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**A STRATEGY OF SUBREGIONAL ECONOMIC COOPERATION
IN CENTRAL ASIA**

(Prepared by the Secretariat)

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PREFACE

This document has been prepared by Economic and Social Commission for Asia and the Pacific for an International Economic Conference on Tajikistan in the Regional Context of Central Asia scheduled to be held on 15 - 16 October 2001 under the framework of UN Special Programme for the Economies of Central Asia (SPECA). The main objectives of the paper are to provide a snapshot view of the present state of economic cooperation in the region and to identify areas for strengthened subregional cooperation in Central Asia. The paper notes that a strong political and administrative commitment to initiate coordinated national actions are crucial to accelerate the process of regional cooperation in Central Asia. Such initiatives need to be supported by financial and technical assistance from the international community. The paper identifies some of the areas for international support.

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INTRODUCTION

Economic cooperation among the Central Asian countries can be viewed both as natural outcome of and as prerequisite for their economic and social development. It is a natural outcome partly because of their geographical proximity. More importantly, these countries used to be parts of the big economic complex of the former Soviet Union, and were firmly integrated into the intra-USSR division of labour. In the immediate aftermath of the break-up of the USSR, some of the links were severed. More recently, efforts have been made to restore and revitalize economic complementarity among these countries. Economic cooperation is also a necessity as each of the countries individually has a rather small market (table 1). Yet, with the Central Asian countries having many common historical and geographical characteristics and areas of economic complementarity, there is a considerable potential for Central Asia to be a new growth area collectively. Covering about 4 million square kilometers (18 per cent of the CIS total territory) and consisting of 54 million people (18 per cent of the CIS total population), the Central Asian countries have a good foundation for subregional cooperation.

In terms of size Tajikistan is a relatively small country with 143,000 square kilometers of surface area, whereas Kazakhstan has a vast territory of 2.7 million square kilometers. The size of population ranges from 4.4 million in Turkmenistan to 24 million in Uzbekistan. From the point of view of resource endowment, the Central Asia is rich in oil and gas; ferrous, non-ferrous and precious metals; and hydro power resources. Four countries in the subregion have substantial hydrocarbon deposits, the exploitation of which constitutes their principal export prospect in the twenty first century. The region has competitive advantages to produce grain, cotton, meat and dairy products and can be self-sufficient in food. Additional advantages of the region are human resources with a high level of education and scientific and technical potential.

Table 1. Central Asia: area and population (1999)

	<u>Area</u>	<u>Population</u>
	Thousand square kilometers	Million
Kazakhstan	2,717.0	15.0
Kyrgyzstan	198.5	4.9
Tajikistan	143.0	6.2
Turkmenistan	488.0	4.4
Uzbekistan	447.0	24.0

Sources: United Nations, *Monthly Bulletin of Statistics*, September 2000.

Integration process in the Central Asia was initiated by Kazakhstan, Kyrgyzstan and Uzbekistan in 1994 when the three countries signed an agreement on the Common Economic Space. Tajikistan joined the agreement in March 1998 and the four Central Asian countries formed the Central Asian Economic Community (CAEC). Central Asian Development and Cooperation Bank was established to implement the agreement and to mobilize financial resources for integration. The Interstate Council -- the supreme body of the CAEC -- held two international conferences on "Economic cooperation in Central Asia: opportunities, forms and mechanisms of realization". The Council has also developed an Integration Programme of the CAEC for 1995-2000 aimed at establishing joint ventures, developing industrial cooperation and mutually beneficial projects. In June 2000, the four Central Asian countries approved a two-year programme of measures to expedite the creation of a single economic space and a five-year strategy of economic development and integration in Central Asia.

Three Central Asian economies are also member countries of the CIS Customs Union (Belarus, Kazakhstan, Kyrgyzstan, the Russian Federation and Tajikistan). In October 2000, the status of the Union was upgraded into the Eurasian Economic Community. A free trade zone with a common tariff, custom and tax policy is expected to be established within the Community by 2002. Furthermore, the Eurasian Economic Community will introduce common currency and broader cooperation among the member countries, including such areas as economic restructuring, the promotion of macroeconomic stabilization, improvements in the investment climate, and adequate food supplies for the community populations.

The Central Asian countries have initiated cooperative efforts in developing water, energy and fuel resources, interstate gas pipelines, mutual supplies of natural gas, coal, oil products and irrigation systems to serve the common needs of the member states. But, full benefits of such cooperation in these and other areas are yet to be realized because of many

factors.

In light of the above background, this draft Strategy of Subregional Economic Cooperation in Central Asia is intended to serve several objectives. First, it seeks to identify certain areas where subregional cooperation appears desirable and feasible. The areas identified are: macroeconomic management; international trade; foreign direct investment; infrastructure with a particular focus on transport, energy and water resources management; tourism; and science and technology. The areas identified are, by no means exhaustive, nor is the discussion of each area in terms of opportunities, constraints and possible actions. Nevertheless, the draft Strategy should help systematic thinking on relevant issues.

Second, the Strategy may serve as a blue print to form the basis of collective approach to the international community by Central Asian countries for financial and technical support, where such support is needed.

Third, it is hoped that the Strategy will help strengthen political and administrative will to promote subregional economic cooperation.

The revised draft Strategy is expected to be discussed at the Fifth Session of the Project Working Group of SPECA on the issues of International Economic Conference on Tajikistan in the Regional Context of Central Asia scheduled to be held in Dushanbe on 12-13 April 2001. The Working Group may wish to advise further steps needed to finalize the document. The final version of the Strategy will be presented at an International Economic Conference on Tajikistan in the Regional Context of Central Asia scheduled to be held on 15-16 October 2001.

I. MACROECONOMIC MANAGEMENT

As mentioned earlier, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan have agreed to create a common economic space and integrate their countries into one economic union. A programme of economic integration in Central Asian comprises six areas: promotion of economic and trade cooperation, joint use of water and energy resources, collaboration in transport and communication, strengthening of industrial cooperation and developing straight economic relations, cooperation in health services, science, education, tourism, sport and culture, and improving institutional building of regional integration. However, as the experience of the European Union amply demonstrates, the effective implementation of an economic union requires many actions which include: (i) a common central bank; (ii) a single supranational currency issued by a single authority or at least several national currencies freely convertible at a fixed rate; (iii) common macroeconomic and fiscal stance; (iv) common rules for the unimpeded movement of goods, labour, scientific and technical expertise and capital; (v) freedom of acquiring property within the territory of such a union; and (vi) joint, presumably small, budget for common needs preferably financed through a single tax. The formation of an economic union inevitably presupposes the renunciation of a certain degree of economic sovereignty and transfer of some significant management and economic functions to supranational institutions.

All the Central Asian countries are economies in transition. Macroeconomic reforms initiated in the subregion have many common features. The most important aspects of these relate to macroeconomic stabilization, financial sector reform, tax reform and exchange rate management. A key issue in macroeconomic policy facing most, if not all, countries of the Central Asian subregion in the short to medium term is to achieve macroeconomic stability and to improve the fiscal position which has remained fragile up to the present.

In 1992-1994, all the Central Asian economies experienced hyperinflation which prompted a complete breakdown of monetary exchange. Price liberalization and the monetization of large fiscal deficit were the main causes of high inflation in the subregion. Since 1995, the Central Asian economies have pursued anti-inflationary policies which resulted in arresting the hyperinflation. From 1995 to 2000, annual inflation rates fell from 176 to 13 per cent in Kazakhstan, from 43 to 19 per cent in Kyrgyzstan, from 682 to 25 per cent in Tajikistan, from 1,105 to 7 per cent in Turkmenistan, and remained flat at about 25 - 30 per cent in Uzbekistan during the whole period. Prudent fiscal and monetary policies and the appreciation of the national currencies were the two main factors responsible for the considerable success in reducing the rates of inflation in Central Asia. The improvement of the macroeconomic situation in Central Asian countries offers favorable opportunities for increased cooperation and macroeconomic policy coordination in the subregion.

Over the past decade, Central Asian economies have undertaken substantial reforms of their financial sector. Major components of financial sector reforms have been the establishment of a two-tier banking system with independent central banks, removal of interest rate control and bringing interest rates close to market rates, improving the functioning of different types of financial institutions and strengthening the supervisory, regulatory and legal frameworks. The reform measures have been accompanied by the liberalization of the external account, more flexible exchange rates, and the establishment of foreign financial companies in the domestic market. These national level measures have been complemented by the creation of the Central Asian Bank for Cooperation and Development in 1996. The Bank's main objectives are to facilitate trade and interstate payments and settlements and finance all regional projects.

In the financial sector, a critical component of reform is the quality of supervision that a country could build in a rapidly changing environment. Financial markets are inherently prone

to such malaise as Asymmetric information, Amoral hazard and Herd reaction which call for effective prudential supervision and regulatory oversight. Moreover, with cross-border integration of financial services it is essential to develop monitoring, surveillance and early warning system as well as to provide for coordinated policy response to contain the spillover effects of financial crises across countries. The recent financial and economic crisis in Asia and in the Russian Federation, raised the question of how to manage financial sector reform and liberalization in order to minimize the potentially adverse effects that financial sector liberalization can inflict on an economy. It also raised the question what policy instruments can be used in a more liberalized financial system without recourse to excessive discretionary measures that can easily become subject to abuse.

Access to a variety of financial instruments enables economic agents to mobilize resources for investment, reduce uncertainty and transaction costs, and to pool risks. From this perspective, it worth noting that Kazakhstan and Kyrgyzstan launched their Stock Exchanges in 1997 and 1998 respectively. Uzbekistan set up the Stock Exchange earlier in 1994. The exchanges have an infrastructure, regulatory framework and listing requirements that conform to high standards. However, trading in those stock markets is still minor. Given the small size of individual economies, the stock market of any one country is likely to remain thin in the foreseeable future. This underscores the need for considering establishment of subregional markets with mechanisms for cross-listing. In addition, with the launch of the subregional stock market, a growing number of new non-bank financial institutions (including brokerages and private pension funds) could be licensed, as could be insurance and leasing companies which already exist in the Central Asian countries..

The countries of Central Asian have reformed their tax policy and tax administration, some more successfully than others. New tax laws have been adopted to bring about a tax

structure that is more in conformity with a market-based economic system. Much progress appears to have been achieved in reforming tax policies, especially in the elimination of export taxes and excess wage taxes. Mixed progress has occurred in the introduction of appropriate value added tax, excise tax and personal income tax regimes, and in the simplification of the rate structure within various tax categories. Perhaps less progress has taken place in the introduction of new accounting systems and standards, the elimination of exemptions and the effective taxation of small businesses and the agricultural sector. Therefore, exchange of experiences in implementation of tax reforms and improving tax administration is essential for creating efficient tax regimes and tax collection mechanisms in the subregion.

Tax administration reform in these economies has focused on the enactment of tax administration legislation consistent with the new tax structure. Reform measures have included management and organizational reforms, the development of systems and procedures, and the enforcement and determination of the scope of non-compliance.

Despite the above initiatives, the progress in implementing tax reforms has turned out to be slow for several reasons. First, in some economies, uncertainties continue to prevail with regard to the determination of actual tax liabilities, partly because of poor accounting systems which make it difficult to determine the tax base accurately. Second, the tax administration is not adequately equipped to handle the significant increase in the number of taxpayers and the different types of taxpayers, particularly small and medium-sized taxpayers in the private sector, which have emerged in the course of the economic transformation. Third, the pervasiveness of barter trade and non-cash transactions has complicated the task of collecting taxes. In light of these common problems, it might be worthwhile establishing a subregional Tax Training Institute to enhance skills in the areas of tax policy formulation and tax administration.

Harmonizing tax regimes is also an important prerequisite for economic cooperation to help avoid unnecessary loss of revenue arising from smuggling or redundant incentives for investment. This would require a greater flow of information among tax authorities, including computerization and the processing of tax-related data and information at the subregional level.

In the course of macroeconomic reforms, the Central Asian economies have moved from multiple exchange rate practices toward more flexible, unified, and market-oriented exchange rate regimes. Kazakhstan and Kyrgyzstan have eliminated multiple currency practices and accepted Article VIII status in the IMF. Tajikistan unified its exchange rate and abolished surrender requirements and also accepted the IMF's Article VIII in 1998. Although Turkmenistan unified its exchange rate in April 1998, the government continued to restrict access to foreign exchange and maintained surrender requirements. Uzbekistan still maintains multiple exchange rate and surrender requirements. A common approach to exchange rate management is important for promoting economic cooperation. Cooperation in exchange rate management is needed further to strengthen the management of foreign exchange reserves, diversify reserve assets holdings, and improve risk management in the subregion.

As the Central Asian economies become more involved in subregional and international transactions, there is a need to develop a subregional clearing and settlement mechanism. This could help to overcome some of the payment problems that inhibit intra-regional trade and investment.

II. INTERNATIONAL TRADE

The Central Asian countries made considerable progress toward trade liberalization through elimination of state monopolies on foreign trade, relaxation of licensing requirements,

and implementation of significant tariff reforms. However, the progress toward trade liberalization has been more pronounced in Kazakhstan, Kyrgyzstan and Tajikistan while it was more gradual in Turkmenistan and Uzbekistan. Kazakhstan, Kyrgyzstan and Tajikistan established relatively open and liberal regimes and made considerable progress to abolish state monopoly privileges, unify exchange rates, and simplify the regulatory and fiscal frameworks governing foreign trade. The measures to liberalize trade also included elimination of non-tariff trade restrictions and export duties, surrender of export earnings, and registration requirements for export contracts.

The Governments of Turkmenistan and Uzbekistan continue to play a leading role in trade agreements and in the foreign exchange markets. The Government of Uzbekistan controls almost all recorded international trade. It introduced a system of centralized and non-centralized permitted exports. The bulk of exports come under the centralized category which is liable for a 100 per cent surrender rate of hard-currency earnings to the authorities and includes cotton, gold, oil, gas, rolled steel, non-ferrous metals, and uranium. The most important non-centralized exports are Daewoo cars for which 50 per cent of hard-currency earnings must be sold to the authorities. To implement its import substitution policies, Uzbekistan shifted the burden of taxation away from exports toward imports by simplifying and lowering export taxes and introducing import tariffs. In Turkmenistan, all foreign trade is channelled through the state commodity exchange with the exception of gas traded by the Ministry of oil and gas.

The subregional economies have benefitted from trade liberalization and the move toward world prices. In 1996-1997, exports grew significantly and the countries of the subregion were able to diversify their markets. In 1998, however, all the countries in Central Asia experienced a massive downturn in the foreign trade due to economic crisis in the Russian Federation and lower world prices of the main export items (table 2). Trade performance saw some improvement

in 1999. The value of exports rose in Kazakhstan, Tajikistan and Turkmenistan. However, both merchandise exports and imports of Central Asian countries remained well below the level achieved prior to the 1998 crisis in the Russian Federation. This reflected the combination of a sharp contraction of demand in the main trade partner, the Russian Federation, lower effective demand in other economies, higher nominal prices of imports and the induced shifts in favour of locally produced import substitutes.

In the 1990s, the Central Asian countries have redirected their trade away from traditional partners of the former Soviet Union to non-CIS countries. Although the Russian Federation remains one of the main trade partners for all the Central Asian countries, more than 50 per cent of their exports is now directed to non-CIS destinations. Among new trade partners of the Central Asian countries are Germany, Italy, China, and the United States. The improvement in international market conditions increased the value of export of the Central Asian countries to the non-CIS area. Kazakhstan's exports to non-CIS countries increased in value terms by 10 per cent in 1999 due to higher commodities prices as well as volumes. At the same time, export to the CIS area halved, largely because of the devaluation of the rouble which made goods from Kazakhstan uncompetitive on the market of the Russian Federation. Kyrgyzstan's increased sales of electricity and agricultural commodities were more than offset by weaker sales of gold, processed foods and manufacturing goods. Export from Tajikistan and Turkmenistan increased on the strength of higher volumes of aluminum and natural gas sales, respectively. Turkmenistan

Table 2. Merchandise export and imports of the Central Asian countries and their rates of growth, 1996 - 1999

Value in million US\$, annual rate of growth in percentage

	1996	1996/1995	1997	1997/1996	1998	1998/1997	1999	1999/1998
<u>Exports (f.o.b.)</u>								
Kazakhstan	5 911	12.6	6 497	9.9	5 436	-16.3	5 592	2.9
Kyrgyzstan	505	23.6	604	19.5	514	-14.9	454	-11.6
Tajikistan	770	2.9	746	-3.2	597	-20.0	689	15.4
Turkmenistan	1 682	-10.6	751	-55.3	594	-20.9	1,156	94.6
Uzbekistan	4 211	49.3	4 026	-4.4	3 218	-20.1	3 028	-6.0
<u>Imports (c.i.f.)</u>								
Kazakhstan	4 241	11.4	4 301	1.4	4 350	1.1	3 683	-15.3
Kyrgyzstan	838	60.4	709	-15.3	842	18.6	600	-28.7
Tajikistan	668	-17.5	750	12.3	711	-5.2	663	-6.7
Turkmenistan	1 011	-25.9	1 183	17.0	1 008	-14.8	1 189	18.0
Uzbekistan	4 712	71.5	4 186	-11.2	3 125	-25.4	3 014	-3.6

Sources: Interstate Statistical Committee of the Commonwealth of Independent States, *Statistical Abstract on External Trade of the CIS Countries*, Moscow 2000; *Economic Survey of Europe*, No. 1 (United Nations publication, sales No. E.00.II.E.12).

doubled its exports of natural gas in 1998-2000 and significantly increased exports of crude oil, oil products and cotton products. Uzbekistan's exports were flat, partly as a result of weaker gold prices and lower cotton sales following unfavorable growing conditions in 1999-2000 and low cotton prices.

Primary commodities dominate the exports of the Central Asian countries making their export revenues highly sensitive to changes in commodity prices (table 3). Kazakhstan and Turkmenistan depend significantly on foreign sales of crude oil, natural gas and oil product. Exports of base and ferrous metals are important to Kazakhstan, Kyrgyzstan and Tajikistan while cotton and light industry products are important to Uzbekistan.

Table 3 shows that there are possibilities of trade cooperation because of some degree of complementarity under existing conditions. The share of intra-regional trade in total turnover of Central Asian countries increased from 11.3 per cent in 1996 to 12.9 per cent in 1999. However, the volume of intra-regional trade fell from US\$2,888 million in 1996 to US\$2,593 million in 1999 (table 4). The share of Tajikistan in Kyrgyzstan's external trade was only 5.8 per cent in 1999. Mutual turnover of the two largest traders in Central Asia, Kazakhstan and Uzbekistan, fell from US\$ 594 million in 1996 to US\$496 million in 1999 owing principally to barriers raised by both countries.

The slow growth in intraregional trade is partly due to the fact that countries of the subregion export same items to third markets where they compete with each other. Besides, the trade regimes of the economies are still characterized by a complex set of non-transparent, non-tariff barriers, in addition to a wide-ranging and changeable tariff structure. For example, Kazakhstan imposed import tariffs of 200 per cent on goods from Uzbekistan and Kyrgyzstan in February 1999. As a retaliatory measure Uzbekistan introduced US\$300 transit fees on lorries from Kazakhstan. Kazakhstan lifted the import tariffs afterwards, but imposed value-

Table 3. Main export and import items of Central Asian countries, 1998-2000

Exports	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Crude oil, petrol	+			+	
Natural gas				+	+
Coal	+				
Copper	+				+
Aluminum			+		
Iron ore/concentrates	+				
Pig iron, ferrous alloy	+				
Flat rolled iron and steel products	+				
Base metal waste		+			
Non-ferrous metals					+
Automobiles					+
Electric current		+		+	
Electrical equipment		+			
Cotton		+	+	+	+
Carpets of wool				+	
Tobacco, raw and wastes		+	+		
Wheat	+				
Fruits			+	+	+
Import					

Petrol, crude oil	+	+	+	+	
Natural gas	+	+			
Coal		+			
Fluorides			+		
Iron/steel pipe/tube	+			+	
Aircraft					+
Railway vehicles	+				
Passenger cars	+				
Motor vehicles			+		
Parts and access of the motor vehicles					+
Spark-ignition reciprocating					+
Electric current	+				
Electric appliances for line telephony					+
Civil engineering plant		+			
Agricultural machines				+	
Tractors				+	+
Fans/filters/gas pumps				+	
Harvesting/threshing machinery					+

Telecommunication equipment	+	+		+	
Textile/leather machinery				+	
Wheat		+	+	+	+
Cane or beet sugar			+		+
Tobacco products			+		

Source: Databases of the International Trade Center.

Table 4. Intra-regional trade of Central Asian countries, 1994-1999

(Millions of US dollar)

	Export (f.o.b.)				Import (c.i.f.)			
	1996	1997	1998	1999	1996	1997	1998	1999
Kazakhstan	414	319	236	270	374	182	177	194
- Kyrgyzstan	112	66	63	66	91	64	53	49
- Tajikistan	61	55	42	72	18	6	4	4
- Turkmenistan	39	50	12	12	176	46	24	13
- Uzbekistan	202	148	119	120	89	66	96	128
Kyrgyzstan	242	205	134	105	292	225	211	136
-Kazakhstan	112	87	86	45	140	70	75	73
-Tajikistan	12	13	8	10	6	10	6	4
- Turkmenistan	3	3	1	3	14	16	8	8
- Uzbekistan	115	102	39	47	132	129	122	51
Tajikistan	233	202	151	190	284	339	315	365
- Kazakhstan	24	10	10	4	52	42	52	79
- Kyrgyzstan	10	9	6	4	7	5	5	7
- Turkmenistan	8	10	9	1	26	30	31	15
- Uzbekistan	191	173	126	181	199	262	227	264
Turkmenistan	69	79	65	40	30	137	78	271
- Kazakhstan	54	31	25	12	22	87	29	14
- Kyrgyzstan	1	13	6	7	1	2	2	3
- Tajikistan	10	30	27	14	2	9	7	1
- Uzbekistan	4	5	7	7	5	39	40	253
Uzbekistan	387	495	561	632	563	470	318	390
- Kazakhstan	81	60	88	116	222	163	131	132
- Kyrgyzstan	120	117	111	46	127	112	42	51
- Tajikistan	181	238	207	240	210	190	138	199
- Turkmenistan	5	80	155	230	4	5	7	8

Source: Interstate Statistical Committee of the Commonwealth of Independent States, *Statistical Abstract on External Trade of the CIS Countries*, Moscow 2000; International Monetary Fund, *Direction of Trade Statistics, Yearbook, 2000*.

added tax at a rate of 20 per cent on imports from Uzbekistan. All the trade measures introduced unilaterally by each country violate the rules and spirit of the CAEC. The membership of Kyrgyzstan in the WTO may also conflict with some of the country's obligations as a member country of the CAEC.

One form of trade cooperation among the economies of Central Asia could involve exchange of information and collective responses to trade policies pursued by other countries affecting their place in the world economy. In particular, they could initiate collective protection measures against discrimination, unfair competition, legal and economic sanctions and other threats from third countries and groups.

An emerging trend in promoting subregional trade in East and South-East Asia involves the establishment of economic or growth zones. These zones are typically aimed at exploiting the complementarities among contiguous areas of member countries as a means to promote intra-regional trade and to attract FDI, particularly export-oriented FDI. A significant feature of most of these zones is that the private sector investors from within as well as outside the constituent countries undertake most of the investments in production activities. The role of the government is primarily to minimize the costs and risks of cross-border trade and investment flows by providing, inter alia, the necessary infrastructure and enabling regulatory framework. There is a scope for pursuing similar strategy in Central Asia.

The Central Asian states have undertaken several bilateral initiatives towards closer economic cooperation. Kazakhstan and Kyrgyzstan reached an agreement on free trade between the two countries in 1996 with the objective to build favorable conditions for movement of goods, capital and labour. Kyrgyzstan and Tajikistan also signed agreements on free trade and on the mutual protection of investments. The two countries agreed to establish a bilateral commission to resolve border issues, noting the desire of both sides to develop coal, gas and

mineral resources located in the immediate vicinity of their common border. In February 2001, Tajikistan and Uzbekistan expanded their mutually beneficial economic cooperation through signing two agreements on mutual payments for goods transport and on cooperation in the use of water resources.

However, efforts should be made towards a subregional approach in trade relations. In Asia and the Pacific region, subregional trading arrangements have been a way to combine trade liberalization with effort to strengthen economic and political relations among neighboring countries. Among the main subregional trading arrangements, the ASEAN Free Trade Area (AFTA) is a relatively successful one. The experience of AFTA is relevant to Central Asia.

ASEAN established AFTA in 1992. The main objective of AFTA is to deepen economic cooperation among the member countries of ASEAN and to integrate the markets of ASEAN individual members by reducing intra-ASEAN tariffs to 0-5 per cent and eliminating quantitative restrictions and other non-tariff barriers among themselves by a target date. To achieve this objective, ASEAN has made considerable progress towards trade liberalization under the Common Effective Preferential Tariff (CEPT) scheme and introduced other supportive measures under the ASEAN trade facilitation scheme, such as the adoption of common ASEAN tariff nomenclature, the General Agreement on Tariffs and Trade (GATT) customs valuation system to harmonize clearance procedures, and a green lane system to speed up the process of customs clearance for goods eligible under the AFTA preferential tariff scheme.

A necessary accompaniment to trade liberalization at the subregional levels is trade facilitation measures. Harmonizing and simplifying administrative aspects of individual trade transactions are essential because if traders continue to face a multitude of procedural obstacles to trade, liberalization efforts may not yield the anticipated results. There are a number of ways in which trade facilitation measures can help Central Asian countries integrate into the

sugregional and global economic systems. Obstacles to trade at the border in the form of transshipment delays at point of entry/exit, complex customs procedures, unfair customs valuation or unnecessary inspections are commonly found among the Central Asian countries. Simplification, automation, harmonization and greater transparency in customs procedures could significantly lower the costs of doing business and trade.

III. FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) can play an important role in economic development. FDI provides the host country with an additional source of capital. In addition, it can enhance market access through distribution systems of transnational corporations; serve as a vehicle for technology transfer; and it can be a major instrument to enhance the efficiency of trade in services, such as banking, insurance and telecommunications. Regional cooperation could maximize those benefits of FDI.

Central Asian economies have taken steps individually to liberalize their investment regimes to attract FDI. The liberalization of FDI policy regimes in combination with macroeconomic stabilization has led to an increase in FDI inflows in the Central Asian economies (table 5).

Kazakhstan attracted 78 per cent of all FDI into Central Asia in 1989-1999. The natural resources are the main interest for foreign investors in the country, 50 per cent of FDI accrued to the oil and gas sector and a further 27 per cent to the metals sector. Cumulative FDI in Turkmenistan equaled around US\$780 million or one-tenth of that invested in Kazakhstan. The bulk of FDI has gone into the gas sector. Uzbekistan has one of the lowest ratios of FDI to GDP in Central Asia. Total net FDI in 1989-1999 was US\$800 million, equivalent to US\$33 per head or 0.7 per cent of GDP. To compare, Kazakhstan and Turkmenistan attracted FDI inflows of 4.9 and 5.9 per cent of GDP respectively. Among the other Central Asian economies, Kyrgyzstan ranks above Tajikistan in FDI inflows. In 1998, FDI accounted for 5 per cent of GDP. The United Kingdom, United States of America, Turkey, Italy and the Russian Federation are the

Table 5. Central Asian economies: foreign direct investment inflows

(Million of US dollars)

	1992	1996	1998	1999	2000 Projection	Cumulative FDI inflows
						1989-1999
Kazakhstan	100	1,137	1,143	1,584	1,500	7,356
Kyrgyzstan	...	47	109	35	42	408
Tajikistan	9	25	24	21	30	150
Turkmenistan	...	108	62	89	100	782
Uzbekistan	9	90	226	201	231	790

Source: European Bank for Reconstruction and Development, *Transition Report 2000* (London, 2000), p. 74.

main foreign investors in Kyrgyzstan. FDI inflows to Tajikistan have been the lowest. To encourage foreign investment, the Government improved its legislation and exempted FDI from taxes on profits. The mixed success has occurred despite the fact that foreign investment has been seen by all countries in the subregion as a critical factor in making the transition from centrally planned economies to market-driven economies and have adopted foreign investment codes, which are intended to open up their respective economies to foreign participation (see table 6). However, there are considerable differences among countries in respect of conditions affecting FDI.

The attraction of FDI flows depends not only upon the legal framework and incentives but also on the political stability in the subregion, the general business climate and availability of indigenous resources, including skilled labour and various other host country determinants. Regional cooperation can also play an important role in attracting FDI. In view of the small size of the national markets, the progress in regional cooperation which would guarantee to potential foreign investors access to the whole regional market represents an essential condition for promoting investment into manufacturing and redressing the present excessive concentration of FDI into primary sector.

The economies of South-East Asia have been major recipients of foreign direct investment. Five ASEAN countries are among the top twenty FDI destinations in the developing world. In October 1998 ASEAN agreed to create an ASEAN Investment Area (AIA), which enjoin upon member-countries to eliminate obstacles to investment, liberalize investment rules and policies and open up industries to foreign investment. The AIA is implemented through three broad-based programmes such as cooperation and facilitation, promotion and awareness, and liberalization. The programmes envisage the following key measures:

- to extend national treatment and open up all industries for foreign investment;

Table 6. Summary of the progress in foreign investment policy reform in Central Asian countries

Country	Investment policy reform status summary
Kazakhstan	Foreign investment law was adopted in 1997 and a foreign investment advisory council was established in 1998. The law provides investors with privileges and preferences. Foreign investment is exempted from taxes on profit for 5 years and from import duties on equipment and raw materials needed for realization of investment projects.
Kyrgyzstan	The Law on Foreign Investment was enacted in September 1997. The law provides foreign investors with important guarantees and privileges, including guarantees of non-discrimination and of prompt, adequate and effective compensation in the event of either direct or indirect expropriation. The State Committee on Foreign Investment and Economic Development is the authorized state body to act on behalf of the country and represent it in relations with foreign investors. It acts as a one-stop shop for foreign investors and provides a comprehensive pre-establishment service. Free economic zones (FEZs) were established to encourage foreign investors to participate in specific business activities.
Tajikistan	The Law on Foreign Investment determines the legal, economic and social conditions for foreign investment in the country. The granting of the privileges is calculated from the moment when tax authorities receive information on the balance of profit of the enterprises. FDI is exempted from taxes on profits for two years for investments of up to US\$500,000 and exemption extends up to five years for investments of US\$5 million or more.
Turkmenistan	Foreign direct investment is encouraged by the government mostly in the form of joint ventures with state enterprises. The Law on Foreign Investment provides foreign investors with a three-year protection against changes in legislation, the entitlement to convert Turkmen currency into foreign currency, the protection of intellectual property rights and the prohibition of nationalization.
Uzbekistan	Foreign investment law was adopted in May 1994 and amended in May 1995. Joint ventures in tobacco, gold mining and the automotive sectors were created. The Government planned to privatize large industrial enterprises through international tenders. Foreign investors receive tax holidays and can import duty-free capital goods.

Source: European Bank for Reconstruction and Development, *Transition Report*, various issues.

- to identify and progressively eliminate restrictive measures;
- to liberalize rules, regulations and policies relating to foreign investment, rules on licensing conditions, rules relating to access to domestic finance and to facilitate payment, receipts and repatriation of profits by investors;
- to undertake active and high profile joint investment promotion activities aimed at global and regional investors and promote greater awareness of investment opportunities in ASEAN;
- to promote free flow of capital, skilled labour, professionals and technology among ASEAN member states;
- to establish a comparable approach in FDI data collection, measurement and reporting among the member countries;
- to undertake activities to increase transparency of investment regimes of member countries; and
- to identify areas for technical cooperation in human resource development, R&D, infrastructure development, SME and supporting industry development and information and industrial technology development.

The above provides a model for cooperation among Central Asian countries in their efforts to attract FDI.

Some of the other areas of subregional cooperation in investment promotion could include organization of subregional trade and investment fairs, joint investment road shows in home countries of potential investors and joint activities in related human resources development.

IV. INFRASTRUCTURE

The construction of the regional infrastructure is necessary for meaningful economic cooperation among the five Central Asian states. Within the subregion, there have been many infrastructure initiatives designed to facilitate intra-regional economic interactions. One example is the programme being developed by the Project Working Group established within the SPECA Programme on development of transport infrastructure and border-crossing facilitation. Another is the UNDP Silk Road project. In addition to transport and cross-border trade facilitation, Central Asian countries are in the process of collaborating in implementation of a project on rational and efficient use of energy and water resources. Among other initiatives to improve subregional infrastructure are developing tourism potential by creating small and medium enterprises to provide tourism and accommodation services and development of multiple routes for pipeline transportation of hydrocarbons to global markets.

A. Transport

The expansion of exports and FDI in Central Asia requires a supportive transportation infrastructure. Improvement in the subregional transport will enable people and goods to move more easily and rapidly among the countries, reduce the cost of trade and enhance the value of business. The subregion's transportation infrastructure was adequate to support the needs of Central Asian economies and to facilitate their trade and development interests in the former Soviet Union. However, it should be reoriented and improved to meet the goals of expanded trade and closer economic cooperation among themselves and with other countries. The most important problem facing the transportation sector in Central Asia is the rapid deterioration of

physical infrastructure as a result of inadequate investment in maintenance, repairs and rehabilitation of the existing infrastructure.

Rail remains the most important mode and principal means of transport in Central Asia. It accounted for more than 75 per cent of all freight and passenger transport in the subregion in the 1990s, especially in Kazakhstan and Uzbekistan, where it carried the bulk of freight and passenger traffic. The disruption of traditional markets, the rising cost of rail transportation, and increasing competition from road transport resulted in considerable reduction of traffic volumes carried by rail in Kazakhstan and Uzbekistan. Railroads in the two countries lost a significant portion of their business to road transport, partly due to the shift away from heavy industrial goods production. The effect of this shift on rail transport was less noticeable in Kyrgyzstan and Tajikistan which did not rely on rail transportation heavily. However, rail transportation is expected to play an important role in the economic growth of the subregion as successful exploitation of new mineral reserves, including oil, and their transportation will require expanding the rail network to connect it in the near term to the proposed Trans Asian Railway (TAR) network already defined together by ESCAP and the countries of the region. While seeking alternative routes and cheaper transportation to distant markets, the Central Asian countries could collaborate in rehabilitating the existing rail infrastructure, developing new capacity, maintaining rolling stock and in providing a better managed and technically efficient railroad system.

Adequate road networks characterize the road transportation situation in Central Asia subregion. As noted above, there has been an increase in road freight volumes. The abolition of centrally planned distribution system, and the entry of higher-value, finished consumer goods in local market make the speed and flexibility of trucking more important. However, many roads in subregion are in poor condition and do not conform with internationally accepted standards. In

addition to collaboration on these aspects, the focus of subregional cooperation could be on initiating and developing road maintenance policy reforms to improve serviceability of existing road infrastructure, developing service infrastructure on the roads, improving passenger and freight security, creating environmental and road safety awareness.

For the countries with economies in transition it has become evident that the development of transport infrastructure is a necessary, but not a sufficient condition for efficient land transport routes of international importance. Of equal importance are proper facilitation measures for transit transport and at border-crossings particularly as, in many cases, complicated and lengthy. Customs and other procedures result in huge time and material losses. For harmonization of transit transport and border crossing ESCAP adopted resolution 48/11, listing seven international conventions. As these international and transport conventions are cost effective instruments that can assist contracting parties in making their international transport operations faster and more economical, there is an evident need to assist the Central Asian subregion in speeding-up the accession and implementation process to these conventions.

For the land-locked countries in the Central Asia, in particular, the introduction of multi modal transport (MT) will create the potential for integrated and free flowing road, rail, water and air transport between them, their neighbors and international markets, resulting in improved delivery schedules, shorter transit times thus leading to reduced costs. However, the full implementation of MT in the Central Asian subregion may require changes within the regulatory environment and some investment in infrastructure and equipment. Although its full adaptation need not be carried out at once, steps must be taken by the country to prepare the groundwork.

Such preparation inevitably calls for a review of existing national laws on transport, banking and insurance, which need to be amended to facilitate the development of MT in the Central Asian subregion and between the subregion and other countries. Facilitation of land

transport at border crossings also needs to be addressed and dealt with. The Central Asian countries also need to accede to international transport and transit conventions and implement related agreements, strengthening their respective administrative and planning machinery, organize their transport enterprises, and develop appropriate regulatory and legislative frameworks.

There has been an increase in demand for passenger and cargo air transport in Central Asia as a result of various factors, including greater openness of their economies. However, supply response has not been adequate to meet the rising demand. Among the main problems faced by Central Asian airlines are ageing and inefficient aircrafts, inadequate maintenance, substandard airports, inadequate freight storage, and poor processing facilities. The countries of the subregion should collaborate to meet market-driven demand for information and customer service in air transport and improve airport and airline management, including air traffic control, airport security and flight route connections, customer service at both ticketing places and airports, and passenger immigration and baggage delivery.

B. Energy

The energy reserves of Central Asian countries provide a solid basis for economic growth and foreign exchange revenues for development. Given the large reserves of oil and coal in Kazakhstan, significant reserves of gas in Turkmenistan and Uzbekistan and sizable amounts of hydroelectric power in Kyrgyzstan and Tajikistan, Central Asia could become a major supplier of energy in the world.

Although the Central Asian subregion enjoys vast energy potential, the energy resources are not evenly distributed among the countries. It makes each country to be dependent on energy supply from others. For example, Kyrgyzstan depends heavily on imports of oil and gas from

Kazakhstan and Uzbekistan. Kazakhstan in turn depends on Kyrgyzstan for electricity and on Uzbekistan for gas. The lack of infrastructure for transporting energy is one of the main impediments to regional cooperation in Central Asia. Kazakhstan, Uzbekistan and Turkmenistan are unable to transport oil and gas to new markets due to limited infrastructure for oil and gas pipelines. The unavailability of adequate electric transmission systems in Kyrgyzstan limits its capacity to export electricity to potential new markets. That country also has inadequate rail transportation system to develop its own coal resources. Overcoming these infrastructure constraints is an important priority for promoting economic cooperation in energy sector in Central Asia.

Other priorities could be coordination of energy policy pursued by each country, improvement and maintenance of existing facilities in the subregion, and establishment of efficient system of payment for mutual energy supply. The cooperation in energy development and trade will enable the Central Asian countries to overcome periodic energy shortages and dependence on unreliable energy sources and to develop new international markets for their energy. Such cooperation could also benefit each country in the form of ensuring stable and cost-efficient energy supplies to isolated areas.

C. Water resources management

The main challenge in Central Asia is the achievement of the rational use of water resources of the two major trans-boundary rivers -- Syr Darya and Amu Darya which is agreeable with the economic interest of the five states. In Central Asia, sustainable water management is an imperative to be supported by coordinated political action by all the five states involved. Their economies are much dependent on water sustain their agricultural and industrial production. Thus the limited water resources become a source of competition over economic

development strategies of the countries in the region. Based on vested economic interests of the individual countries, there is a significant potential for conflict over the quantities of water allocated among the five countries and over the quality of water received by the downstream countries. The main conflict in demands for water come from irrigation in Kazakhstan, Turkmenistan and Uzbekistan and hydro power production in Kyrgyzstan and Tajikistan. Despite the political sensitivity of water allocation issues, the governments of the countries have been able to reach a stable water-sharing agreement. However, there is still a need to improve and integrate the management of shared water, land, and energy resources in Central Asian at the regional level.

Another sore problem of Central Asia related to water resources management is an ecological disaster in the Aral Sea basin. The Aral Sea crisis is a result of unsustainable policies towards the environment and use of natural resources, primarily water resources. A principal course has been the excessive withdrawal of water resources of the Amu Darya and the Syr Darya rivers for irrigation of cotton and rice plantations. This has resulted in the drying of the Aral Sea with a devastating effect on the environment of Central Asia. The five Central Asian countries established an International Fund to Save Aral Sea in 1992. Kazakhstan, Uzbekistan and Turkmenistan pledge to pay 0.3 per cent of their respective budget revenues to the Fund, while the contribution of Kyrgyzstan and Tajikistan is equal to 0.1 per cent of their revenues. The Fund is a good example of subregional cooperation in Central Asia. The countries agreed on a wide range of measures to monitor the distribution and use of water resources, to improve the drinking water supplies and sewerage systems, and to prevent the salinization of irrigated land. However, support from donor countries and international organizations is also needed to mobilize necessary financial resources required for resolving the problem of the Aral Sea.

V. TOURISM

Abundant historical and cultural heritage, unspoiled natural beauty, warm hospitality of the population, and geographical location make the subregion a potentially attractive tourism destination. Development of tourism can be an important means of expanding the economic base, providing employment and increasing foreign exchange earnings for the subregion. Besides the economic benefits, an expansion of tourism is expected to lead to greater understanding between the countries of the subregion. The expansion of tourism requires better air transportation and hotel facilities, basic communications, language and other training, safe water and good health standards in all the Central Asian economies.

However, tourism development and promotion would be fruitless as long as a wide range of travel facilitation constraints is not appropriately addressed. Among them, visa requirements and related formalities play an important role in the process. Applying for a tourist visa through an embassy can indeed facilitate travel if it is fast, efficient and low-cost procedure. On the contrary, it becomes an impediment when it is time consuming or when regulations are not clear or easily obtainable. Some countries have accordingly chosen to adopt a policy of convenience that relaxes regulations and visa formalities to encourage tourism.

Central Asian countries seeking to promote tourism, as well as to facilitate travel procedures, need to evaluate whether visa fees or formal procedures at embassies serve as disincentives, leading tourists to choose alternative destinations that have easier, lower cost or could have a significant impact on his/ her decision making. They may also wish to examine best practices and measures on facilitation of travel, especially with regard to policies and procedures

related to visa, adopted by other countries or group of countries like ASEAN or member countries of the Greater Mekong Subregion. On the basis on this analysis and review of best practices, Central Asian countries may wish to consider the adoption, among others, of the following measures: grating of visa on arrival and adopting simplified processing; adopting a single standardized, machine readable visa format; and establishment of a Silk Road visa.

While most of the above measures need to be taken by individual governments within their national context, a degree of coordination within countries and among them would also assist in addressing these issues. To this end, Central Asian countries should endeavor to set up mechanism to promote dialogues among government agencies involved in the tourism sector. At regional and subregion levels, bilateral and multilateral cooperative arrangements dealing with issues related to visa procedures and formalities should also be encouraged. Developing multi-country package programmes such as ACentral Asia in two weeks@ could be very appropriate to expose tourism in the subregion. The experience of Central European countries in promoting package tours for Austria, Czech and Slovak Republics, Hungary and Poland has proved to be very attractive for both overseas tourists and foreign investors.

There is also a need to develop the required human resources in various segments of the tourist industry and to improve infrastructure. The establishment of a subregional training institute for tourism promotion, including hotel management could be a cost-effective means of augmenting tourism-related human resources.

Inadequate infrastructure, especially in air transportation, is one of the most serious problems in developing tourist industries. Air transportation lining major tourist destinations in several Central Asian countries so as to provide convenient and economical transportation is a key requirement for successful tourism development. The nature and number of international visitors using air transportation are determined by (i) flight schedules and frequencies, (ii) seat

capacity, (iii) flight routes and linkages through hubs, (iv) flight times, (v) air fares and (vi) airport capacity. Developing multi-country package programmes could help address some of these issues in a cooperative framework.

Tourism places special challenges on the ecology of tourist destinations and raises issues of how to ensure proper environmental management. Central Asia has a great potential for the development of eco-tourism. The realization of this potential would require appropriate legislation and effective enforcement. The subregional training institution proposed in this paper could offer courses to help integrate environmental considerations into tourism planning.

VI. SCIENTIFIC AND TECHNOLOGICAL COOPERATION

As a region, the Central Asia has large joint intellectual potential. An effective use of that potential should be an integral part of subregional economic cooperation. Some efforts have been made in scientific and technological cooperation. For instance, in 1997, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan signed an agreement on creation of common scientific-technological area and coordinating unit on scientific-technological development of the member states of the Central Asian Economic Community (CAEC). In addition, two other agreements on creation of interstate scientific-technological programmes and on procedure and conditions for involving scientific organizations, scientists and specialists from all the countries to fulfill the national scientific-technological programmes, were signed in 1998. The strategic purposes of the signed documents are to achieve sustained economic development on the basis of structural-technological change of the production systems, to improve living standards and to provide economic and environmental safety in Central Asia.

One of the main areas of scientific and technological cooperation in the subregion could relate to new information technology. Central Asian economies could take full advantage of the location-independence of digital economic opportunity as well as to exploit the manufacturing and service opportunities afforded by information and communication technology (ICT) to SMEs to compete in the global marketplace. In this regard, information technology with techniques such as electronic data interchange, the internet and electronic commerce, enables fast and efficient exchange of data, permits automation of many operational, production and administrative processes and creates new ways of conducting business and trading. ICT further has the potential to change the environment in which trade facilitation measures have operated thus far. Applying new technologies to customs administration and other links in the trade

transaction chain can bring about exponential savings in time and costs. Furthermore, electronic commerce of the type where goods are delivered in a digitized form allows traditional trade barriers such as quotas, customs duties, etc. to be bypassed, thus bringing with it the benefits of free trade. ICT can also be immensely useful in institutional capacity building and human resources development for the purpose of the promotion of both trade and investment. In view of the many potential benefits of information technology and the threats posed by the emerging digital divide, Central Asian countries could develop joint research and training facilities in this area.

Another area of scientific and technological cooperation in Central Asia is education. Since 1991, the Central Asian countries have introduced their own legislative basis to develop national education systems aimed at changing content of training programmes and text books, widening the networks of high schools and universities to be able to respond to the emerging skill needs, and introducing national languages in education. However, the isolation of national education systems in Central Asia has created difficulties in exchanging students and in establishing equivalency of certificates, which affect the common labour market. A coordinated approach in resolving these problems is desirable.

The pooling of scientific and technological resources could help the region achieve in the most important areas of fundamental research. For this purpose, the Central Asian countries have to coordinate the research work at the industry and university levels and to establish new organizational structure and procedures for joint scientific activity. Prospective forms of scientific-technical cooperation are techno-parks and joint scientific research organizations, higher educational institutions and laboratories in Central Asian countries.

Some of the areas, in addition to those noted above, for scientific and technological cooperation are:

- use of mineral resources based on resource-saving methods;
- use of biotechnology and genetic engineering in medicine, agriculture and industry;
- development of new industrial and space technologies on the base of industrial complex in Kazakhstan, air-craft construction in Uzbekistan, instrument making in Kyrgyzstan;
- chemical processing of hydrocarbon raw materials;
- rational use of water resources and solving ecological problems;
- creation of modern communication systems and infrastructure.

CONCLUDING OBSERVATIONS AND AREAS OF INTERNATIONAL ASSISTANCE

This paper has given a brief indication of the existing inter-country cooperation initiatives in Central Asia. It has also sought to identify some areas where either the current initiatives need to be strengthened and effectively implemented or new initiatives are required. As noted in the introduction, the areas identified are, by no means, exhaustive.

The implementation of any programme of inter-country economic cooperation requires firm political commitment on the part of cooperating countries. It is also important that the political commitment is concretized through required administrative and policy measures. The implication is that cooperating countries themselves have to institute a host of actions to realize the potential benefits that cooperation at subregional level could potentially entail. However, the Central Asian countries will require considerable support from the international community in the form of both financial and technical assistance, if they were to succeed in their fledgling efforts aimed at subregional cooperation. The following identifies some of the main areas where international financial/technical assistance is considered essential.

Macroeconomic management

- _ Organization of subregional/international seminars/workshops to exchange experience and draw policy lessons in such areas as tax policy reforms; financial sector reforms and supervision; exchange rate management; and integration of social and environmental considerations into macroeconomic policies aimed at growth and stabilization.
- _ Establishment of a subregional Tax Training Institute.

- _ Strengthening national tax administration.
- _ Computerization and processing of tax-related information at the subregional level.
- _ Harmonization of tax incentives.
- _ Establishment of subregional stock market.
- _ Effective clearing system for inter-country payments.

Trade and foreign direct investment

- _ FDI in industries which promote complementarity among Central Asian countries.
- _ Establishment of Growth Zones and eventually effective Free-Trade Areas.
- _ Establishment of a Central Asian Investment Area.

Infrastructure

- . Review technical, commercial and operational standards on the railways of Tajikistan and assess how they match standards laid out for the development of efficient international rail services along TAR routes
- . Advocating benefits of acceding to international conventions listed in ESCAP resolution 48/11 for Central Asian countries (through regional and national workshops)
- . Policy reform and finance initiative for maintenance and developing new infrastructures;
- . Creating environmental and road safety awareness
- . Facilitation and harmonization of custom and border crossing procedures through introduction of legislation and regulation in conformity with the international transport agreements and conventions
- . Coordination of energy production and trade policies.
- . Rational use of water resources.

- Dealing with Aral sea problems.

Tourism

- _ Designing multi-country tourism packages.
- _ Promoting easier visa procedures and more relaxed formalities
- Promoting eco-tourism.
- _ Establishment of regional Tourism Training Institute.

Scientific and technological cooperation

- _ Joint research and training in information technology.
- _ Exchange of students, researchers and scientists.
- _ Arrangement for equivalency of certificates among Central Asian countries.
- _ Establishment of techno-parks, joint scientific research organizations and laboratories.
- _ Cost effective technologies in the use of mineral, hydrocarbon, water and other energy resources.
- _ Use of bio-technology and genetic engineering
