WOLFENSOHN CENTER FOR DEVELOPMENT
WORKING PAPER 4 | OCTOBER 2008

WOLFENSOHN
CENTER FOR
DEVELOPMENT
at BROOKINGS

THE EXPERIENCE WITH REGIONAL ECONOMIC COOPERATION ORGANIZATIONS

LESSONS FOR CENTRAL ASIA

Johannes F. Linn
Oksana Pidufala

BROOKINGS GLOBAL ECONOMY AND DEVELOPMENT

The Brookings Global Economy and Development working paper series also includes the following titles:

- Wolfensohn Center for Development Working Papers
- Middle East Youth Initiative Working Papers
- Global Health Financing Initiative Working Papers

Learn more at www.brookings.edu/global

Johannes F. Linn is the Executive Director of the Wolfensohn Center for Development in the Global Economy and Development Program at the Brookings Institution. He was the World Bank's Vice President for Europe and Central Asia from 1996 to 2003 and currently serves as CAREC Special Adviser.

Oksana Pidufala was a Senior Research Assistant with the Wolfensohn Center for Development in the Global Economy and Development Program at the Brookings Institution.

Authors' Note:

We are grateful to Homi Kharas, Juan Miranda and Robert Siy, to David Kruger, Craig Steffensen and colleagues in the CAREC Unit of the Asian Development Bank, as well as to Satish Rao and his colleagues of the Operations Evaluation Department of the Asian Development Bank for their many insights. We also benefited from the comments of the participants of the CAREC Senior Officials Meeting in Manila in September 2007 and to participants of a seminar at the Asian Development Bank in July 2008, to whom we presented some early findings of our research. We also wish to acknowledge the financial support of the Asian Development Bank and of the Wolfensohn Center for Development. All errors remain ours.

CONTENTS

THE EXPERIENCE WITH REGIONAL ECONOMIC COOPERATION ORGANIZATIONS

LESSONS FOR CENTRAL ASIA

Johannes F. Linn
Oksana Pidufala

ABSTRACT

Since the collapse of the Soviet Union, Central Asia has witnessed repeated efforts to strengthen regional integration through cooperation with the establishment of a number of regional organizations with Central Asian participation. In this paper, we review the experience with regional cooperation initiatives and organizations in Central Asia and the rest of the world. Using a typology of regional organizations that we have developed for this paper, we review the functions and performance of selected regional organizations and compile evidence more generally on the experience with regional cooperation around the globe. Based on this we draw some lessons to help Central Asian countries, their partners and their regional organizations respond effectively to the opportunities and challenges of regional cooperation and integration. Central Asian countries need to realize that effective cooperation is not easy. It takes time and requires a flexible, constructive approach of all major partners. It also requires effective leadership by key countries, institutions and individuals and a careful selectivity for membership and for the mandate of the organization. Where multiple regional organizations overlap in membership and mandate, it is essential to address the risk of costly duplication. The paper concludes with an assessment of the specific implications for the Central Asia Regional Economic Cooperation Program (CAREC).

INTRODUCTION

Regional cooperation has long been seen as an instrument for promoting economic growth and political stability around the globe. The successful integration of Europe under the umbrella of the European Union after centuries of wars on the European continent has been a great beacon of hope for many developing countries and regions that have sought to avoid regional conflict and to exploit the opportunities to create prosperity through regional cooperation and economic integration.[1]

In the early decades after World War II much of the regional cooperation among developing countries was driven either by efforts to protect regional markets from international competition—in Latin America—or by the need to grapple with the fall-out of decolonization, which led to the disintegration of integrated colonial economic regions, especially in Africa. In recent decades, in contrast, regional cooperation efforts have more commonly followed the premise of "new regionalism," which postulates that regional cooperation should be designed to help countries not only integrate with each other, but also with the rest of the world. The difference between old and new regionalism is well captured by Devlin and Castro (2004, 43): "The policy framework encompassing the old regionalism of the postwar period in developing countries involved an inward-looking, protectionist, state-led import substitution strategy, often by authoritarian regimes. In contrast, the New Regionalism occurs within a framework of policy reform that promotes open and competitive market-based economies in a modern, democratic institutional setting."

After the collapse of the Soviet Union in 1990, the newly independent republics of the Former Soviet Union faced problems of political and economic disintegration on a huge scale. While early efforts were made by the new countries to maintain cooperative arrangements to prevent economic disintegration, they were not successful—most notably was the failure of the Commonwealth of Independent States (CIS) to maintain open borders, trade, transport, and capital mobility at levels comparable to those during the Soviet Union. Part of the dramatic economic decline of the Former Soviet Union can be explained by disintegration of the economic space of the region (Linn 2004). Since then, various efforts have been made in different parts of the Soviet Union to forge improved economic links through sub-regional cooperative arrangements. Among these the most notable for Central Asian countries are the Eurasian Economic Community (EurasEC), the Shanghai Cooperation Organization (SCO) and the Central Asian Regional Economic Cooperation Program (CAREC).[2]

The purpose of this paper is to survey the experience with regional organizations in developing countries and to draw lessons that can be helpful for Central Asia, and specifically for the participants in CAREC as this regional organization seeks to move forward with an ambitious agenda for regional cooperation and integration in its four core areas: transport, trade, trade facilitation and energy.

In preparing this paper, we reviewed readily available information of some key regional organizations in the Former Soviet Union, Asia and Latin America. We also searched the recent literature on regional cooperation and regional organizations in developing countries for lessons relevant to CAREC. We found, however, that the literature is quite limited. It focuses on regional cooperation in trade (World Bank 2005) and finance (Ocampo 2006), on the efficacy of regional development banks (Birdsall and Rojas-Suarez 2004, Griffith-Jones et al. n.d.), on an evaluation of World Bank support for regional cooperation (World Bank 2007), and on selected regional experiences (Chandra and Kumar 2008 for East Asia, UNDP 2003 for reviews of East Africa, Southern Africa, Latin America, and the Gulf States). Schiff and Winters (2002) provide a useful overview of some key factors that help generate cooperative solutions, especially trust and external assistance, based on selected examples of regional cooperation. Under the umbrella of the International Task Force on Global Public Goods, a review was prepared on the role of regional cooperation in supporting the provision of regional public goods (Hettne and Soederbaum 2006). It contains a useful set of references on prior work on regional cooperation.

We did not come across a comprehensive and in-depth evaluation of global experience with regional cooperation organizations that would have provided a ready assessment of the main goals, instruments, financial dimensions and impact of a representative sample of principal regional organizations in developing countries. Also, there appear to be few, if any, thorough evaluations of specific regional organizations that are publicly available. Our paper does not purport to fill this gap in the literature. It represents a brief, and at best, partial summary of lessons from the experience based on what we were able to access without in-depth research on individual regional organizations.

The paper focuses on regional economic cooperation among the governments of sovereign states. We thus exclude cooperation in the security and purely political arena.[3] We also do not look at cooperation among non-governmental actors. Of course, regional economic integration depends critically on cooperation across borders among business firms, non-governmental organizations and academic and other knowledge institutions and on a myriad of links among individuals. Effective governmental cooperation is needed to ensure that productive cooperation among all the other actors—organizations and individuals—can proceed smoothly.[4]

The paper is structured as follows: We first explore why regional organizations matter and develop a typology of regional organizations to help us account systematically for the multitude of differences among regional organizations. We then consider the key characteristics of the main regional organizations of Central Asia and of selected regional organizations in Asia, Europe and Latin America, followed by a performance summary assessment of these organizations. Based on the preceding analysis we draw the principal lessons from the international experience for regional cooperation in Central Asia and close by exploring the specific implications for CAREC.

WHY DO REGIONAL ORGANIZATIONS MATTER?

National borders among sovereign states create barriers to market-driven economic interactions among businesses and individuals, to the development of cross-border infrastructure and to optimal treatment of cross-border externalities (spillovers). These barriers may be caused by tariffs or non-tariff barriers to trade, by controls over the movement of capital, labor and knowledge, and by the lack of incentives for public and private institutions of neighboring countries to provide cross-border infrastructure or address spillovers. Integration of economic activity may proceed despite these barriers, but generally is slowed by them with a resulting loss of economic and social benefits.

Economists have long recognized that economic cooperation among countries with shared borders can help create larger markets for national producers and consumers and allow for economies to scale by reducing barriers to trade, capital and labor. Cross-border cooperation also facilitates the development of regional infrastructure networks and permits the efficient management of cross-border spillovers.[5] Regional cooperation is particularly important for land-locked countries, since they have neighbors on all sides with whom they must cooperate not only to increase integration with the region but also to permit integration with world-wide markets.

Without the creation of credible regional organizations, regional cooperation will likely remain limited, sporadic, and ultimately ineffective.

Many obstacles can get in the way of regional cooperation, to quote Schiff and Winters (2002, 1-2):

> "First, countries are sometimes unwilling to cooperate because of national pride, political tensions, lack of trust, high coordination costs among a large number of countries, or the asymmetric distribution of costs and benefits. Second, there are strong incentives to behave strategically in one-off negotiations. Countries that are dissatisfied with the potential distribution of benefits may withhold their agreement on a particular issue. They can increase the credibility of their threatened veto by making investments that would be useful if the agreement were not implemented. This is inefficient if the investments are made, exploitative if the other partners concede their demands, or destructive of cooperation if they do not. Third, international and regional cooperation agreements are typically harder to achieve than national ones because, given the absence of courts or higher authorities to which to appeal, the enforcement of property rights is ambiguous and weak at the international level. As a result, international agreements must be self-enforcing, which, in turn, reduces the set of feasible cooperative solutions, possibly to nothing."

Regional organizations, i.e., international institutions set up by and with the participation of neighboring countries, can help overcome these obstacles to regional cooperation. They can provide a framework for building trust for dialogue and for negotiations; a platform for establishing credible rules of engagement and for the sharing of benefits and costs; a capacity for technical analysis of regional cooperative strategies and for their implementation; a vehicle for pooling or attracting financial resources to support investments in regional infrastructure or to compensate losers; and an instrument for monitoring the implementation of agreements and settling disputes that may arise.

The creation of regional organizations, however, by itself does not necessarily remove the obstacles to cooperation. Regional organizations may remain weak or empty shells if the participating countries do not wish to carry on a serious dialogue and negotiations, build the necessary technical capacity and contribute the financial resources needed. Regional organizations will fail if the participants do not want to engage in and abide by agreements, establish and play by common rules in interacting with each other, and thus, in effect, accept some limitations to their national sovereignty. However, without the creation of credible regional organizations, regional cooperation will likely remain limited, sporadic, and ultimately ineffective. Therefore, it is important to review the experience with regional organizations around the globe to learn what have been the factors of success and failure and to draw lessons for the establishment or strengthening of regional organizations in Central Asia.

A TYPOLOGY OF REGIONAL ORGANIZATIONS

Regional organizations differ by the focus they have, the functions they are mandated to carry out, their form of organization, the operational modalities that they employ and their membership. We briefly describe each of these dimensions, which together define a typology of regional organizations. Such a typology is important, since different organizations may fulfill very different purposes and hence their effectiveness has to be measured accordingly.

Focus: Most regional economic organizations have a mandate to support regional integration, but this is not necessarily always the case. For example, regional development banks have traditionally focused on supporting investments and capacity building in individual countries, although in recent years some of them have also supported regional integration (Birdsall and Rojas-Suarez 2004).[6] Regional organizations that focus on regional security and shared political objectives (e.g., preservation of prevailing political status quo in each country) may also not have regional integration as a principal focus for their cooperation.

Function: Regional organizations may pursue specific functions, including cooperation in security and political aspects, trade, infrastructure, finance and socio-economic aspects (including health, education and science), or they can be comprehensive in pursuing groups or all of these functions.[7]

Organizational form: Regional organizations can be either formal, i.e., treaty-based or based on other formal legal agreements with specified rights and obligations of member countries, or they can be informal programs and forums where participants cooperate on the basis of looser understandings. They may function as financial institutions with their own financial resources and instruments, as is the case particularly with regional development banks. Finally, they may function at a level of heads of state, at ministerial level or at the level of senior officials.

Operational modalities: Regional organizations may operate in an advisory capacity, and they may carry regulatory and financing responsibilities. They may have arbitration or enforcement mechanisms that ensure disagreements among members and participants are arbitrated, or members comply with binding commitments.

Membership: The membership may consist only of countries belonging to a particular region, or it may include members from outside the region as well as supra-regional, multilateral institutions (e.g., UN agencies or the World Bank). In the case of treaty-based formal organizations, membership and its enlargement will be formally agreed. In the case of the informal programs and forums, participants will be more informally associated with the organization, even if new participants are admitted only at the invitation of the existing members. Many regional organizations allow observers.

Key characteristics of Central Asian regional organizations

Let us look at selected regional organizations in Central Asia to see how they compare across these multiple dimensions.[8] Figure 1 and Table 1 show six such organizations, all of which include Central Asian countries.[9]

The SCO[10] is a treaty-based organization, operating at summit level and focused principally on mutual security and border management issues, with other functional areas currently de facto of secondary im-

Table 1: Key Dimensions of regional organizations involving Central Asian countries

	Integration	Security	Trade	Finance	Infrastructure	Socio-economic	Form of organization	Level	Modality	Arbitration/ Enforcement	Members, Participants
SCO	(✓)	✓	(✓)		(✓)	(✓)	Treaty	Summit	Advisory/ (regula-tory)		6 regional countries
EurasEC	✓		✓		✓		Treaty	Summit	Advisory/ regulatory	(✓?)	6 regional countries
EDB	(✓)			✓	✓		Treaty	Senior Officials	Financing		2 regional countries
ECO	✓		✓		(✓)		Treaty	Ministerial	Advisory/ regulatory		10 regional countries
CAREC	✓		✓		✓	(✓)	Informal	Ministerial	Advisory/ financing/ regulatory		8 regional countries, 6 multilateral institutions
SPECA	✓		✓		✓	✓	Informal	Senior Officials	Advisory/ regulatory/ (financing)		5 regional countries, 2 UN agencies

Source: Authors' compilation based on sources in the Annex

Legend:

✓ = Function covered by the organization

(✓) = Function partially covered by the organization portance, although economic issues have taken on increased importance on the agenda of SCO in recent years. Regional integration is not a principal objective of SCO so far, although there appears to be a recognition among the members that economic security and political stability are closely linked with economic development and that regional economic cooperation is an important ingredient for regional economic development. SCO functions mainly in an advisory capacity and has no arbitration or enforcement capacity. It, in fact, has no financing capacity and no extra- or supra-regional members.[11]

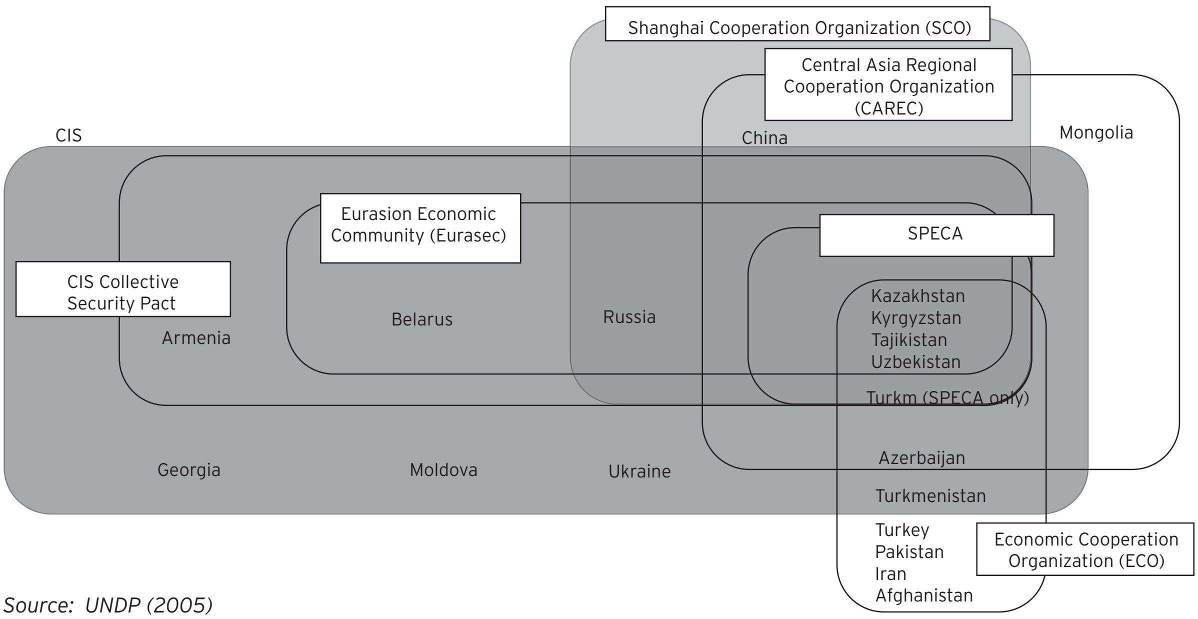
EurasEC[12] is a treaty-based organization like SCO and also has only regional members, but regional integration is its main focus with trade and infrastructure (transport, water and energy) as the principal functional areas. It operates at summit level and in principle has the right to enforce agreements (e.g., for trade agreements), although it appears that no enforcement mechanisms have been applied thus far. EurasEC does not have its own significant budgetary resources to support investments in infrastructure. However, in 2006 the Eurasian Development Bank (EDB) was founded by the largest two members of EurasEC, Russia and Kazakhstan, with a view eventually to expand the membership to include all or most members of EurasEC and to support EuraseEC's regional integration objectives with infrastructure investments financed by EDB. In September 2008, Tajikistan is expected to join EDB; other member countries of EurasEC may follow.

The Economic Cooperation Organization (ECO) has member countries from Central, South and West Asia.[13] It operates at the ministerial level and has focused on regional integration, mainly by promoting trade integration. Since ECO has lacked financial resources, it has not been able to support significant infrastructure investments. However, three ECO member countries (Iran, Pakistan and Turkey) in 2005 initiated the establishment of the ECO Trade and Development Bank as a mechanism to fund investment activities in support of ECO's agenda. The Bank started operating in 2008.[14]

CAREC[15] is clearly focused on regional integration as its main objective, with trade, infrastructure (transport and energy) as its principal functions. Other functions (e.g., disaster and epidemics preparedness) are pursued only as secondary priorities. CAREC is not treaty-based, but an informal program or forum that operates at a ministerial level. It functions in an advisory capacity, but since international financial institutions are among its participants it does have financial resources at its disposal, albeit indirectly. Since CAREC also has created an electricity regulators' forum, it has a de facto regulatory function. However, it does not have arbitration or enforcement capacity.

Finally, the Special Program for the Economies of Central Asia (SPECA) is similar to CAREC, in that it is an informal regional program with participation by two multilateral agencies in addition to its country members:[16] the UN Economic Commission for Europe (UNECE) and the UN Economic and Social Commission for Asia and the Pacific (UNESCAP). SPECA covers the same functional areas as does CAREC, but it has additional functions such as water, gender, statistics, etc. SPECA provides mostly advisory support. Its regulatory activities relate to the promotion and monitoring of UN conventions in its areas of functional responsibility. SPECA operates at the senior official level, and its financial resources are much more limited than those of CAREC since the UN agencies do not have the financing capacity of the international financial institutions that participate in CAREC.

Figure 1: Regional organizations in Central Asia



Source: UNDP (2005)

Key characteristics of regional organizations from Asia, Europe and Latin America

We also looked at a selected number of regional organizations in other parts of the world, in particular Asia, Europe and Latin America. Table 2 summarizes the key characteristics for eight such organizations.[17]

In Asia we considered three regional organizations: the Greater Mekong Sub-region Economic Cooperation Program (GMS), the Mekong River Commission (MRC) and the Association of Southeast Asian Nations (ASEAN).

GMS is most like CAREC since it is an informal forum with integration as its main objective and engagement in trade and infrastructure as the principal functional areas. While originally set up at ministerial level, it has in recent years also met at summit level. Its participants include six regional countries and ADB, which has provided the financial capacity for investments in regional infrastructure.[18]

MRC is a regional forum focused specifically on sustainable management of water and related resources in the Mekong river basin. Only countries from the region are full participants in MRC[19], but international financial institutions and bilateral donors have provided strong financial and technical support to MRC investment projects.

ASEAN has a broad-gauged economic cooperation and integration agenda that cuts across virtually all functional major areas here considered. It is a formal organization of regional member countries and meets at summit level.[20] In recent years ASEAN has entered into broader regional cooperative partnerships by affiliating China, Japan and Korea in connection with the ASEAN+3 heads of state forum. Funding for regional programs and projects is provided by the member countries.

In Europe, we have considered two regional organizations: the European Union (EU) and the Stability Pact for South East Europe. With 27 member countries the EU is not only the largest of all the regional organizations considered here, but it also has the most comprehensive and deepest regional cooperation and integration agenda.[21] It has progressed the most, by far, in implementing its agenda, and it is also the only organization that has a functioning enforcement mechanism for its agreements, although it is not always used in a predictable and disciplined manner. As part of its regional integration mandate, the EU developed a comprehensive system of regional financial funding mechanisms with the principal purpose to help achieve regional structural and cohesion (equity and convergence) goals (the Structural and Cohesion Funds), as well as the construction of key regional infrastructure (especially by the European Investment Bank).

The Stability Pact, in contrast, was an informal grouping of South East European countries, which were brought together by the EU after the Dayton Agreement of 1995 in order to help promote regional dialogue, cross-border cooperation among governmental and non-governmental actors, and the preparation for the eventual accession of the South East European countries to the EU. Principal participants are nine regional countries and 31 other countries and international, as well as regional, partners.[22] On February 27, 2008, the Stability Pact was replaced by the newly formed Regional Cooperation Council (RCC), which moves the leadership of the Stability Pact's function from Brussels to South East Europe.[23]

We also consider three Latin American organizations: Integration of Regional Infrastructure in South America (IIRSA), the Common Market of the South (MERCOSUR) and the Andean Development Corporation (CAF).[24] IIRSA is a forum for the governments of twelve Latin American countries for information exchange and coordination of regional infrastructure investments (transport, energy and telecommunications).[25] IIRSA partners with key regional financial institutions, the IADB, CAF and the Financial Fund for the Development of the River Plate Basin (FONPLATA), in financing substantial regional infrastructure investments.[26]

MERCOSUR is a formal regional organization, formed by Argentina, Brazil, Paraguay and Uruguay as core members, with six associate country members.[27] Its principal focus is on trade integration among its member countries. To support this process, MERCOSUR members established a Structural Convergence Fund (FOCEM) modeled on the EU Structural and Cohesion Funds. MERCOSUR operates at the ministerial level.

Finally, CAF is a regional development bank for South American Andean region with 17 member countries, while one of them, Spain, is not from the region.[28] Its main function is to support regional integration by funding investments in regional infrastructure—transport, energy and telecommunications. CAF has grown very rapidly over the last decade and its total lending to Andean countries for 2000-2005 exceeded the loans by the IADB and World Bank combined during the same period (Griffith-Jones n.d.).

Among the eight organizations from other parts of the world, GMS is the most similar to CAREC in its objective, functional focus and operational modalities; however, with fewer countries and international organizations as participants, GMS has faced fewer com-

Table 2: Key dimensions of regional organizations in other regions

	Integration	Security	Trade	Finance	Infrastructure	Socio-economic	Form of Organization	Level	Modality	Enforcement	Members, participants
GMS	✓		✓		✓	(✓)	Informal	Summit/ Ministerial	Advisory/ financing/ regulatory		6 regional countries, ADB
MRC	✓				Water	Environment	Informal	Senior Official	Advisory/ financing/ regulatory		4 regional countries
ASEAN	✓	(✓)	✓	✓	✓	(✓)	Treaty	Summit	Advisory/ regulatory		10 regional countries
EU	✓	✓	✓	✓	✓	✓	Treaty	Summit	Advisory/ financing/ regulatory	✓	27 regional countries
Stability Pact	✓		✓		✓	✓	Informal	Ministerial	Advisory/ financing/ regulatory		9 regional countries, 31 countries/ international organizations
IIRSA	✓				✓		Informal	Senior Official	Advisory/ financing		12 regional countries
MERCOSUR	✓		✓				Treaty	Ministerial	Advisory/ financing/ regulatory		4 full , 6 associate regional countries
CAF	✓				✓		Treaty	Senior Official	Financing		16 regional, 1 non-regional countries

Source: Authors' compilation based on sources in the Annex

Legend:

✓ = Function covered by the organization

(✓) = Function partially covered by the organization plexities than CAREC. Similar, but broader in scope and membership, and with more hands-on engagement by non-regional members, especially the EU, was the Stability Pact for South East Europe. In Latin America, the organization most similar to CAREC is IIRSA, but it has a narrower focus, and the links with its financial partners, the regional development banks and the international financial institutions, are not as close as CARECs. MERCOSUR and CAF represent cases of strong specialization, in the former case on regional trade integration, and in the latter, on regional infrastructure development. ASEAN and the EU stand out for their comprehensive and ambitious agenda, with the EU of course much further developed along the path of institutional and economic integration than ASEAN.

Performance of regional organizations in Central Asia

As noted earlier, the literature on the experience of regional cooperation and of regional organizations does not provide a ready source for a comprehensive description, let alone evaluation of the performance of regional organizations. Thorough evaluations of individual organizations are rare, with the exception of analyses of the performance of the EU. Therefore, a performance summary evaluation of regional organizations, by necessity, has to be very tentative.

In any case, in attempting to present such an assessment, it is important to bear in mind the different goals, functions and instrumentalities that characterize the regional organizations we have reviewed thus far. Perhaps one of the most striking results of this review is that no regional organization is the same. Each has its own combination of characteristics and needs to be evaluated on its own terms. Nonetheless, let us summarize the performance of regional organizations, starting with the specific cases we have presented.[29]

In Central Asia, SCO has succeeded in providing a forum for regional leaders, both of the two largest countries, China and Russia, but also of the smaller regional players to discuss common border, security and, less so, economic issues. Progress with settling outstanding disputes over border alignment was one area of clear success. For China and Russia, SCO provided a forum for developing a common position on non-intervention by outside powers in the region. For China, it also provided reassurance that separatist movements in its Western province of Xinxiang would not receive shelter and support in neighboring countries. Common military exercises may have strengthened the military readiness of members of SCO. On the other hand, in the economic area, and also in the area of coordinated control over drug trafficking, SCO has had little impact. On balance, given the primarily non-economic focus of SCO, this organization has had a reasonable record, but SCO has barely started to function in a significant way in the economic arena.

EurasEC is principally focused on regional trade and infrastructure. In these areas, little has been achieved. One of the main goals of EurasEC, the creation of a customs union among its members, has not been accomplished. One of the big obstacles to regional trade, Uzbekistan's relatively closed borders with its neighbors, remains an unresolved issue. However, Uzbekistan joined EurasEC only in 2006, when the Central Asia Cooperation Organization (CACO) merged with EurasEC.

EurasEC also has had little impact in creating regional infrastructure or in addressing key regional water issues, one of the areas in which it has focused its attention. EurasEC deserves some credit for providing a forum among the leaders of its member countries to discuss and build some trust around potentially contentious and disruptive issues, including water resource sharing, visas and treatment of migrants from member countries. However, overall EurasEC has not managed to develop into a strong organization promoting regional cooperation. With the creation of EDP, which has grown quickly as an organization and acquired considerable technical expertise in its management and staff, EurasEC may have acquired the financing instrument it needs to become more effective.

ECO and SPECA's track records have been weak. ECO's goals for regional trade integration and trade facilitation have shown virtually no progress, at least as far as Central Asian countries are concerned. SPECA, over its wide range of functional areas, has also had no significant impact according to an evaluation carried out on behalf of its own governing body, but it has since made an effort to reform and increase its effectiveness.

Finally, CAREC has made progress in a number of areas, including the development of a Comprehensive Action Plan, a regional transport and trade facilitation strategy, an active electricity regulators' forum, and the implementation of a number of cross-border infrastructure projects funded by the multilateral institutions that participate in CAREC. CAREC is unique among regional organizations in this review, since it fosters not only cooperation among participating countries, but also has been a mechanism for facilitating coordination among the multilateral institutions, which traditionally have not cooperated closely in most of their operational activities. Nevertheless, at this stage, CAREC's success depends critically on the effective implementation of its new sector strategies and of the newly established "CAREC Institute" that supports training, research and outreach on regional cooperation in Central Asia.

In sum, in the economic sphere, Central Asia lacks a strong regional cooperation mechanism thus far, although the strengthening of EurasEC, with the creation of EDB, and the progress made by CAREC and efforts to rejuvenate SPECA, hold some promise of improved regional cooperation. Of course, as we will discuss further, the multiplicity of regional organization with overlapping, but differing memberships, see Figure 1, creates its own problems and will require cooperation among regional organizations.

Performance of regional organizations in the rest of the world

The most successful regional organization in recent history is the European Union, in terms of creating political cohesion and stability, developing organizational capacity and financing instruments, and fostering economic prosperity overall and convergence in living standards among member countries. The EU has been remarkably successful in expanding its membership while also expanding the range of functions over which cooperation takes place and for which common laws and standards apply, including borderless travel, a common currency, etc. However, the process has taken a long time and many observers, and indeed many citizens in the member countries, feel that there remain significant weaknesses. Not only do some of the common features—borderless travel, common currency—not apply to all members, but an EU constitution remains elusive, the EU lacks a common foreign policy, its decision-making process is cumbersome, and its executive body, the European Commission, is seen overwhelmingly by the public as an intrusive, cumbersome and unaccountable bureaucracy.

The Stability Pact for South East Europe, in contrast to many of its predecessors of regional cooperation bodies in Central and South East Europe after the demise of the Soviet Bloc, has been reasonably successful when measured against the mandate it was given: building trust within the region; helping countries prepare for eventual EU accession; coordinating among international donors and among governmental and non-governmental organizations, especially in regard to trade and trade facilitation. Against these objectives, the Stability Pact and its various working groups and ministerial meetings contributed to significant progress in the region. The fact that the Stability Pact has now been transformed into a regionally-led new body, the RCC, is also a sign of progress in terms of the maturity of commitment to cooperation among the countries of the region, and as a sign of the EU's willingness to see the countries themselves in the lead. One of the major reasons for the success of the Stability Pact was the pull exerted by the expectation of progress toward EU membership among the participating countries; other factors were the financial and technical support provided by the EU and by the International Financial Institutions, and the dynamic leadership by the successive heads of the Stability Pact (Special Coordinators Bodo Hombach and Erhard Busek).

In Asia, GMS and MRC have, on the whole, successfully delivered on their relatively narrow mandates—respectively, investment in regional infrastructure development and water resource development and protection. The ADB's lead role in GMS, supported by China, was certainly a factor in keeping the program on track. A thorough evaluation of GMS is currently being carried out by the ADB's Operations Evaluation Department and should be completed by the end of 2008.[30] Box 1 presents some of the findings of earlier interim reviews and evaluations for GMS.

ASEAN has a much broader membership and mandate and a long, and somewhat uneven, history. In its early years it pursued a regional program of large industrial projects for Southeast Asia that was not successful and was eventually abandoned. In contrast, its trade liberalization efforts were much more successful and were one factor contributing to the rapid export growth of its member countries (Devlin and Castro 2004). The Asian financial crisis of 1997/98, during which ASEAN was not able to provide effective remedies, led to a reassessment of its governance and organizational structure, and to a broadening of its regional coverage for certain aspects—especially financial crisis prevention—in the context of the ASEAN+3 framework. The Chiang Mai Initiative (CMI) was organized in 2000 to allow for regional multilateral swap arrangements with which to supplement and perhaps eventually replace other international financial crisis management mechanisms, especially the IMF. A lack of a strong secretariat, of own financial resources and of a dispute settlements process, have limited ASEAN's ability to pursue a strongly proactive regional cooperative agenda. However, ASEAN nonetheless was able to serve as a forum for discussion and negotiation among the member countries and helped sustain regional stability and trust among member countries.

In Latin America, IIRSA and CAF have played complementary roles in the planning, coordination, financing and implementation of regional infrastructure programs. CAF in particular is generally regarded as a great success story, not only because of its phenomenal loan growth over the last ten years, but also because it excels in the simplicity, low administrative burden and speed with which it processes loan applications.[31] This, in turn, may be linked to the fact that CAF is principally owned and managed by countries from the region itself and that it has been led by a very dynamic President, Enrique Garcia (Culpeper 2006). In contrast to the generally successful performance of IIRSA and CAF, MERCOSUR has a more ambiguous record. It has failed to make sustained progress in regional trade liberalization and macroeconomic policy coordination in the face of political and economic uncertainties and tensions in the region (Machinea and Rozenwurcel 2006).

The experience of other regional cooperation efforts in the developing world appears to indicate that the examples that we selected for more detailed review are among the more successful organizations. In Latin America, the Caribbean Development Bank (CDB)

Box 1: Evaluation Results of GMS

Lessons from the Greater Mekong Subregion (GMS) midterm review:

(i) Need to transform transport corridors into economic corridors by integrating the other GMS sectors (trade, investment, and tourism) into the subregional transport projects;
(ii) Adopt a more balanced approach between physical and nonphysical infrastructure investments, by paying more attention to "soft" sectors (e.g., health and education) and "software" components (e.g., trade and investment facilitation, promotion of private sector participation and skills development) of cooperation;
(iii) Clarify strategic and program focus in the human resource development (between education, health, and labor) and prepare strategic frameworks for telecommunications, and trade and investment sector;
(iv) Contain and mitigate the undesirable effects of subregional cooperation, thus contributing to poverty reduction;
(v) Maximize complementarities with the Association of Southeast Asian Nations and other regional initiatives; and
(vi) Intensify information dissemination efforts to promote greater ownership at the local level and broaden participation and support.

Lessons from the Operations Evaluation Department's GMS evaluation of 1999:

(i) Regional projects should demonstrate the positive returns from adopting a regional rather than a national approach;
(ii) Consideration should be given to establishing a regional cooperation facility and other instruments for dedicated funding for regional programs;
(iii) Linkages between national programs and priorities and GMS programs priorities are weak;
(iv) Regional assistance technical assistance allocations appear to be driven by supply considerations than GMS priorities;
(v) Greater attention is required on the impact of national policies on the returns to GMS investments;
(vi) Given its resource constraints, ADB cannot effectively provide support to all GMS activities. One option is to support primarily a limited number of transport and power links, with support to other sectors being focused on ensuring maximum social, economic, environment benefits from these investments; and
(vii) ADB needs an exit strategy from the GMS program.

Source: Quoted from ADB Operations Evaluation Department www.adb.org/Documents/Evaluation/RCAPEs/GMS/rcape-gms-app1.pdf.

has a successful track record in lending to the small island economies in the Caribbean, while the Central American Bank for Economic Integration (CABEI) ran into difficulties due to the high indebtedness of some of its member countries (Culpeper 2006). However, neither of these regional development banks appear to be focused principally on the objective of regional integration.

In Africa, many sub-regional organizations have been created since independence, with the goal of creating more efficient and competitive economic spaces in the fractured post-colonial patchwork of African countries' borders. With some exceptions these efforts focused principally on trade, and only secondarily on infrastructure and financial integration. However, progress has been at best modest, and more often very limited (Culpeper 2006, Aryeetey 2006). There are however some notable exceptions of successful regional cooperation in specific areas, most notably the River Blindness Eradication Program in West Africa,[32] the Africa Hydropower Development Program involving three countries in the Senegal River Basin, and the Lake Victoria Environmental Management Program (World Bank 2005).

The Arab experience of decades of regional cooperation efforts has been characterized by the creation of many overlapping bodies—similar to what has more recently happened in Central Asia—by political tensions among members and by volatility of financial resource flows, often linked to volatile oil revenues. Its principal development banks and funds, moreover, were focused less on supporting integration in the region, but more on supporting development in Islamic countries generally (Corm 2006). As a result the benefits from regional cooperation and integration in the Arab world were much less than might have been possible, as successive UNDP Arab Human Development Reports have pointed out.[33]

In South Asia regional integration efforts have been very limited to date, with the South Asia Association for Regional Cooperation (SAARC) and the South Asia Preferential Trade Agreement the only examples worthy of note involving more than two countries.

Box 2: Lessons learned from the Indus River Treaty

- Shifting political boundaries can turn intra-national disputes into international conflicts, exacerbating tensions over existing issues.
- Power inequities may delay the pace of negotiations.
- Positive, active, and continuous involvement of a third party is vital in helping to overcome conflict.
- Coming to the table with financial assistance can provide sufficient incentive for a breakthrough in agreement.
- Some points may be agreed to more quickly, if it is explicitly agreed that a precedent is not being set.
- Sensitivity to each party's particular hydrologic concerns is crucial in determining the bargaining mix.
- In particularly hot conflicts, when political concerns override, a sub-optimal solution may be the best one can achieve.

Source: Quoted from the Oregon State University Transboundary Freshwater Dispute Data Base: www.transboundarywaters.orst.edu/projects/casestudies/indus.html.

However, in the words of one observer, the results of these two initiatives, "in terms of trade liberalization, have been very modest indeed" (Devlin and Castro 2004, 55). One special case, particularly of relevance for Central Asia, is the Indus River Treaty in 1960 and establishment of the Indus River Commission with the support of the World Bank. The treaty led to a durable sharing of Indus River waters between the otherwise hostile neighbors, India and Pakistan. Box 2 contains a summary of lessons learned from this experience.

In sum, the EU is clearly an outlier among regional cooperation efforts around the globe, but there are other success stories of regional cooperation in the developing countries, especially in East Asia and in Latin America, even if they remain far behind the EU in terms of scope and intensity of regional cooperation. Examples of success appear to have been much more limited in Africa, the Arab world and South Asia. The question for Central Asian regional cooperation efforts in general, and for CAREC in particular, then is: What are the key lessons that can be learned from the worldwide experience with regional cooperation? We next turn to address this question.

LESSONS FROM INTERNATIONAL EXPERIENCE ON REGIONAL ECONOMIC COOPERATION FOR CENTRAL ASIA

Central Asian countries have a relatively very recent history as independent countries even by developing country standards. It is therefore not surprising that, with their independence only recently gained, they are reluctant to give up or share sovereignty with their neighbors, a sine qua non for effective and lasting regional cooperation. Indeed, even use of the term "integration" is often viewed with suspicion in Central Asia, since it is felt to imply a reversal toward the way Soviet Republics related to each other—managed by a Moscow-based central authority which dictated what was to be invested, produced and distributed in each republic.[34] What then can Central Asian countries take away in terms of lessons from international experience with regional cooperation as a way to foster effective, market-based integration of economic activities across borders?

Lesson 1: Regional cooperation is not easy and implementation of stated intentions is frequently weak.

International experience shows that despite their leaders' often stated ambitions to develop regional cooperation schemes, few countries are readily willing to share sovereignty, and that it is not easy to develop the sense of trust that is needed to embark on and stick with serious cooperation efforts. As a result, many regional organizations are weak and regional cooperation initiatives are poorly implemented. It helps if:

- countries have clearly shared interests and clear ownership of the process (as was the case for the EU and GMS);
- an external or third-party honest broker assists with the cooperation process, but doesn't take over the process and plans for a timely exit (as in the case of the Indus River Treaty, GMS, the Caribbean Development Bank);
- countries have come out of a shared crisis or conflict that drives home the need to cooperate for future avoidance (EU, Stability Pact, ASEAN+3);
- financial resources are available to help provide incentives for cooperation (EU, Stability Pact, IIRSA/CAF, GMS, Indus River Treaty);
- arbitration or enforcement rules can be agreed on to ensure that agreements are actually implemented (EU); and
- regional strategies are effectively linked with national strategies (EU).

Lesson 2: Effective regional cooperation and integration take time to develop, and require incremental, gradual and flexible implementation with visible payoffs.

The EU experience shows that regional cooperation and integration is a slow and gradual process. A phrase attributed to Jean Monet, the great French politician and one of the godfathers of the EU, explains well one of the key features of the EU: "petits pas, grand effects."[35] Other cases of relatively successful cooperation initiatives similarly show that success is measured in decades, rather than years.

- Sticking with the process is therefore essential, even if at times progress seems to be taking place at a glacial pace.
- Setting ambitious, but clear and realistic intermediate targets with visible payoffs along the way is another feature that has characterized the EU, but also the GMS, CAF, and other success stories.

- When progress in one area is not feasible, it helps pursuing others where progress is possible, as a way to show that cooperation can work, to build trust and, where possible, build coalitions and develop win-win deals across issues.

- However, starting with a limited functional focus, rather than burdening the cooperation process with too many issues at the outset, is likely to be critical. Most of the successful cases of regional cooperation involve a continued focus on a limited set of issues, where progress is important and feasible.

- Finally, it can help to let some countries in a regional grouping go ahead, while others at least temporarily go slow—as with the Euro currency.

Lesson 3: Successful cooperation requires leadership.

Cooperation initiatives can benefit from strong leadership in three ways:

- At the country level, one or more countries are pushing the process of cooperation and are willing to commit their own prestige and resources, perhaps disproportionally so, to make the initiative a success. In the case of the EU, France and Germany played this role for many years. Of course, when the lead country is a regional powerhouse, it needs to lead with great respect for the sensitivities of the smaller countries; otherwise, its efforts can easily backfire. This is also true where a non-regional country takes a lead, as was the case with the US in supporting the formation and expansion of the EU.

- At the institutional level, it helps if a strong organization takes a lead (ADB for GMS and CAREC, EU for the Stability Pact), or members support the development of a strong organization over time (EU, CAF).

- At the individual level, visionary and effective organizational leadership is required at the top of the regional organization or among key advisers and supporters of the initiative. The EU benefitted from such leadership, especially in the early years. CAF's success is often attributed to the leadership of its dynamic current president. In the case of GMS, a former Prime Minister from the Philippines, Cesar Virata, served as a trusted and committed adviser. In the case of the Indus River Treaty, the World Bank's president played a key leadership role as an external broker and financier.

Lesson 4: Keep the membership of the regional organization manageable, based on shared geography and common regional interests.

The EU started small and only gradually expanded its numbers as its capacity to absorb additional members grew, although some feel that EU enlargement to 27 countries has gone too far for effective management. GMS with a total of six country members and one regional development bank clearly has benefited from the limited number of players. ECO with 10 country members has suffered not so much from an excessive number, but from the fact that they span a wide range of geographically and economically heterogeneous countries. Some organizations (e.g., CAF) use two-tier memberships to allow for different degrees of engagement reflecting different degrees of proximity and interests.

Lesson 5: Avoid the "spaghetti bowl" effect, where possible.

One of the complicating factors in regional cooperation is that various regional initiatives and organizations often overlap in membership and functions. Multiple bilateral free trade agreements are notorious in their detrimental effects by creating potentially distortive trading incentives as well as burdensome ad opaque customs rules at the borders (World Bank 2005, UNDP 2005). But similarly costly and confusing overlaps can also occur in other areas (transport, water, energy, etc.), not least by placing great costs in time and travel on the limited governmental and leadership capacity in each of the countries. Various solutions can reduce the problem:

- Replace bilateral with regional trade agreements and/or join the WTO: Consolidating or replacing multiple bilateral trade agreements is one of the greatest potential benefits of regional cooperation and of joining WTO.
- Consolidate regional organizations: In practice this is rare, as it is generally difficult to abolish an institution once created, but examples show that it can be done. The EU, in fact, replaced a number of smaller sub-regional entities in Central Europe as a result of its enlargement process, and CACO merged with EurasEC.
- Work toward an explicit division of mandates: GMS and MRC are good examples for this approach.
- Collaborate and share information: IIRSA and CAF appear to have done so effectively.

Lesson 6: Ensure financial resources and instruments are available to support regional investments and cooperation.

Financial resources can help in various ways, including:

- facilitating investment in regional infrastructure (transport, water, energy, border facilities, trade facilitation, etc.);
- creating incentives for cooperation among governmental and non-governmental players; and
- providing resources for helping backward regions to catch up with the more advanced regions, or to assist sectors suffering negative consequences from regional competition in their adjustment.

The EU has put ample resources into regional cooperative ventures for all three of these purposes. Organizations that have financial resources (GMS, CAREC, and CAF) appear to perform better in supporting economic integration through cooperation than those that don't (EurasEC, SPECA, SCO, and MERCOSUR).

Lesson 7: External actors should assist wherever possible.

External support can be very helpful for the success for regional organizations, as the experience of GMS, CAREC and the Stability Pact of South East Europe demonstrate. In each of these cases, larger regional and international agencies provided technical, financial and trust-building support. However, CAF (and the EU) demonstrates that regional organizations can also succeed without substantial external support, provided enough of the other success factors are in place. In any case, International Financial Institutions should heed the call by Birdsall and Rojas (2004) and by the World Bank (2007) and play a more active role in supporting regional organizations.

Lesson 8: For trade and transport, develop priority corridors and link transport investment with transport and trade facilitation.

Integrated transport and trade facilitation strategies along priority corridors, and their joint implementation use limited resources to the best effect, and ensure the systematic elimination of physical and procedural bottlenecks along key transport and trading routes. At the same time it can permit effective control over illicit trade in drugs, weapons and other undesirable commodities. Systematic monitoring of progress in terms of cost and time reduction of transit along the corridors will ensure effective measurement of impact.

Lesson 9: Development of regional water and energy resources can be one of the most difficult areas to make progress, while also creating great opportunities for win-win outcomes and the sharing of benefits among all partners.

Since water and energy are limited natural resources with sizable potential resource rents (profits), reaching agreement on how to share the benefits—in the case of water between upstream and downstream countries, and in the case of energy among producer, transit and consumer countries—is a perennial problem. At the same time the presence of resource rents makes it possible to design revenue sharing arrangements that can go a long way to resolve potential conflicts. A commitment to adhere to international conventions or commercial principles with international arbitration will help build trust, and can be reinforced by the presence of a third-party broker, guarantor or financier. The case of the Indus River Treaty shows what can be done even under very difficult political circumstances and an absence of trust among the neighboring countries.

IMPLICATIONS FOR CAREC

We close with a brief assessment of what the international experience implies specifically for CAREC.

CAREC should continue to preserve:

- its focus on a few primary areas (transport, trade policy, trade facilitation and energy), but also its flexibility to take on secondary tasks, where there is clear leadership by one of the countries or international organizations (e.g., natural disaster preparedness);
- a track record of country interest and engagement;
- the intensive technical and financial contributions by the multilateral institutions and the high degree of coordination among them; and
- a clear action plan and focus on sectoral strategies with a commitment to develop and monitor the achievement of specific sectoral benchmarks.

CAREC's current limitations and hence challenges lie in the following areas:

- it is not based on a formal agreement or treaty and has limited organizational capacity;
- in contrast to SCO and EurasEC, it does not operate at the summit level;
- partly as a result of this, it is not yet visible and well known in the region;
- the continuing strong external leadership role of the multilateral institutions risks impairing the sense of "ownership" of CAREC by the Central Asian countries;
- CAREC has many functional overlaps with other regional organizations in Central Asia, but links remain weak;
- links between national and regional plans also appear to remain weak;
- there is no enforcement or arbitration mechanism; and
- key regional players—such as Turkmenistan—are missing and key partners—Russia, India, Pakistan, bilateral donors—are not engaged.

CAREC participants are well aware of these challenges and accordingly have agreed on a number of specific responses, including:[36]

- strengthening the capacity of the CAREC secretariat and setting up the CAREC Institute to strengthen training, indigenous policy research capacity and outreach;
- increasing the engagement of ministers and senior officials, and national focal points and country coordinators, in the management of the CAREC agenda at ministerial, senior officials, and sectoral committee meetings;
- exploring information sharing and coordination mechanisms with other regional organizations and, where appropriate, work toward a division of labor (e.g., with SPECA); and
- working toward the participation of Turkmenistan and creating a Development Partnership Forum in which partners have a chance to participate in the shaping of the CAREC agenda and coordinate activities as appropriate.

International experience is highly relevant for Central Asian regional economic cooperation in general, and for CAREC in particular. The core message is that regional cooperation, underpinned by effective regional organizations, is possible and brings considerable benefits to the participants. The existing regional organizations present a number of strengths and opportunities, but they also present weakness and challenges that can and should be addressed in a cooperative spirit among the countries, together with the multilateral organizations and other partners, as well as among the various regional organizations themselves.

REFERENCES

Aryeetey, E. (2006). "An Analysis of Financial and Monetary Cooperation in Africa," in *Regional Financial Cooperation*, edited by Jose Antonio Ocampo. Washington, DC: Brookings Institution Press.

Birdsall, N. and Liliana Rojas-Suarez, eds. (2004). *Financing Development: The Power of Regionalism*. Washington, DC: Center for Global Development.

Chandra, R. and R. Kumar (2008). "South Asian Integration Prospects and Lessons from East Asia." *Working Paper* no. 202, Indian Council for Research on International Economic Relations.

Corm, G. (2006). "The Arab Experience," in *Regional Financial Cooperation*, edited by Jose Antonio Ocampo, Washington, DC: Brookings Institution Press.

Culpeper, R. (2004). "Reforming the Global Financial Architecture: The Potential of Regional Institutions," in *Financing Development: The Power of Regionalism,* edited by Nancy Birdsall and Liliana Rojas-Suarez. Washington, DC: Center for Global Development.

Devlin, R. and L. Castro (2004). "Regional Banks and Regionalism: A New Frontier for Development Financing," in *Financing Development: The Power of Regionalism,* edited by Nancy Birdsall and Liliana Rojas-Suarez. Washington, DC: Center for Global Development.

Griffiths-Jones, S. *et al*. (no date). "Enhancing the Role of Regional Development Banks; the Time is Now." Paper prepared for the G-24. Available at: http://www.stephanygj.net/_documents/Enhancing_role_regional_dev_banks_09_07.doc.

Hettne, B. and F. Soederbaum (2006). "Regional Cooperation." International Taskforce on Global Public Goods, http://www.gpgtaskforce.org/uploads/files/215.pdf.

Linn, J.F. (2004). "Economic (Dis)Integration Matters: The Soviet Collapse Revisited." Paper prepared for a conference on "Transition in the CIS: Achievements and Challenges" at the Academy for National Economy, Moscow, September 13-14, 2004, http://www.brookings.edu/~/media/Files/rc/papers/2004/10russia_linn/200410linn.pdf.

Machinea, J.L. and G. Rozenwurcel (2006). "Macroeconomic Coordination in Latin America: Does It Have a Future?" in *Regional Financial Cooperation*, edited by Jose Antonio Ocampo. Washington, DC: Brookings Institution Press.

Malamud, A. and P. Schmitter (2006). "The Experience of European Integration and Potential for Integration in the MERCOSUR." Joint Session of Workshops of the European Consortium for Political Research (ECPR), Nicosia, Cyprus, April 25-30, 2006.

Ocampo, J.A., ed. (2006). *Regional Financial Cooperation*. Washington, DC: Brookings Institution Press.

Schiff, M. and L. A. Winters (2002). "Regional Cooperation, and the Role of International Organizations and Regional Integration." *Policy Research Working Paper* no. 2872. Washington, DC: World Bank.

UNDP (2002). *Arab Human Development Report 2002*. New York. (Arab HDRs are also available for 2003, 2004 and 2005.)

UNDP (2003). *Cooperation South: Convergence: Movements for Regional Integration*. New York.

UNDP (2005). *Central Asia Human Development Report*. New York.

World Bank (2005). *Global Economic Prospects 2005*. Washington, DC.

World Bank (2007). *The Development Potential of Regional Programs: An Evaluation of World Bank Support of Multicountry Operations*. Washington, DC: World Bank Independent Evaluation Group.

ANNEX: REFERENCES FOR SPECIFIC ORGANIZATIONS

Shanghai Cooperation Organization (SCO)

Detailed information about SCO is available at: http://www.sectsco.org.

Blank, S. (2006). "China and the Shanghai Cooperation Organization at Five." *China Brief* 6.13.

Cohen, A. (2006). *The Dragon Looks West: China and the Shanghai Cooperation Organization*. Washington, DC: The Heritage Foundation.

Germanovich. G. (2008). "The Shanghai Cooperation Organization: A Threat to American Interests in Central Asia?" *China and Eurasia Forum Quarterly*, Volume 6, No. 1.

Gill, B. (2004). "Chinese Security Interests and Activities with Central Asian States." *Meeting U.S. Security Objectives in a Changing Asia*. Washington, DC: National Defense University, 2004.

Hayun, Y. (2007). "Some Problems of the Development of the SCO," *Asia Inform*, May 30.

Huasheng, Z. (2005). *China, Central Asia and the Shanghai Cooperation Organization*. Moscow: Carnegie Endowment for International Peace.

Jusupov, B. (2007). "Humanitarian Cooperation within the Framework of SCO: Development Peculiarities," *Asia Inform*, July 10.

Marat, E. (2007). "SCO's International Importance Surges as Iran, Turkmenistan Wish to Join," *Eurasia Daily Monitor*. 4(127).

Maksutov, R. (2006). *The Shanghai Cooperation Organization: A Central Asian Perspective*. Stockholm: SIPRI, 2006.

Satpaev, D. (2007). "SCO Wants to Rely on Two Wheels," *Asia Inform*, May.

Stakelbeck, F. W. (2005), "A New Bloc Emerges?" *The American Thinker*, August 5, 2005. Available at: http://www.americanthinker.com/articles.php?article_id=4703.

Economic Cooperation Organization (ECO) and ECO Trade and Development Bank (ETDB)

Detailed information about ECO is available at: www.ecosecretariat.org/.

Detailed information about the ETDB is available at: http://www.etdb.org/about_etdbinbrief.asp.

Mahmood B., and M. Saremi (1997). "Assessing Economic Cooperation Organization (Eco) Performance: 1992-1997." *International Journal of Commerce and Management*, 12.

Pomfret, R. (1997). "The Economic Cooperation Organization: Regional Forum or Irrelevant Talking Shop?" *Caspian Crossroads Magazine*, Fall 1997.

UNCTAD (2005). "ECO Experience: Expert Meeting on Trade Facilitation as an engine for Development." Geneva, September 21-23, 2005. Available at: http://unctad.org/sections/wcmu/docs/c3em26p10_en.pdf.

Eurasian Economic Community (EurasEC)

Detailed information on EuraseEC is available at: http://www.evrazes.com.

Central Asian Gateway (no date). "Eurasian Economic Community." http://www.cagateway.org/en/topics/23/85/.

UNDP (2005). *Central Asia Human Development Report*. New York.

Weitz, R. (2006). "Sochi Summit Strengthens Eurasec." *Central Asia-Caucasus Analyst*. September 6, 2006. Available at: http://www.c4ads.org/files/weitz_caci_060906.pdf?PHPSESSID=1545febd6f1be27a7b01531937d0.

Weitz, R. (2007). "Eurasec Summit Exposes Deep Economic Divisions Among Former Soviet

Republics." *World Politics Review*, October 10, 2007. Available at: http://www.worldpoliticsreview.com/Article.aspx?id=1227.

Eurasian Development Bank (EDB)

Detailed information on EDB is available at: http://www.eabr.org/eng.

Eurasian Development Bank (2007). Annual Report 2007. http://www.eabr.org/media/img/rus/investors/EABR_AR2007_VI.pdf.

Eurasian Development Bank (2007). Eurasian Development Bank(A3/Bbb+/Bbb+). Investor Presentation, June 22, 2007.

Vinokurov E. (2007). "Eurasian Development Bank: Infrastructure Financing in Central Asia." High-level Policy Dialogue on Regional Cooperation for Infrastructure Development and Financing in Asia-Pacific, March 21-22, 2007. http://www.ris.org.in/ris_unescap_evinokurov.pdf.

Feldbaum-Vidra, J. (2007). *Eurasian Development Bank*. Moody's Investor Service, April.

Central Asia Regional Economic Cooperation Program (CAREC)

Detailed information on CAREC is available at: http://www.adb.org/Carec/.

CAREC (2006). *Comprehensive Action Plan*. Fifth Ministerial Conference on Central Asia Regional Economic Cooperation, October 18-20, 2006, Urumqi, XUAR, People's Republic of China. http://www.adb.org/Documents/Books/CAREC-Comprehensive-Action-Plan/action-plan.pdf.

CAREC (2007). "CAREC Institute Prospectus." *Discussion Paper*. Sixth Ministerial Conference on Central Asia Regional Economic Cooperation, November 2-3, 2007, Dushanbe, Tajikistan. http://www.adb.org/Documents/Events/2007/6th-Ministerial-Conference-CAREC/CAREC-Institute-Prospectus.pdf.

CAREC (2007). "CAREC Transport and Trade Facilitation Strategy." Sixth Ministerial Conference on Central Asia Regional Economic Cooperation, November 2-3, 2007, Dushanbe, Tajikistan. http://www.adb.org/Documents/Events/2007/6th-Ministerial-Conference-CAREC/Transport-Trade-Strategy.pdf.

Central Asia-Caucasus Institute (2008). "CAREC: A Coming Force in Regional Affairs?" *CACI Forum*, Washington, DC, January 8, 2008. http://www.silkroadstudies.org/new/inside/forum/CACI_2008_0108.html.

Special Programme for the Economies of Central Asia (SPECA)

Detailed information on SPECA is available at: http://www.unece.org/speca/Welcome.html.

UNECE (no date). "Overview of the UN Special Programme for the Economies of Central Asia (SPECA)." http://www.unece.org/speca/pdf/gen/aboutsp.pdf.

UNECE/UNESCAP (no date). "SPECA II: Proposals to Reform and Strengthen the UN Special Programme for the Economies of Central Asia." http://www.unece.org/speca/pdf/cc/torcce06.pdf.

The Stability Pact for South East Europe

Detailed information on the Stability Pact is available at: http://www.stabilitypact.org/about/default.asp.

Bartlett, W., and W. Samardija (2000). "The Reconstruction of South East Europe, the Stability Pact and the Role of the EU: An Overview." MOCT-MOST: Economic Policy in Transitional Economies 10(2).

European Commission, Western Balkans Directorate (2002). *Regional Strategy Paper 2002-2006*. Brussels.

UNDP (2005). *Central Asia Human Development Report*. New York, Box 1.2, p. 25.

The European Union (EU)

Detailed information on the European Union is available at: http://europa.eu.htm.

Deppler, M. (2004). "Beyond Integration: Squaring Europe's Social Preferences with Robust Growth." *Finance & Development*, June.

Malamud, A. and P. Schmitter (2006). "The Experience of European Integration and the Potential for Integration in Mercosur." Joint Sessions of Workshops of the European Consortium for Political Research (ECPR). Nicosia, Cyprus, 25-30 April, 2006.

UNDP (2005). *Central Asia Human Development Report*. New York. Box 1.1, p. 24.

Uvalic, M. (2002). "Regional Cooperation and the Enlargement of the European Union: Lessons Learned?" *International Political Science Review*, 2002(23) 319-333.

World Bank (2004). *Global Economic Prospects 2005. Trade Regionalism, and Development*. Washington, DC.

Wyplosz, C. (2006). "Regional Exchange Rate Arrangements: The European Experience," in *Regional Financial Cooperation*, edited by Jose Antonio Ocampo. Washington, DC: Brookings Institution Press.

Integration of Regional Infrastructure in South America (IIRSA)

Detailed information on IIRSA is available at: http://www.iirsa.org.

Burges, S. (2005). "Bounded by the Reality of Trade: Practical Limits to a South American Region." *Review of International Affairs*, 18(3).

Furey, A. (2007). *Financing Unaccountable Infrastructure in South America: IIRSA and Its Relationship with the CAF and the EIB*. Washington, DC: Bank Information Center.

Giménez, E. and L. Spang (2005). *IIRSA Update #1: A Report on the South American Integration Initiative*. Washington, DC: The Bank Information Center.

The Common Market of the South (MERCOSUR)

Arieti, S.A. (2005/2006), "The Role of MERCOSUR as a Vehicle for Latin American Integration," *Chicago Journal of International Law*, 6: 761-773.

Bouzas, R. (2000). "Mercosur Ten Years After: Learning Process or Deja-Vu?" Washington, DC: The Woodrow Wilson Center for International Scholars, November.

European Commission (2003). "Evaluation of the EC Support to the Mercado Común Del Sur (Mercosur)." Brussels. http://ec.europa.eu/europeaid/evaluation/methodology/examples/exp_gaa_prp_rsu_tor_en.pdf.

European Commission (2004). "Evaluation of the EC Support to MERCOSUR." Brussels. http://ec.europa.eu/europeaid/evaluation/methodology/examples/exp_gaa_dfo_rsu_evi_en.pdf.

Institute for the Integration of Latin America and the Caribbean (2007). *Report: Mercosur 2005-2006*. Washington, DC:Inter-American Development Bank.

Malamud, A. and P. Schmitter (2006). "The Experience of European Integration and the Potential for Integration in Mercosur." Joint Sessions of Workshops of the European Consortium for Political Research (ECPR). Nicosia, Cyprus, April 25-30, 2006.

O'Keefe, T.(2003). *A Resurgent MERCOSUR: Confronting Economic Crises and Negotiating Trade Agreements*. Miami: North South Center, University of Miami.

Andean Development Corporation (CAF)

Detailed information on CAF is available at: http://www.caf.com/view/index.asp?ms=11&pageMs=13418. (Accessed July 26, 2007)

Furey, A. (2007). *Financing Unaccountable Infrastructure in South America: IIRSA and Its Relationship with the CAF and the EIB*. Washington, DC: Bank Information Center.

García, L. E. (2007). "CAF´s Experience with Regional Cooperation and Integration." IEG Conference on Unlocking the Potential of Regional Development Programs. Washington, DC: World Bank.

Greater Mekong Sub-region Economic Cooperation Program (GMS)

Detailed information on GMS is available at: http://www.adb.org/GMS/Program/default.asp.

Asian Development Bank (2007). "GMS Development Matrix." Manila. http://www.adb.org/GMS/Projects/devmatrix.asp?fl=8.

Buntaine, M.T. (2007). *Regional Integration, Issue Fragmentation, and Cooperative Environmental Governance in the Lancang-Mekong River Basin*. Duke University, Nicholas School of the Environment and Earth Sciences.

Ministry for Foreign Affairs of Finland (2005). "Ex-Ante Evaluation of Finnish Development Cooperation in the Mekong Region." Helsinki.

Mekong River Commission and The MRC Integrated Programme

Information about the The Mekong River Commission is available at: http://www.mrcmekong.org.

Information about the Basin Development Plan is available at Mekong River http://www.mrcmekong.org/programmes/bdp.htm.

Buntaine, M.T. (2007). *Regional Integration, Issue Fragmentation, and Cooperative Environmental Governance in the Lancang-Mekong River Basin*. Duke University, Nicholas School of the Environment and Earth Sciences.

United Nations Economic and Social Council (2007). Report of the Mekong River Commission Sixty-third session May 17-23, 2007. Almaty, Kazakhstan. http://unescap.org/EDC/English/Commissions/E63/E63_31E.pdf.

Mekong River Commission (2007). *MRC Work Programme 2007*. Vientiane.

The Association of Southeast Asian Nations (ASEAN)

Detailed information about ASEAN is available at: http://www.aseansec.org/64.htm.

Kheng-Lian, K. and N.A. Robinson (2002). "Regional Environmental Governance: Examining the Association of Southeast Asian Nations (Asean) Model." *Global Environmental Governance*. Eds. Daniel C. Esty and Maria H. Ivanova. New Haven: Yale

Snitwongse, K. (1995). "ASEAN's Security Cooperation: Searching for a Regional Order." *The Pacific Review* 8(3): 518-530.

South Asian Association for Regional Co-operation (SAARC)

Detailed information about SAARC is available at: http://www.saarc-sec.org/main.php?t=2.

Dasgupta, A. and N.M. Maskay (2003). "Financial Cooperation in SAARC: A First Step Toward Greater Monetary Integration in South Asia," *South Asia Economic Journal* 4:133.

International Council on Social Welfare (2003). *South Asian Association for Regional Cooperation (SAARC)*. Utrecht: ICSW.

Mukherji, I.N. (2001). "Review Article: The Report of the SAARC Group of Eminent Persons," *South Asia Journal* 2(313).

ENDNOTES

1. We refer to "regional integration" as the process of establishing economic linkages (trade, capital flows, migration, etc.) among countries, while we use the term "regional cooperation" to refer to governmental (and where appropriate non-governmental) institutional mechanisms that support the integration process. Integration can and does proceed without institutionalized cooperation, and cooperation may not necessarily support integration. The challenge for governments (and other actors) is to find the right institutional cooperation mechanisms that help bring about the desired degree, speed and nature of integration.
2. For the membership and mandates of these organizations and other regional organizations involving Central Asian countries, see pages 6-8 and Figure 1 on page 9.
3. We did not review the function or performance of the large continent-wide Regional Development Banks, such as the Inter-American Development Bank, the Asian and African Development Banks and the European Bank for Reconstruction and Development. Their memberships extend far beyond the regions they cover, and their principal focus generally is not on cooperation for integration of the region that they cove with their loans and technical assistance. However, they do have an important role in supporting the regional organizations which are focused more specifically on regional cooperation and have a more limited regional membership.
4. Where private cross-border links are illegal or harmful—terrorism, crime, drugs or epidemics, for example—governmental cooperation is needed to prevent or limit such links.
5. See for example Schiff and Winters (2002) and Birdsall and Rojas-Suarez (2004); see UNDP (2005) for an in-depth exploration of the barriers to regional integration in Central Asia—according to this report, Central Asia could double its national income over a period of ten years with regional cooperation compared to without it.
6. The Asian Development Bank, for example, has supported regional integration and cooperation among its member countries quite explicitly for over a decade. In contrast, the European Bank for Reconstruction and Development has virtually no focus in regional cooperation.
7. Hettne and Soederbaum (2006) refer to the former as unidimensional and the latter as multidimensional organizations.
8. For background and documentation, see the Annex to this paper, which provides references for each of the organizations; also see UNDP (2005).
9. We disregard here their participation in ADB, EBRD and the CIS, whose geographic coverage goes far beyond Central Asia and broadly contiguous neighbors.
10. SCO's members are PRC, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan and Uzbekistan.
11. SCO has observer nations: India, Iran, Mongolia and Pakistan.
12. EurasEC's members are: Belarus, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan and Uzbekistan.
13. ECO's members are Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, Turkey and Uzbekistan.
14. According to a press release by the Bank, dated May 29, 2008, the Bank's president announced that "the main guidelines, policies and procedures regulating the operations of the Bank have been finalised, so the ECOBANK is ready to serve in the region with its authorised capital of 1 billion SDR (aprx. 1.6 billion US$)." http://www.etdb.org/news_events_sub_10.asp.
15. CAREC's members are: Afghanistan, Azerbaijan, People's Republic of China (PRC), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan; as well as the following multilateral institutions:

EBRD, IMF, Islamic Development Bank, Asian Development Bank (ADB), UNDP, and the World Bank.

16. The country members are Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

17. For background and documentation, see the Annex to this paper, which provides references for each of the organizations.

18. Participating countries are Cambodia, PRC, Lao PDR, Myanmar, Thailand and Vietnam. Other international financial organizations, such as the World Bank, and bilateral donors also coordinated their regional investments with GMS sectoral strategies.

19. Cambodia, Lao PDR, Thailand and Vietnam are full country members, China and Myanmar are "dialogue partners."

20. Member countries are Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

21. Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

22. Regional member countries are Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Moldova, Montenegro, Romania, Serbia and The Former Yugoslav Republic of Macedonia; non-regional participants include the EU members states and the European Commission as well as a number of other international and regional partner organizations, including the UN agencies, the EBRD and the World Bank.

23. See the press release dated March 18, 2008, on the Stability Pact's Web site: www.stabilitypact.org/pages/press/detail.asp?y=2008&p=664.

24. Other comparable regional organizations exist in Latin America, for example the Central American Bank for Economic Integration (CABEI) and the Caribbean Development Bank (CBD). For more information on these sub-regional development banks, see Culpeper (2006). Also not covered here is the Inter-American Development Bank (IADB).

25. Member countries are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Surinam, Uruguay and Venezuela.

26. These three financial institutions participate in the Technical Coordination Committee of IIRSA. Other financial partners include the World Bank, the European Investment Bank and UNDP.

27. Associate country members are Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela. They participate only in the free-trade aspects of MERCOSUR.

28. According to its Web site, CAF's complex membership structure is as follows: "CAF has 17 member countries in Latin America, the Caribbean and Europe. Its main shareholders are the five Andean countries: Bolivia, Colombia, Ecuador, Peru and Venezuela, 'A' and 'B' series shareholders; together with 12 associated countries: Argentina, Brazil, Chile, Costa Rica, Dominican Republic, Jamaica, Mexico, Panama, Paraguay, Spain, Trinidad & Tobago, and Uruguay which are part of 'C' series, and 15 private banks from the Andean region, 'B' series partners." See www.caf.com/view/index.asp?pageMS=41234&ms=17.

29. Unless otherwise footnoted, we draw a composite picture or each of the organizations based on the sources cited in the Annex and on personal experience of the authors in dealing with and observing some of the organizations concerned (in particular those in Central Asia).

30. See www.adb.org/Evaluation/reports/rcape-gms.asp for the concept paper for this evaluation exercise. Aside from the evaluation of SPECA, mentioned above, and the many assessments of the EU, this will be the only rigorous evaluation of a regional cooperation organization that we are aware of.

31. Griffith-Jones (n.d.). In this regard CAF is similar to the European Investment Bank. We did not find a comparative evaluation of project quality in terms of development results for CAF relative to other development banks nor does there appear to exist an evaluation of the joint impact of IIRSA and CAF in achieving significant improvements in regional infrastructure.

32. See the program's Web site: www.worldbank.org/afr/gper/defeating.htm.

33. E.g., UNDP (2002).

34. We are grateful to Frederick Starr for pointing this out to us.

35. Malamud and Schmitter (2006). The phrase can be translated as: "Take small steps to achieve great results."

36. For a summary of the conclusion of the CAREC Ministerial Meeting in Dushanbe, November 2006 see the CAREC Web site at http://www.adb.org/Documents/Events/2007/6th-Ministerial-Conference-CAREC/default.asp.

The views expressed in this working paper do not necessarily reflect the official position of Brookings, its board or the advisory council members.

ISSN: 1939-9383

Printed on recycled paper with soy-based inks.

Selected photos courtesy of the World Bank:
cover left to right: (#4) Ami Vitale, (#6) John Isaac

BROOKINGS

1775 Massachusetts Avenue, NW
Washington, DC 20036
202-797-6000
www.brookings.edu/wolfensohncenter