilateral partners to support the United States, one of ADB's largest shareholders, together with Japan, on these initiatives. The U.S. has been very important to ADB over the years, and we look forward to closer collaboration with the U.S. to ensure that Afghanistan resumes its rightful place at the heart of the Silk Road.

Thank you for your attention, and I look forward to the discussion.

Ms. HAN. Thanks, Craig, I appreciate that.

Next, we're going to turn to Danica Starks, who is the senior international trade specialist in the Office of Russia, Ukraine and Eurasia for Market Access and Compliance in the International Trade Administration of the Department of Commerce. Danica spends basically all day of every day trying to promote U.S. engagement, particularly economic engagement, in the region. So I'm looking forward to hearing her thoughts.

Ms. STARKS. Great, thank you, Shelly and thank you to the members of the Helsinki Commission for having me on this panel today. You all have my statement; I will run through parts of it as briefly as I can and am definitely open to questions later.

My role today is centered around three primary areas that I'll talk about, and that is looking through strictly a commercial lens, what is there to be gained by the strategy, the New Silk Road strategy? Is it viable going forward? What are the challenges that need to be overcome to make the strategy effective? How is the Commerce Department in particular leveraged its mission in terms of promoting American business, but also its expertise in trade and investment and economic development, to promote regional—the regional integration policies of the New Silk Road strategy?

As has been mentioned before, the idea of a regional approach into development is certainly not new. I can say, at least for the last 10 years, there have been various iterations of regional integration versus North-South corridor, and there's always been a certain amount of controversy going with it, especially the idea of integration for the region. There is a lot of sensitivity coming from many of the countries of the region with integration sort of having a context of domination, that the idea of integration would mean therefore a zero-sum game in terms of less political and economic independence, for nations that were legitimately trying to struggle for an independent identity, as well as an independent economic identity.

But one of the things that I would like to offer is that regardless of the terminology, regional integration, New Silk Road and other things, that the greater issue is that regional collaboration at the very least needs to increase in order for the economic viability of this regional to be fully realized.

New Silk Road or not, no matter what we call the policy, ultimately, companies are going to go where the opportunities of the market meet what they perceive as the risk and what their risk tolerance level is. In looking at the region, the question becomes, does this strategy or how do the strategies that the U.S. government is working on help to mitigate this risk? That is definitely something that the Commerce Department in particular is looking at.

Taking it back to Economics 101, I think we still believe that the development of economies of scale and the pursuit of comparative advantage still increases economic efficiency and is still a viable economic model that companies often look to in making a decision as to whether or not they're going to export to, invest, import from the region. Companies will go where the market is, and the greater the market and economic opportunity, the greater of amount of risk that they generally are willing to pursue.

In my work, I meet with companies pretty much on a daily basis, answering questions about what the business environment in the region is like and what are the opportunities, and I've been told on many occasions that in their—companies are often in a wait-and-see mode. They're either in the region doing certain projects and waiting to see whether or not they can expand to other countries in the region and do other projects, or they're waiting on the margins of the region, often doing business in countries such as Turkey or Russia, looking at opportunities in Central Asia.

In some cases, depending on the business model, the companies do not see the potential of just operating ad hoc-ly in one or two markets in the region. They really need to see a fuller, more developed market of the whole region, partly for population reasons, in terms of selling consumer products, consumer goods, but also logistics in order to make

it viable to enter into the region. So for example, if a company wants to set up in Country X, they would like to be able to use Country X to be able to export to Countries Y and Z.

The other thing that we have noticed is—I'll take an example of the franchising sphere—we've done quite a bit of work trying to help facilitate U.S. franchise businesses to take root in the region. We noticed that especially looking at a lot of the smaller markets, given the logistics with both supply chain, as well as the need to control quality, to control branding, that often, the master franchisers are looking for the ability to conduct a franchise agreement with the region, not just one country. In other words, they don't necessarily want to go through what it would take to set up in, say, Kazakhstan alone, without there being a plan to use that as a base for further work in the region.

So often, when you see a franchise open up in one country, very often, the person who got that license actually has a license for the whole region, not just one country.

In addition to those things, the geography of the region, mainly the fact that the region is landlocked—and even the countries that border a sea do not border an ocean there's increased transportation infrastructure links, ease of customs administration on a regional level in order for individual countries to be successful in getting their goods out to market, especially outside of the region.

There really is simply a lot more business that could be done if the region would work together.

There's a recent article that I came across in Industry Magazine called "Cold Facts," and it was a newsletter and it was an article written by a gentleman named Bsrat Mezghebe and he's the knowledge manager for the Global Cold Chain Alliance. He noted that there are many opportunities for further investment and further work in exports agriculture from the region if the cold chain storage infrastructure and transportation and road infrastructure were improved. He noted that from the Caucasus to Central Asia, fresh vegetables and fruits, frozen produce often do not make it to market due to the poor infrastructure and the lack of cold storage capacity.

In this case, this is an example of why regional collaboration is imperative. If one country were to develop an elaborate road system and one for cold storage, that's great, if you're only staying in that one country. But if your goods need to move anywhere else, you need every country the route to have developed the same level of capacity.

Some countries have made more progress than others, ultimately, it really depends on a regional approach to looking at things such as supply-chain management. We've seen some successful examples of where regional collaboration has led to transformative projects and success. Assistant Secretary Blake from the State Department spoke in March and he mentioned the Baku-Tbilisi-Ceyhan pipeline as an example in the energy sphere of a promising area. And he said, and I quote, that the Baku-Tbilisi-Ceyhan energy corridor shows us that linking producers in the region with consumers in Europe is a win-win. The leadership and collaboration among Azerbaijan, Georgia and Turkey and the development of the pipeline was critical not only in opening up that pipeline and that corridor, but also paid forward for further projects, as the Baku-Tbilisi-Kars railway.

Mr. Blake also went on to note the TAPI project that my fellow panelists also mentioned, the Turkmenistan-Afghanistan-Pakistan-India gas pipeline, and that this project, just like BTC, could be another transformative moment in the region, opening up not just the energy corridor, but a corridor for goods in transit.

As we look specifically to Afghanistan, it's definitely imperative, based on a lot of the nascent industries in Afghanistan, that transportation links be improved. The benefits in general, again, are not just limited to the New Silk Road. It's not just about Afghanistan and Central Asia. A lot of this regional collaboration is necessary if these countries are going to compete with the world and are going to be able to do business with the world. The challenges have been enumerated, the invitation to this event actually laid out very well a lot of them, in terms of the governments being able to create the necessary conditions, the questions about infrastructure development, customs regimes, reliable transportation networks, and the political divide.

I would like to proffer two other challenges from the commercial perspective that we see: One is looking at the area of public sector procurement. Companies have noted to myself and my colleagues very often that they're unaware of the opportunities in the region, because there is a lack of advance notice about opportunities in mining, in road construction and other things that are done by the governments of the region. Even when these opportunities are announced, often the window for applying is very short, they're very short lead times.

Also, there's often a nontransparent or perceived nontransparent selection process for many of these tenders, so we have had experiences where U.S. companies have wanted to go after projects in the region and have not been able to, solely because they can't actually bid on the tender.

Another area that has reduced and has potential to reduce commercial interest in the region is the limited infrastructure for innovation, and by this I mean the legal infrastructure: poor and in some cases nonexistent protection of intellectual property rights, a lack of legal basis for technology transfer, judiciary systems that are not equipped to adjudicate commercial disputes and commercial issues and also that are perceived as being heavily influenced by the executive or other government ministries, and then an often outdated or nonexistent policies regarding standards and other quality control items that disincentivize not just U.S. but any companies coming to the region to innovate but also discourage local innovation as well. In terms of a commerce response, in my statement that you have in paper, you'll see that we have a lot of programs to offer. But I wanted to really emphasize that our goal is broader. It's—in our opinion, it's not just narrowly about a new Silk Road. It really is about enabling this region to be the commercial partners that will allow people on both sides of the water to do more business. I note that, you know, ideally we would love for Kyrgyz farmers to sell their food in markets not just to Kyrgyzstan but Afghanistan and Pakistan. If Uzbek traders could fly directly to Dushanbe, if businessmen flying from New York could visit Azerbaijan, Kazakhstan and Turkmenistan in one week—how many of us in this very room have tried to string together three countries on a trip to Central Asia and just can't do it because the flights don't exist? You can't drive. It's definitely a challenge. We want to move beyond just a new Silk Road to really helping these countries to be competitive globally. Listing several of the programs that we have working in this area, I'm from the International Trade Administration, which, broadly speaking, strengthens competitiveness of U.S. industry by promoting trade and investment. We work to improve the global business environment. We work to promote U.S. exports to this region and all the regions of the world. We support efforts, for example, with accession to the World Trade Organization, which several countries in the region are pursuing. We have another program that I'll be mentioning,

our Special American Business Internship Training Program, which we lovingly called SABIT, and that program brings managers from all over Eurasia, as well as Afghanistan and Pakistan, to the U.S. for sector-specific training and interaction with U.S. companies. We have an Afghanistan Investment and Reconstruction Task Force that supports the development of the Afghan private sector through business, business matchmaking and various other programs. We have our commercial law development program, which is under our general counsel's office, which works to try to help U.S. foreign policy goals by advising on commercial legal reform.

I'll just list out a couple of examples. The rest you can read in the statement. The Regional Business Integration program of our Afghanistan reconstruction task force is going to be assisting its participating Afghan firms to develop relationships that can produce opportunities for trade. One of the programs that they have coming up is called Sheep to Shop, and it's an interagency initiative to develop Afghanistan's carpet sector. The carpet sector is still Afghanistan's top legal export. The idea is to help introduce Afghan carpet producers to wholesale retail markets and also giving them a sense of what modern trends are in terms of rug design. We're also doing several business missions, helping Afghans to access markets in Oman, Turkey, the UAE, Singapore and others places. Our Special American Business Internship Training Program, among the sectors that it runs programs in, we have programs in transportation and logistics and cold-chain storage, where we bring these companies from the region to meet with U.S. companies and logistics in these areas. I can explain more about that later. Our commercial—our development program has been implementing programs in Kyrgyzstan as a pilot for the rest of the region, looking at legal infrastructure. They've been working on intellectual property rights. They've been working on customs. They've been working on public procurement. They submitted a proposal in cooperation with the U.S. trade representative to do a regional program looking at standards and customs. In conclusion, I wanted to emphasize that we do not believe that our core mission, which is primarily to support American business, American exports, is not mutually exclusive to helping the countries of the region. In fact, we believe that as we, the U.S., are looking to promote our own economic growth and to grow domestic jobs, that building opportunities in this region only helps us. This region taken together does have tremendous opportunity for U.S. exports, does need U.S. goods and services, lots of needs and equipment in other areas. Creating better markets there creates better markets for U.S. products.

Our efforts are not in vain. Our SABIT program that I mentioned has received a 14:1 return investment for the money—U.S. government money that was used—that has been used to run the program, they have generated over \$900 million in U.S. exports.

We believe that in helping these countries to compete not just locally but globally, that there will also potentially be investors for the U.S. One of the things that this administration has looked at is how to increase foreign investment in the U.S. I have to put in the obligatory plug. The Commerce Department is having a first-ever SelectUSA Summit—Investment Summit October 31 to November 1st, where we're encouraging people from other countries to come and learn about opportunities to invest all over the U.S. We would love one day, if not this year, to see companies from Central Asia coming to maybe franchise their products and to franchise their businesses in the U.S. and to employ U.S. workers. We believe that there's return on investment in these programs, that there

is potential but tremendous amount of challenges. But we're looking forward to working to try to do what we can to meet those challenges. Thank you.

Ms. HAN. Thanks, Danica, that's great.

Next, I'd like to ask Eric Stewart to offer his expertise. He is a partner with the Washington, D.C., firm of Williams & Jensen, and he also serves as the executive director of the U.S.-Turkmenistan Business Council. Prior to that, he was a deputy assistant secretary for Europe at the Department of Commerce. But Eric gets a gold star in my book because he's the first U.S. businessman I met at an economic forum of the OSCE. So he's one of the few U.S. businesspeople who understand that OSCE process. So over the years I've followed your work, and am interested to hear how the U.S.-Turkmenistan Business Council is going and how that parlays into the new Silk Road strategy.

Mr. STEWART. Great. Thank you very much, Shelly. I thought I was going to earn the gold star because I drove back from vacation today for this hearing.

Ms. HAN. That too, that too.

Mr. STEWART. I'm going back to vacation right after this. Hence the tan. I have not submitted my paper to you yet, Shelly, but I will do that after this.

Ms. HAN. Taking away the gold star.

Mr. STEWART. Yeah, yeah. I'm going to just talk a little bit and—rather than go directly through my paper, just give some collective thoughts on my view of the region and these ideas, something that we've been talking about, Danica and I have been talking about for many, many years. What do we do? If somebody actually put out a map out front, which was really nice to have the map so everyone can see where the countries are. But if you look at the map, Central Asia really is in the middle of the world. When you consider the fact that you are surrounded by China, Europe, Russia, India and the Middle East, the only thing you're really missing is the Americas and Africa. I mean, other than that, you're surrounded by the world. And so what a great strategic asset. In addition to oil and gas and minerals and agricultural, what a great strategic asset. But there's always a but. There's a hook, right? So the Central Asian countries are in the most wonderful strategic location in the world, but the hook is, you're landlocked. If you're landlocked, you can't develop maritime. Well, right now, the maritime between Europe and the West, if you will, the West more generally and Asia, 90 to 95 percent of all the goods going back and forth between Asia and the West is maritime. Utilization of a supply route is something you can't utilize. So what do you do? You develop the land transportation, and that's essentially what really needs to happen. And you're starting to see a fair amount of the land transportation being developed: Kazakhstan, China, Turkmenistan, Russia. A lot of the countries are developing the rail and putting a lot of emphasis and investment into rail, which is a great idea. But roads need to also be significantly developed as well, because road transportation is a great mechanism not just for the long haul between Europe and Asia, but for the short-distance trading. And why is this critical? Because this is where the Central Asian countries will input their goods and their products into the—in the process as well. So if the roads aren't developed along with the rail, then what you're essentially doing is building a bridge over or through Central Asia, and that's obviously not the strategy or the development that will lead to a long-term development for the republics of Central Asia. It's critical that we not only have rail development but we have road development as well.

In a previous sort of life, if you will, I ran a program at the U.S. Chamber of Commerce called the Eurasia Business Platform. It was a program that we ran for a number of years that was focused literally on this very idea of how do we develop and create an interesting policy program that would be of interest to American companies and doing more business in Central Asia, because at the end of the day, you know, each of the countries is doing well enough, right? Each of the countries is developing. Each of the countries is developing at their own pace. They are having success. Kazakhstan, obviously, has attracted billions of dollars in U.S. investment. Turkmenistan—we have—as the head of the Turkmenistan Council, we have almost 20 American companies that are members of our council, which is absolutely significant. The countries are, themselves, doing well in many respects.

They could be doing better, though. That's the idea, and that's the discussion that we're having today is, how do you—how do you make it better? What Danica has talked about, and what's been discussed for many, many years, this idea of the great Silk Road is, you create some type of regional hub, you create some type of regional interaction.

The fact of the matter is, those discussions—the way we have had those discussions are not working, in my opinion. The reason they're not working is, we continue to have these discussions, in my opinion, with the Central Asians as a group. We group the Central Asians together and say, you are Central Asia.

That doesn't work very well, in my opinion. Each of the individual countries need to be treated as individual nations, as individual republics, and on a very bilateral basis, with the same messaging and the same points, but not together as a group. This is something that I think the U.S. government and specifically the USTR recognized a number of years ago when they had this Central Asia TIFA—the Trade & Investment Framework Agreement, which is supposed to be a mechanism leading to future free trade agreements, if you will and a number of years ago, made the decision to not just have Central Asia discussions regionally, but made a decision to have regional discussions and bilateral discussions.

That's something that I think is absolutely essential and critical, but I think for me and the number of companies that I talk and the businesses that I talk to, what's essential is to work with the Central Asian republics to the point where they see the future value and the immediate value of developing what I consider to be the lowest common denominator of working together, which is to create some type of harmonized customs and border procedures, going to Danica's point from the Commerce Department, because individually, the largest country in Central Asia is just under 30 million; the smallest is a couple of million.

Well, for the distance, the complexity, the cultural differences that we have—that's a long way to go for many American companies to make an investment. Now, if you bring all the Central Asian governments together, now you're looking at a substantial market. You put the Central Asian and the Caucasus together, now you have a market of 80 million people, which is roughly the size of Germany. Now you have an interesting—from a business standpoint, an interesting market that has a lot of consumer potential for not only trading but also investing and potentially creating hubs.

The lowest common denominator, in my opinion, that needs to be accomplished, is to have some type of harmonized customs and border procedures. And again, I believe this is something that needs to happen individually with each of the nations and under-

standing what they would be comfortable with and what they're willing to do, recognizing that security is going to be a—one of the top issues on that agenda, in addition to the ease of doing business.

But as we talk about this and go through this process, I'm sort of struck by curiosity as to what's in the Russia-Kazakhstan-Belarus customs agreement, and, you know, here is something that was able to be accomplished between three neighbors, two of them very important—or three of them, really—all three of them very important for the land bridge, if you will, between Asia and Europe. Is there enough in there that would allow for the transparency, the security, the stability for some type of mechanism that Western companies would be comfortable with?

I don't know the answer to that question; I'm simply throwing the question out to experts who might. But I think, in my opinion, that's really what it comes down to, is really finding a way to develop the borders, because if you don't, then they will—each country will continue to develop on its own pace, which is not, frankly, in my opinion, fast enough for each of the countries to allow themselves to really take their God-given potential in this global economy and developing at the rate they should be for where they're located and for the great natural resources that they have.

I think, in order to achieve this has to be an approach with a lot of organization—we call them the alphabet soup, if you will; the ADBs, the UNCTADs, the UNECEs, WCO, UNDP, World Bank—I could go on and on; you name it—but also with the countries themselves, the Turkeys and Russia and China and the European member states. What else is really interesting about this is because the first contact points into Europe—if you were to truly develop a private sector Silk Road that really made sense are some of the U.S.' closest friends and allies anywhere in the world. I mean, and a lot of the first entry point countries are going to be Poland, Romania, Lithuania, into the European Union. These are countries that we worked with very closely.

I think also, it is very interesting—these are countries, I think, that would be good partners and good role models and good interlocutors with Central Asian countries simply because of some of the shared history and some of the shared challenges that they have jointly gone through together, and especially when you look at some of the Baltic countries, the—a lot of the populations are similar in size. So I think they could be good interlocutors in the process. And in fact, over the last five years or so, we've seen a lot of heads of state from the Baltic countries and Central Asian countries visiting one another, and from Central Europe as well. So I think there's a—there's a real potential there.

I've gone longer than I expected to talk, but the bottom line is, my message is, very simply, the importance of some type of custom harmonization border control program that not only allows trade between Europe and Asia, but allows the Central Asian countries to participate and develop in that, so they service the land bridge, but then they also participate in the land bridge as well. If that's possible, then we end up with a win-win-win situation, thanks.

Ms. HAN. Thanks, Eric. Batting clean-up is Josh Kucera, who is a journalist who writes for EurasiaNet. He also has his own blog—or do you—the Bug Pit is your blog, right?—and travels a lot in the region; just recently came back from Tajikistan and also an extended trip to the Caucasus and the Baltic countries. I've asked Josh to sort of step back from the details that we've been talking about and give a little broader view of what's going on, in your perspective. Thanks.

Mr. KUCERA. Well, thanks, Shelly, for inviting me to this. So as a journalist covering Central Asia, and especially U.S. policy towards the region, I've been closely following the development of the U.S.' New Silk Road Initiative since it was formally announced by Secretary of State Clinton two years ago, and even before that, when it was a concept being worked out by think tanks here in Washington and by military policy planners at CENTCOM who were looking at long-term ways to stabilize Afghanistan.

For those of you who are—don't recall the New Silk Road Initiative when it was rolled out, Secretary Clinton spoke—it was almost exactly two years ago in India; her sort of takeaway quote from this—announcing this New Silk Road Initiative—let's work together to create a New Silk Road; not a single thoroughfare like its namesake, but an international web—a network of economic and transit connections. That means building more rail lines, highways, energy infrastructure like the proposed pipeline to run from Turkmenistan through Afghanistan through Pakistan into India; it means upgrading the facilities at border crossings, such as India and Pakistan are doing now at Wagah, and it certainly means removing the bureaucratic barriers and other impediments to the free flow of goods and people. It means casting aside the outdated trade policies that we are all living with and adopting new rules for the 21st century.

That's a very ambitious statement. Even before this initiative was rolled out two years ago, there was a lot of skepticism about whether it was workable. Two years since then have only given more reasons to doubt its efficacy. Two years after it was announced and a year—only a year before the U.S. starts to pull out its forces from Afghanistan, it seems that the New Silk Road remains more of a talking point than an actual initiative.

When we talk about the New Silk Road, it's important to clarify exactly what we're talking about. Generally speaking, the New Silk Road is basically a marketing term that encompasses anything that involves trade between Asia and the West, whether the former Soviet Union or the Middle East or Europe.

No doubt there are connections like that popping up all over the place. That was an inevitable result of the collapse of the Soviet Union.

With the opening up of the borders of Russia and Central Asia—the Central Asian states of China and South Asia—of course, cross-border commerce of all kinds is filling that vacuum that was artificially created by those hard Soviet borders. Companies now ship goods by rail from China to Europe through Kazakhstan. New railroads are being built from Kazakhstan through Turkmenistan to Iran. China, Iran and Turkey are building roads and bridges in Tajikistan.

However, when we talk about the U.S.'s New Silk Road initiative, this is something much more specific. This initiative puts Afghanistan at the center, as a hub of regional trade. This is why the U.S., when it talks about the New Silk Road initiative, you'll hear them over and over mention two specific projects: TAPI, like several people here have already mentioned, and the CASA-1000 electricity export project, which would ship electricity from Kyrgyzstan to Tajikistan to Afghanistan and Pakistan.

However, while this U.S. vision is more specific, the means by which the U.S. intends to implement it remain very unclear. U.S. officials emphasize they are supporting a regionally-owned vision rather than putting their own money into it or developing their own projects.

But the problem is that very few existing regional integration projects involve Afghanistan, for the obvious reason, that it's very unstable and has very poor infrastructure.

There are very few pairs of countries that if you try to imagine, you know, the most advantageous way to get goods from one to the other that the route would pass through Afghanistan. Making this even less likely is that the U.S. explicitly says that it doesn't want these projects to include Iran, Afghanistan's giant neighbor and probably its most convenient corridor to Europe. So effectively, that leaves only trade between ex-Soviet Central Asian republics and South Asia projects like TAPI and CASA-1000.

So those projects, even if they do develop, hardly seem like the kind of game-changing projects that Secretary Clinton said were part of the U.S.' vision of the New Silk Road. This focus on Afghanistan I think is the fundamental flaw to the U.S.' vision of the New Silk Road.

However, there's also a number of more specific reasons that it won't work. I'm going to focus primarily on, you know, Afghanistan's northern neighbors, the ex-Soviet Central Asian republics. I think there are analogous issues. Pakistan's relationship with Afghanistan obviously is very complex, not to mention with India, that sets on a set of issues but I'm going to focus here on the Central Asian question.

The first problem is the lack of a market for this sort of commerce. U.S. officials have repeatedly argued that the Northern Distribution Network, the series of military transport routes that it uses to ship cargo to soldiers in Afghanistan can serve as a proof of concept for the New Silk Road. And NDN has indeed been a success in terms of ensuring relatively smooth delivery of supplies to the military in Afghanistan via the Central Asian states. Recently, the U.S. celebrated its 100,000th container shipped via the northern spur of the NDN, originating in the Baltics. But the NDN has a market: troops in Afghanistan. Absent the military, the U.S. has failed to demonstrate what sort of market there might be for an Afghanistan-centered New Silk Road.

The second reason, and this is a big one, is that these countries fear Afghanistan. Most Central Asian countries want nothing to do with Afghanistan. They see it as a source only of potential problems, primarily drugs, radical Islamism and guns.

One buzz word that you now regularly hear in Central Asia, Central Asian capitals, is spillover. This is the idea that once U.S. forces leave Afghanistan, the chaos there will increase and spread into Central Asia. I would argue that these fears are somewhat overblown and exaggerated for their own internal reasons. Nevertheless, it's obvious that these countries see Afghanistan, especially post-2014, as more of a problem than as a solution.

U.S. government officials, when they talk about the New Silk Road initiative, indirectly acknowledge this fear by saying that increased trade will result in positive spillover from Afghanistan. But this—while it's a nifty rhetorical device, there's no indication that Central Asian governments believe it.

One telling statistic is that while about 80 percent of military cargo going into Afghanistan has been shipped via the NDN, only 4 percent of the goods being shipped out go via the NDN. That's because Uzbekistan, which is the first stop after Afghanistan on the main route of the NDN, has thrown up a number of barriers to traffic coming out of Afghanistan, making it almost prohibitive to use that route. Shipping companies working on the NDN say that the government of Uzbekistan is apparently afraid that contraband can be smuggled via these trains carrying U.S. military cargo back. The U.S. is sending scanners to the Uzbekistan border to help expedite this process of clearing these shipments, but it speaks to the great mistrust that Uzbekistan has of Afghanistan.

A third big problem is regional mistrust, not just of Afghanistan but among the Central Asian countries themselves. No Central Asian regional integration plan can work without Uzbekistan. This is something everybody agrees on. It's the most populist country in the region, the only ex-Soviet Central Asian republic to border all the others. It's the hub of the Soviet legacy transportation system and has by far the best connection from Afghanistan's north to the rest of the world. However, it has very bad relations with nearly all of its neighbors and has exhibited no interest in U.S.-backed regional integration programs like the Istanbul process.

In addition to the problems mentioned before with Afghanistan, Uzbekistan has also systematically cut off commerce with Tajikistan. If you look at the map, you'll see that Tajikistan really relies on Uzbekistan to—for commerce with the rest of the world. Uzbekistan has used—with various political problems, has used that fact as a lever to pressure Tajikistan in various ways. Over the past decade, Uzbekistan has mined the border, repeatedly raised import duties, imposed visa regimes on Tajikistan citizens and blocked rail traffic.

Neighboring countries have begun to react to this by creating rail projects that bypass Uzbekistan, like the Kazakhstan-Turkmenistan-Iran, and the Tajikistan-Afghanistan-Turkmenistan projects. And while the projects are necessary lifelines for these countries to avoid the road blocks that Kazakhstan is throwing up, a real regional strategy has to include Uzbekistan. U.S. officials, however, almost never acknowledge Uzbekistan's intransigence on this, let alone criticize it, needing to stay on the good side of the government for the sake of the NDN.

Fourth big reason is the lack of interest in free trade in the region. Boosters of the New Silk Road initiative argue that it doesn't require hardware. It doesn't require the U.S. to necessarily spend any money on large infrastructure projects, but only software, like reducing bureaucracy on borders.

Like Eric said, that is the—you know, the primary barrier now to trade in the region, but the bureaucracy on these borders, that is the high customs fees and the pervasive corruption are in the minds, of Central Asian government not bugs but features. Control of border traffic is a sinecure which all Central Asian governments use to pay off elites, including their family members. So while free trade may be good for the countries of Central Asia, it would be bad for the members of the government and their allies. That's who these governments serve. That is a problem that the U.S. is incapable of solving.

The final problem is the lack of U.S. resources. This is an incredibly ambitious vision with a lot of obstacles. The U.S. has promised basically that it's not going to devote any resources to implementing it. With a resurgent Russia exerting its authority again in Central Asia, a China that's obviously becoming increasingly economically active in the region, the U.S. has less and less clout to throw around in Central Asia. Absent that, and without spending any money, it's not clear what Washington hopes to do to steer these regional integration projects in the direction that they want them to go. Furthermore, U.S. interest in Central Asia is certain to decline even more as the pullout from Afghanistan progresses.

In addition to the large amount of skepticism that Central Asia watchers have regarding the New Silk Road initiative, among its few backers, there's a frustration that the State Department and other officials who are supposed to be implementing it are in fact slow rolling it and not doing anything to implement it.

Taking that all into consideration, it's hard not to escape the conclusion that the New Silk Road initiative is effectively a little more than a talking point, a rhetorical fig leaf to make it appear as if the U.S. isn't abandoning Central Asia after 2014.

Thanks for having me. And I look forward to your questions.

Ms. HAN. Great way to start the discussion, Josh. I'm going to kick off with a couple of questions for the panelists. There will also be an opportunity for the rest of you to maybe react to some things that Josh has said.

I think it's true that the term the Silk Road—and the State Department does have a specific definition I believe on Silk Road strategy itself, the New Silk Road, but we could look at it as a larger issue of just economic development and whether or not you're looking at Afghanistan being integrated with South Asia, India, Pakistan, or if you're looking more at Central Asia or if you're talking about China to Europe going through Central Asia, if we just look at this broadly and ask, what are the opportunities?

I'm curious because Eric had touched on something that's always been a question in my mind is if we look at the markets and where goods go there was a great New York Times article last Sunday about Hewlett Packard sending computers from China to Europe going across the—Central Asia by rail. You mentioned that, you know, just rail routes aren't going to cut it because you need the road infrastructure so that—because even—but to me, it seems like even with roads, Central Asia is just becoming another transit point.

Then how does transit then translate into economic development, because it seems that without having any sort of value added by the Central Asian states or inherent markets that it's difficult to have growth, economic growth? They'll just become transit opportunities. And no matter how many truck stops you would build, how is that going to help the country?

If we could talk a little bit about what we see as opportunities for actual development and what those things would be. It gets also into the question of harmonization. I think the ADB and CAREC do a lot of work on this in terms of the harmonization of the infrastructure. And maybe you could talk a little bit more about what the ADB has done and what Eric was talking about, the need for doing that. And Danica, I think you also have that as well.

If you could also perhaps comment on the Eurasian Union proposal and then also how, China, I believe, has also proposed a Shanghai Cooperation Organization free trade area as well, and how those types of opportunities could help or hurt this type of harmonization strategy that is needed.

I'll start with Craig, then go to Danica and then Eric and Josh, if you all want to weigh in.

Mr. STEFFENSEN. Before moving to Washington a few weeks ago I headed up ADB's office in Bangkok. And I worked quite a bit when I was there on something called the Greater Mekong Subregion Economic Cooperation program, which is a predecessor in some ways to the CAREC program.

We like to show a PowerPoint where we show the sort of evolution of the road and network across the sub-region. It shows transmission lines and Internet, telecommunications, trunk lines, pipelines, what have you.

From 1992, you know, you see one sort of grid, sort of a skeleton framework, and then it switches to 2002 and then 2012, and the final slide is what things, you know, may look like in 2022. It's all very impressive to see these cascading slides of this road, power network appearing.

That's the most dynamic region in the world today. We thought for a long time that, GMS investments were sort of—undergirded a lot of the development that's taking place.

But I saw some slides at a tourism forum recently—it had really nothing to do with GMS program because it was all private sector—but they showed the evolution of a low-cost air carrier network in that part of the world. And it got started sort of in 2001, I think. And they had only a few slides, but if you look what happened between 2001 and 2013, it makes everything that's happened on GMS look like, you know, like it's not—it was wired. It looked like the backside of a—you know, a computer chip under a microscope. It was amazing how quickly the regional air network has come together. It's not something that ADB or the governments were directly involved in. These are all private investors. It's not something that really required a whole lot of attention on our part. On the contrary, no one was really paying much attention to this at all. Maybe that's the reason it's taken off so well.

But extrapolating all this and applying it to Central Asia—and what I'd like to say is that sometimes I think we sort of take as a given that there are things we have to do for things to happen. I think that maybe the low-cost air carrier network and the GMS shows that if the conditions are right, if entrepreneurs believe that they can make a buck, and that the government is not going to shut them down, and if the demand is there, you know, if there are tourists who want to fly from Bangkok to Mandalay, to Luang Prabang, up to Da Nang in Vietnam and back to Bangkok, sort of a tourism circuit there, if the same thing were to happen in Central Asia between—you know, between Tashkent and Bamyan, and then Bishkek, and I could go on, there's nothing that anyone really would have to do except to make it known that this is possible. It's always been sort of a mystery to me why there aren't more low-cost air carriers across the subregion.

I don't want to look at a glass half empty here and see what's wrong with the place. I see just all kinds of opportunities. For all the sort of attention that—for all the reports we read in the media about how things aren't going so well militarily, even politically in Afghanistan, my view from the trenches there is that, at least economically—and if you look at what development partners together with and others are doing, you know, there's a real success story that can be told.

Who has the upper hand at this point? I don't know. The politicians or the business people? You know, one could really muck it up for the other, but I can't help but think that things aren't as bad as maybe we'd like to believe sometimes.

On harmonization, what can I say? The fact that Russia has joined the WTO is huge, and now that they've sort of set terms and conditions for their own participation, I think the expectation for a long time has been that Central Asian countries will follow suit, you know, with a very similar package.

When it comes to some of the trade issues we've been hearing about, I think WTO will sort of provide a framework where everyone can negotiate a way forward. There's a spaghetti soup of trade agreements across the region that sort of, you know, has everyone confused, if not paralyzed at the moment, but thanks to WTO, I think, you know, there's a way out of this mess yet.

Ms. HAN. Danica, is WTO sufficient or what else do we need to do to get harmonization going?

Ms. STARKS. Sure. Well, being in the WTO alone is not sufficient. It's what you make of it. Passing laws is not enough. It's enforcement. However, it does provide an incredible framework. The actual process of accession is a tremendous opportunity to take a look at the entire trade infrastructure from a policy standpoint.

But again, a lot of it comes down to something that Josh implied when he was talking, which is political will, that you can have all the great laws in the world, but if there are interests who benefit from those laws not working, then you ultimately are not going to be able to move forward.

Answering Eric's comment about the Eurasian Economic Community and the Customs Union, it has been very interesting to watch. The interplay between Russia, Kazakhstan and Belarus as they negotiate, in some cases not negotiate, tariffs and other—and common borders and looking at intellectual property rights and other things, it's a little bit complicated because, for example, Russia got into the WTO; Kazakhstan is still acceding. And so there are things that have had to change over time.

But it's been fascinating to watch because it's forced a dialogue, and the dialogue is not between countries of the region and the U.S. It's not about what the U.S. or Europe or what anybody else wants. It's them looking at their own country, their own nascent industries and trying to work out among neighbors.

It's an interesting idea, but I don't know that the complexity that it requires is something that there's political will for right now in Central Asia in terms of looking at that level of harmonization that's needed.

I do think that your example, Eric, of looking at the Baltics or some other countries as there a country—interlocutors and models is a great idea. Again, I use the term “regional collaboration” over, say, integration not because integration in some cases is necessary—Eric and others mentioned that harmonization is a key area—but in some cases, the collaboration is to enable each country to develop individually. But right now, in a lot of cases, they are competing against each other.

Everybody is trying to make the same things. Everybody is trying to sell the same commodities. The region has not really realized the comparative advantages that it could if countries could actually specialize amongst themselves. If everybody would agree that this is the country that's going to specialize in this area, this is the country that's going to specialize in this area—there were some examples given the other day that there are countries that are producing products that they really don't have the economies of scale to make enough money on.

It would be great if they could just stop producing those products, but that's not that easy to tell a country that's struggling to prove that it can operate independently and on its own, but a regional approach in terms of collaboration and looking at where are the niche areas that we can fulfill.

You mentioned the Baltics. I look at Estonia. I was there actually on vacation recently, and I'd gone on a cruise. You pull up to the port, and they basically did everything possible to encourage you to get off that ship and spend money in Estonia. I mean, everything but—come on and wheel you around in a golf cart. In terms of making it very easy to enter into the port, no bureaucracy in terms of getting into the country; English and

Chinese, Japanese speaking tour guides waiting around, and sightseeing and those types of things.

Then I look at a lot of the countries in the region that have some of the—have similar touristic ambitions but it's impossible just to buy a plane ticket over the Internet in some cases. So the ability to actually develop a niche, but to have the political will to make the changes necessary I think is key.

In terms of the idea of harmonization, I think one the tacks that we've taken is exactly what Eric mentioned, that, in some cases, it doesn't always work to put everybody in the same room and try to get everybody to speak the same language. You're right. In addition to the Central Asia Trade Investment Framework Agreement to have bilateral working groups to work individually with countries.

Our commercial—our development program—I believe we have a representative here, Emily Lanihan. In the back. They've put together a proposal that would do just that, that would look at standards and customs and other issues but work individually with each country to get them up to international standard. If you get everybody up to international standard, then you eliminate just right there a lot of the barriers. Then you can talk to each other on a regional level because everybody's speaking from the same page.

So that's another strategy going forward. Whether or not the sort of Customs Union idea would work, I just—I'm not sure. It remains to be seen. It's still in the development stages for what it is, but it is an interesting model to look at.

Ms. HAN. Eric, do you have a comment?

Mr. STEWART. Sure. Just building on this idea. There's so many cultural differences and so many ways of doing business that are different from us and Central Asia. That's the reason I suggested looking outside the box.

I don't think you can continue to say this is the way we do it and, Central Asia, adopt our programs. It's not going to work. We've got to find ways to do things together that make sense from a Central Asian perspective and working to their culture and their ideas for business. That's the reason I threw out something what I think as sort of unconventional, if you will.

But to go back to your question, Shelly, on the idea of investment and how does Central Asia play a role and not just be, you know, passed over or passed through, if you will, transient from one to the other.

If you look at where American companies and Western companies and any kind of companies invest, they're not political decisions, they're decisions based on costs, on supply chains, on consumers and the ability to, you know, efficiently run an operation.

I mean, you look at your example of HP. They've opened their plants in western China, where issues of corruption run rampant, where crime is high, where poverty is high, people are still on a couple of dollars a day. They are in the Wild, Wild West, if you will, of China with their plant. What country in the world doesn't want HP to open a plant in their country? Every country wants an HP plant, so western China has one. There's no reason that that same plant couldn't be housed in any one of the Central Asian countries, but there are reasons today why they are not. And one of them is the ability to move efficiently.

I don't think it's so much just focusing on what do the Central Asians have today that they, you know, grow or that they develop or that they manufacture that would fit

into the overall scheme. It's what opportunities can they attract, and what types of companies can they attract, and what types of companies can they bring in? Because a lot of countries around the world haven't necessarily developed from themselves what their niche is, right? They brought it in and they made themselves competitive.

You have tiny little countries all over the world who have made themselves extremely competitive by being transparent and open and having the ability to create themselves as a hub for other parts of the world. I think that's the—that's the message to continue to push.

Frankly, when I look at the countries of Central Asia, I'm not sure there is a single big American investment anywhere in Central Asia, outside of energy, outside of the energy sphere. I'm not sure that here is something significant. There are few things here and there. I mean—I know Uzbekistan has an assembly planned from Case New Holland, and they've got the Ford—

Ms. STARKS. GM.

Mr. STEWART. GM, sorry. That was an Uzbek sort of financed operation as they were losing the plant from another company. But I think the point being, for me, it still goes down to the very fundamental fact that this is what needs to be developed and it's the ability to move across borders. If that happens, as you talked to—you said, as you termed it, the soft—if that happens, the hard infrastructure will come. The companies will build the roads. The government doesn't need to do that, the companies will do it. If they see the opportunity to do business, they'll put the money into the infrastructure. They'll put the money into the ports, into the stations, into whatever it takes if there is a system there that shows them they're going to be able to move the goods.

Ms. HAN. Thanks. Just one more question from me and then I'm going to open it up to the audience, so you all can be thinking about what you might want to ask.

I want to talk a little bit more about the role of China and the European Union, and how things are moving across, and what push and pull factors are there. I know that China is really active in Central Asia. You probably, Eric, run across trade delegations from China in Turkmenistan all the time. But I'm curious—do you ever run across European trade delegations with the same frequency? Do we see the same type of engagement? Then does the European Union support the ADB and CAREC programs? What kind of engagement do you have from Europe in terms of trying to create some sort of integration that way?

Danica, how are you all working with China? Do you work with the Chinese in the region or is there any sort of engagement on that side? Thanks.

Ms. STARKS. In terms of Commerce specifically, I can't think of an area where we directly—in terms of third-party work, work with the Chinese on the region. I think—as far as commerce is concerned, we're market oriented. We're following what the companies are doing. We are not taking the lead and telling companies where to go and what to do.

Often, we will—we will look at opportunities where U.S. companies have expressed an interest in a certain sector, and there might be Chinese interest in that sector. We will do our best to try to promote the U.S. component.

But in general, we have not had any sort of third country or bilateral cooperation with the Chinese in any commercial spheres. But yes, you do see quite a bit of engagement by the Chinese, as they should. They're neighbors. So that makes sense.

Ms. HAN. Do you see them opening up opportunities that U.S. companies might—perhaps the Chinese are willing to put in some extra time and effort or money that doesn't necessarily make sense for American companies.

Ms. STARKS. I would say in general, a lot of the sectors where we've seen a lot of the Chinese interest are not necessarily areas where U.S. companies have been as interested in general. So there hasn't been that cross-pollination as much.

Ms. HAN. Except for maybe energy would be the exception.

Ms. STARKS. But even there, look at, for example, Uzbekistan. There's quite a bit of Chinese interest in the energy sector in Uzbekistan, but you don't really have any U.S. majors that are doing exploration and development there.

Mr. STEWART. Smaller energy. It's not the huge projects.

Ms. STARKS. Very small. Part of it is our interests are different. China actually borders Central Asia, so it's interested in pipelines and roads going to and from places that don't necessarily have an attraction for a U.S. company. It doesn't mean it's not good for the region, but I think there are a lot of areas where there's a Chinese interest that there just is not a U.S. interest, and that's OK.

Mr. STEFFENSEN. A lot of what Danica just said about China versus Central Asia is true. The EU—is there EU interest in CAREC? Yeah, definitely. We're both involved in trade facilitation work. They made very clear for years they're interested in joining CAREC, but as a bilateral at best. We kept them out because once we open the door to the EU, then the U.S. and the Germans and Chinese and others and Japan aren't far behind. And the countries themselves decided just to limit this thing to current membership plus or minus a couple of countries to ensure that it remains a forum where their interests—that is, the countries' interests—can be discussed and not those of their development partners. Yeah.

You said something earlier regarding the New York Times article, and if I could share or relate something unrelated to Central Asia, but related to this railway. About a year ago, I had a discussion with the chief policy advisor to the Thai prime minister. He started talking about these time trials to move containers between Chengdu, China, and Lodz, Poland. And I didn't know what the heck he was talking about, so I went back and started Googling and found a few articles, including a good one on Business Week. The gist of the New York Times article. Bottom line is, you know, there is no rail connection between Southeast Asia and China for that matter between Southeast Asia and Europe today.

But he was talking about the importance of engaging the Chinese now, even before a rail connection is built maybe through Myanmar or Laos or Cambodia and Vietnam, to ensure that one day Thailand has access to the Chinese railway network to be able to export its containers to Europe in a way that's cheaper and almost as fast as—well, cheaper than air transport—almost as fast as sending it by ship that's green and that would, you know, improve logistics and lower transport cost and improve Thailand's competitiveness.

This railway experiment, it's potentially a game-changer, I think, in the way we see trade across the continent. The Thai authorities are looking at it very carefully. ADB

has begun to look at it in terms of the intermodal possibilities that we could be—should be supporting. But it's potentially a huge development, yeah.

Ms. HAN. All right. Eric and then Josh, I don't know if you have anything to say about China and EU. I'll let Eric start, then you can finish. Then we'll go to questions.

Mr. STEWART. Before I forget, let me also just include talks about WTO. Please keep focusing on WTO. It is a very, very good thing. From the Turkmenistan perspective, we're extremely pleased that Turkmenistan has started down this process. It's a good thing. It's a painful, long, arduous thing to go through, but at the end of the day it's positive regardless of how it plays out.

I think what's actually going to be interesting, going back to your question, well—one—actually one historical thing that's sort of interesting. If you look back at the European Union, back when it was the EEC, before it was the European Union, you know, land transportation was a big component of that actually coming together and frankly bringing countries like France and Germany to be able to do business together. I think actually Europe continues to be—and again, going back to the point of the Baltic and the Central Europeans, a good, I think, interlocutor for working with the Central Asian countries.

Every dynamic has politics in it. There is some politics involved obviously in that because the Europeans want oil and gas coming from the region. That's not a bad thing, that's a good thing. But that is a factor. I think what's actually interesting and I don't know the answer to this, but I think what's actually interesting and maybe this is not accurate, but it would seem to me that post-Afghanistan, actually the U.S. would be a sort of a benign interlocutor in a sense because there is less of an agenda in the region, right? I mean, the agenda at this point, will be simply, you know, business opportunities for American companies and the development of the Central Asian countries.

I think that's actually a very interesting question, sort of flipping it around and looking at it post-2014.

Mr. KUCERA. Well, I'd make the point sort of the converse of what Eric just said that the U.S. has a very different interest in all of this than China and the EU in that China, especially, to a lesser extent EU, I mean, they actually have an economic interest in this trade. I mean, they can get cheaper stuff or export their stuff cheaper, whereas the U.S., you know, only very indirectly will benefit economically from trade in Eurasia. The U.S.' interest is kind of more geopolitical. I think that to the extent that the U.S. is doing anything, it's more driven by geopolitics than economics.

Whether the U.S. being an outsider makes them an honest broker, like you suggested, or if, in fact, you know, maybe they have less at stake, and so they're more willing to meddle without getting benefit. Maybe China and Europe's interest is in fact sort of pure in that we want open markets to—for our benefit for open trades.

One more point I wanted to make that I was thinking about the Eurasian Union. In my presentation, I made blanket statements about all of Central Asia. I think Kazakhstan is an exception in a lot of ways to what I said, that Kazakhstan is in fact interested much more than the other countries in free trade. I mean, this HP example is one. I sometimes get the sense that people in Astana are more interested in the New Silk Road initiative than people in Washington are. They're constantly asking about it. They're promoting the port at Aktau for the U.S. to build up and so on.

This also speaks to the Eurasian Union, that they're willing to do this with Russia and Belarus as well. Kazakhstan does seem to be, in fact, quite interested in free trade. It's the other ones that we should have questions about.

Ms. HAN. All right, thanks. Now, I'm going to turn to the audience to see if anyone has any questions. We do have a microphone, I think, Max, is that right? We're not sure. OK. We do need you to speak into the mike, though, right? If they don't speak into the mike, is that OK?

All right. If you're going to ask a question, please speak loudly. We can hear you, but we just need to make sure that the transcriptionist can hear you. If you could identify yourself, that would be great. Anyone have a question? Yes over here.

Questioner: Hi. I hope this is loud enough. My name is Charlie and I'm working for Senator Sheldon Whitehouse. I just have a question. I wonder if the rest of panel could react to Mr. Kucera's depiction of the economic outlook for Afghanistan. I'm wondering if the U.S. is mistaking economic hopes or fantasies for economic strengths in the post-2014 world.

Ms. HAN. OK. Anybody want to take on Afghanistan? Maybe Craig.

Mr. STEFFENSEN. Yeah, I lived and worked in Kabul for six years. And I don't know what to say except Afghans are born entrepreneurs and you know, if the security situation were to improve and if there were opportunities made available to them, other than to carry a gun, I think they'd be, you know, out there running a business before we knew it happened.

That's sort of generally speaking, but the mining sector there, as I think it's, you know, it's no secret whether it's Ainak or Hajigak or other parts of the country, iron ore and copper, you know, one estimate made by a Norwegian mining specialist working in the Ministry of Mines and Industry was that Hajigak alone could bring, I think it was \$3 billion a year in revenues to the government for centuries.

Now, that's not as much as USAID was putting in at one point, but it's a lot for Afghanistan and it would free up the government, I think, from using a lot of the funds that we're now providing by way of support to cover recurrent costs, I mean salaries of government officials and all that, to begin investing in things, so that the mining sector could actually take off. By that, I mean railways and power and training for people to work in that industry, et cetera.

Nothing's going to happen overnight. These are long term solutions to problems. But I don't doubt for a second that Afghanistan has the potential to become, you know, a leader economically in that part of the world. Someone said at one point that—I mean, it was the ministry of mines said that Afghanistan has more underground than China has in international reserves in banks. Someone went on to say, well, there's a big difference between having money in a bank and having it underground. But that's the, you know, that's the amount of resources that we're talking about.

Ms. HAN. Thanks. Anyone else? Yes.

Questioner: Hi. My name is Olga Kuzmina. I'm from the Center on Global Interests. It's a new think tank that focuses mostly on U.S.-Russia relations. To me it seems like Russia here is the big elephant in the room that we haven't really addressed. I mean, you've mentioned the customs union and the Eurasian Union that Russia's kind of trying to build in this area. It seems like your kind of idea's maybe that the U.S. can kind of

piggyback often the progress that's made there, like if they free up the trade borders and have some kind of internal visa regime, that would make it easier for the U.S. to trade with the region as a whole.

I think the kind of understated fact is that Russia is kind of trying to, you know, contain this area for itself with these projects. How do you envision working with Russia or what problems do you anticipate, with Russia as the U.S. has been a supporter of the Silk Road plan and how do you intend to address them or involve Russia probably could be better?

Ms. STARKS. Sure. I don't think that involvement of Russia and our interests are mutually exclusive. I think Russia not being brought up today mostly was because my brief from Shelly was to talk about Central Asia, not to talk about Russia. It wasn't an intentional slight. I cover Russia as well and there're actually far more U.S. companies now that are doing business with Russia that if Central Asia—if opportunities to transit to Central Asia, even from Russia, were to open up, that they could benefit.

I don't think they're mutually exclusive. I think they could actually work together. I think there're a lot of U.S. companies now that are doing business in Russia that are not in Central Asia could foresee having better opportunities because they already have a base from which to operate. But right now, going back to, Eric's point about the harmonization and customs and other issues, just being in Russia doesn't necessarily mean that the Central Asian market is open for you.

In the case of the customs union with Russia and Kazakhstan, there are some U.S. companies that have benefited from the opening of transit between Russia and Kazakhstan. Companies that are already doing business and producing or doing things in Russia have been able to benefit by being able to send goods duty-free into Kazakhstan.

I don't think that it's an issue. I don't think that the U.S.—and I'll let my State Department colleagues take over the political aspect—but commercially, we're not looking to compete with Russia in the region. I think similar to China, a lot of our interests commercially are very different. Right now, as Josh mentioned, the amount of U.S. investment and trade in the region, apart from oil and gas, is quite minimal. In terms of the commercial perspective, I don't think that we could compete with Russia even if we tried at this point.

I don't think that we're necessarily going after the same things. For example, one of the areas in which several of the countries of the region are looking for investment is in hydropower. Hydropower is not an area generally where U.S. companies invest in and manage projects. We might supply equipment and services, but it's not an area where you see a lot of U.S. interest in investment. That's a major area where we're not actually competing with anyone. It's not an area where we feel that we have an advantage looking forward.

In terms of this, whatever sphere Russia may or may not want to create, we cannot—that's Russian foreign policy. That's their choice. I actually had a lunch, several years ago, with trade attaché's from Russia, Japan, Germany and a couple of other countries in Uzbekistan. We all had the same challenges. The Russians, the Europeans, the Japanese, everybody was facing some of the same business environment challenges, so I think actually greater Russian investment and looking at opportunities in the region could still actually promote a lot of this opening of doors and opening of harmonization. I don't think

it would be to our detriment if there was greater Russian interest in the region on the commercial sphere.

Politically, that's a whole different ballgame, but commercially, I don't know that that actually takes anything away from us.

Mr. STEWART. Yeah, my point in mentioning the issue or throwing out there the issue was simply—look at it from a Central Asian perspective. If you've got this—Kazakh perspective—you've got this customs union already with Belorussia and Russia. The Americans come along and say we've got this great new border harmonization program we want you to implement. Then here we go again. Is it the Russians or the Americans? I mean, you're stuck in the middle of the two, right? My point in saying the businesses aren't interested in the political jockeying. The businesses are interested in getting business done.

If that means taking the already existing—the only customs union that I'm aware of in the region and saying how do we use that as a starting point to create something broader that we can support and that we can buy into and that makes sense for American companies, then let's go that road. That was simply the proposal and the idea. To sort of further what Danica was saying, when I take business missions to this part of the world, almost every executive that comes from an American company is—not all of them, but a majority of them are based out of Moscow.

This is for them a regional approach to doing business. If we can find ways to simplify it and to make it easy and make it happen, that's all we want.

Mr. KUCERA. I would just add that, you know, the U.S. does engage in a lot of Eurasian trade right now, which is the NDN. And Russia is, in fact, very cooperative with that. I mean, they host almost all of the equipment and have never really caused any problems from it.

One thing I'm curious and this discussion got me thinking, and I wonder if somebody in the audience knows—if so, tell me afterwards—you know, whether the customs union has made it in fact easier because most of this NDN traffic goes, you know, from the Baltics through Russia or through—but through Russia, then Kazakhstan, then the rest of Central Asia. I wonder if this customs union has made that Russia-Kazakhstan border crossing easier.

Mr. STEWART. On that point, you tried Josh and I think he did a good job of trying to clarify what is the Silk Road right now. I actually think there's two different things that we talk about. There's the north and the south and then there's the east and the west. They're very, very different proposals and programs. There is the potential for them to both work together and intersect together, but how that works at this point is yet to be determined. I mean, it's unclear.

We know it works north to south now with military, but is that long term, sustainable via the private sector. Look at companies like Maersk that are moving goods from, you know, Klaipėda to Afghanistan. I mean, that's working great. You're seeing a neat supply chain that's building out of that. Hopefully, that's sustainable before '14, but the answer to that question is yet to be determined.

Ms. HAN. And Craig, that was one of the questions that I wanted to ask you was the issue of the north-south versus east-west. And certainly, I think, the U.S. is focused more on the South Asia integration. There's lots of ADB programs that focus on that.

You support TAPI and other things, but I mean, do you think that there's relative value to one or the other, or is it an all-of-the-above strategy?

Mr. STEFFENSEN. The last time I looked, I think there was about 1 percent of trade going north-south as there was going east to west. It was mentioned earlier. I think Josh mentioned it that a lot of countries would prefer, you know, not to pin their hopes on Afghanistan as a transport—trans-accorder at this point in time. That's exactly right.

It's been stated as much in quite a few CAREC meetings. Until the security situation calms down and the cost of trucks from Central Asia transiting Afghanistan to Pakistan comes down as well.

We didn't mention Russia very much. We also didn't mention Iran. The northern and western parts of Afghanistan have security incidents once in a while. They do. But it's a lot safer up there relatively speaking than it is to the east and south in Afghanistan. And if only Iran were part of the picture, you know, we might be able to facilitate movement of people, goods, and vehicles between Central Asia and, well, ports on the Caspian Sea.

The ports in Bandar Abbas, in Chabahar are just waiting for these goods to move in their direction, but you know, until now, I think all of the incentives are to access ports in Pakistan. Until that changes, you know, I think it's unrealistic to expect the trade picture between Central Asia, South Asia to change a whole lot.

Ms. HAN. OK. I'm going to wrap it up with one last question and give the panelists one last chance to respond. I think one of the themes that we identified today is the issue of trust among the countries and how that, in conjunction with political will, is a necessary precondition to creating a better economic environment there, the precursors for a better economic environment. Wondered if you had thoughts on what sort of confidence building measures or what sort of things we should be doing, either from the U.S. government strategy or from international organizations or other areas that would help move that forward, the trust issue. I'll start with Josh. I know you're not a policy person, but give it a shot.

Mr. KUCERA. I think you have to think in generational terms, frankly. I think you have to think in generational terms. I think these political systems that have arisen in these countries are, you know, the closed borders and the insularity is built into the system. What can the U.S. do about that?

Frankly I'm at a loss, other than, you know, wait and perhaps train younger cadres of people on how to do things more in the way that we would like them that in the case that there's a slow opening in the future, those people will have the technical expertise to do something better. But we have to think very modestly.

Ms. HAN. Danica.

Ms. STARKS. I don't know that it's something that the U.S. as a government can make people trust each other. I just don't know how that could possibly happen. Speaking as a commercial person, I would say commercial success that involves these countries working together to achieve a goal could do it. I go back to the Baku-Tbilisi-Ceyhan example, BTC, and look what that did for the relationship between Georgia, Azerbaijan, and Turkey. It created—friendship might be too strong a word, maybe it's not strong enough, but these countries now depend on each other and depend on each other's security for the viability of that pipeline.

When Georgia faced troubles early on in the decade, Azerbaijan was very supportive of Georgia in helping them to develop and keep the lights on and that type of thing. There's a lot of interest in the security of the pipeline because Turkey had an interest in what happened in Georgia.

I don't want to beat the TAPI horse too much, but that's why the State Department and others have pushed this and other similar projects, is if you can get these countries to work together for an overriding goal and have something that important at stake, that's what can build the trust, having something where everybody in this particular project is benefiting, but you need everybody to cooperate and having those kinds of things in place.

But as Josh mentioned, that could be generational. I mean, these projects don't happen in one year. Craig said he's been working on TAPI for a decade. And it may not be TAPI. Maybe it's something else. But I do think that in the long term, there're going to be some projects that will not go forward unless two or more or three or more countries in the region come together. And the benefit and the economic benefit and the economic outlook of that project is going to be so good that it will force some people to come to the table.

What that project is necessarily, I don't know, but it's going to be something—it's going to be a deal of a lifetime that the countries are not going to want to pass up. They're going to work together. That is one of the ways that trust can be built. But do I think that it can come from a random government policy? No. I think we can support projects and things that can, in small ways, help build trust, but I don't know that there's any one particular thing that we can do.

Ms. HAN. It's one way of doing it. Craig.

Mr. STEFFENSEN. Yeah, I agree with everything that Josh and Danica have said. Clearly there's a new form of multilateralism going on out there that doesn't include the U.S., and whether it's the Shanghai Cooperation Organization or the European Economic Community or CACO or some others. It's important for all of us just to be realistic about what the U.S. can say and achieve in a part of the world that others consider their backyard, not ours.

Maybe we need to be a little more collaborative in our approach to getting things done. The bilateral approach oftentimes is easier, but I think the sure way to success is just doing something Eric said, meeting with people privately before you go to a meeting and talk about it as a group, you know, focusing the discussion on some issues that people aren't prepared to discuss and not allowing the discussion to go off course because the next thing you know, they're talking about trans-boundary water management and all hell breaks loose.

As people have said, it's really a generational thing, not just in terms of addressing these problems because they're big problems, but I think a new generation of leadership in that part of the world is probably required too before we can see solutions to some of these things.

Mr. STEWART. I think a lot of it is expectations; I mean, expectations on both sides. What I mean by that is, we're working very closely with Uzbekistan on the NDN and we say, Uzbekistan, what do you want? Well, we want investment. We want companies. We bring the companies, but then they don't invest. Then the Uzbeks look at us and say, what are you doing for us, right? I think managing the expectations that our system

doesn't work that way, right? We can't go to HP and say, Uzbekistan is a great friend of ours, put a plant there. That just doesn't work that way.

I'm going to beat my drum of the customs and border harmonization, that's what's going to bring the companies. But little that the U.S. government tells the companies is going to make a difference. What actually takes place in the region is what's going to make the difference and what's going to attract the companies.

What else can we do? I think, going back to what I mentioned earlier, is I really think we need to engage Russia, engage the EU, engage Turkey, engage China and have these Central Asian talking points, something of common trilateral, multilateral, whatever you want to call it. And so when working with the Central Asians or working directly with the individual countries in Central Asia, they hear a common theme from Russia. They hear the same theme from the U.S. They hear the same theme from Turkey. Then it becomes the right answer versus what do the Russians want, what do the Americans want. They're constantly being pulled in so many different directions from so many different entities that want something. But if they continue to hear the same answer and the same issue repeatedly, then it becomes the right thing to do.

From that perspective, going back to the question about Russia—there are so many opportunities to be had in Central Asia and there are so many opportunities for investment, for trade. There's a lot of development that needs to take place. There's a lot of money to be made for each of the countries, but also for the interlocutors that are working with them.

From the Russia perspective, they actually would have the upper hand from the Americans because of location and because of historical reasons, et cetera. I tend to believe—I'll put an American company up against any company in the world, head to head, and I'll take us. But at the same time, the natural advantage for Russia would give them—would give them the lead. There are a lot of opportunities and I think there should be less us versus them and more, if we would do this all together, we're all going to benefit.

Ms. HAN. Yes, that's a great point. Because the U.S. does have interests there besides promoting U.S. business. I think we want to see economic development happen regardless if it's U.S. companies that are doing it or not. So that's a good point.

I want to thank all of our speakers for participating today. You've made a great contribution to this discussion. I look forward to continuing the discussion on this as we go forward. Thanks for coming and thanks all of you for participating as well.



This is an official publication of the
**Commission on Security and
Cooperation in Europe.**



This publication is intended to document
developments and trends in participating
States of the Organization for Security
and Cooperation in Europe (OSCE).



All Commission publications may be freely
reproduced, in any form, with appropriate
credit. The Commission encourages
the widest possible dissemination
of its publications.



<http://www.csce.gov> @HelsinkiComm

The Commission's Web site provides
access to the latest press releases
and reports, as well as hearings and
briefings. Using the Commission's electronic
subscription service, readers are able
to receive press releases, articles,
and other materials by topic or countries
of particular interest.

Please subscribe today.