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**Macroeconomic policy questions: trade and development**

### **Transit environment in the landlocked States in Central Asia and their transit developing neighbours**

#### **Note by the Secretary-General\*\***

The Secretary-General has the honour to submit to the General Assembly, as requested in its resolution 53/171 of 15 December 1998, the report prepared by the Secretary-General of the United Nations Conference on Trade and Development on the transit environment in the landlocked States of Central Asia and their transit neighbours.

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\* A/55/150.

\*\* There was a slight delay in the submission of this document owing to pressure of work in the preparations for the Third United Nations Conference on the Least Developed Countries.

# Report of the Secretary-General of the United Nations Conference on Trade and Development on the transit environment in the landlocked States of Central Asia and their transit neighbours

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## **I. Introduction**

1. The General Assembly, in paragraph 6 of resolution 53/171 of 15 December 1998, entitled “Transit environment in the landlocked States in Central Asia and their transit developing neighbours”, requested the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) to prepare a report on the implementation of that resolution, to be submitted to the General Assembly at its fifty-fifth session. The present report, prepared in response to that request, covers developments relevant to paragraphs 2 to 5 of the resolution, which are as follows:

(a) The elaboration of a programme for improving the efficiency of the current transit environment in the newly independent and developing landlocked States in Central Asia and their transit developing neighbours;

(b) The provision of technical assistance and advisory services to the newly independent landlocked States in Central Asia and their transit developing neighbours, taking into account the relevant transit transport agreements;

(c) The provision, to the newly independent and developing landlocked States in Central Asia and their transit developing neighbours, of appropriate financial and technical assistance for the improvement of the transit environment, including construction, maintenance and improvement of their transport, storage and other transit-related facilities and improved communications;

(d) Possible ways of promoting more cooperative arrangements between landlocked States in Central Asia and their transit developing neighbours, and to encourage a more active support role on the part of the donor community.

2. With respect to subparagraph (a) above, a number of studies have been completed since the adoption of resolution 53/171 and others are under way, in particular in UNCTAD, the Economic and Social Commission for Asia and the Pacific (ESCAP), the Economic Commission for Europe (ECE), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and through the European Union’s TRACECA (Transport Corridor: Europe-Caucasus-Asia) programme. The recommendations made in those studies have paved the way for a broad range of programmes and projects designed to improve the transport infrastructure and address outstanding non-physical barriers.

3. As regards subparagraphs (b) to (d) above, the present report indicates the major ongoing financial and technical assistance projects of relevance to the improvement of the transit environment of the Central Asian countries and their transit developing neighbours.

## **II. Economic recovery and the emerging trade and transit patterns in Central Asia**

### **A. Basic economic indicators and growth prospects**

4. The Central Asian countries, during the first decade of their independence, have been grappling with the problems of transition to market-based economy, a struggle that is likely to spill over into the next decade. The pace of recovery and development in Central Asia has not been shared equally among countries or, for

that matter, between economic sectors within individual countries, but the general thrust appears to be satisfactory.

5. In a report issued in 1996, the Secretary-General described the many difficulties that were then facing the landlocked countries of Central Asia (see A/51/288). In particular, he observed that the impact of economic change in Central Asia had caused: (a) severe economic contraction; (b) loss of markets for both raw materials and industrial products from the region; (c) a precipitous fall in real gross domestic product (GDP) which fell between 30 and 50 per cent; (d) bank retrenchment, with numerous failures and a fall in savings and investment; (e) spectacular dislocation of the transport system; and (f) a dramatic rise in unemployment.

6. In a subsequent report issued in 1998 (A/53/331), the Secretary-General was pleased to note a change for the better, notably: (a) signs of economic recovery and the emergence of new markets for exports and imports; (b) significant investment on the main alternative transit transport corridors; (c) the increasing impact of technical assistance projects on institutional restructuring in the transport sector; (d) enhanced regional cooperation through the drafting and adoption, at the highest level, of multilateral framework agreements related to transit; and (e) moves to develop the human resource base in Central Asia.

7. Although economic recovery was slowed by the Russian financial crisis of 1998, economies in Central Asia recovered in 1999 and are expected to continue to grow during 2000 and 2001. Overall GDP growth in the region is estimated to have been 0.8 per cent in 1998,<sup>1</sup> 2.8 per cent in 1999 and is forecast to reach 4.9 per cent in 2000. In 1999, Kazakhstan experienced GDP growth of 1.7 per cent, Kyrgyzstan 3.6 per cent, Tajikistan 3.7 per cent, and Turkmenistan and Uzbekistan 4.4 per cent.<sup>2</sup> Inflation in the region jumped from 11.4 per cent in 1998 to 21.9 per cent in 1999, but is expected to drop to 15.1 per cent in 2000. Current account balances worsened by 4.5 per cent in 1998, slowing down to 2 per cent in 1999 and are forecast to be 2.4 per cent in 2000.<sup>1</sup> The value of GDP attributable to the private sector in Central Asian republics is low, even compared to other countries in transition to market-based economies. It is, for example, 30 per cent in Tajikistan as compared to 60 per cent in Mongolia.

8. Many countries in Central Asia, because of widening current account deficits, budgetary imbalances and overall debt burden, have since 1997 found it increasingly more difficult to raise funds in international markets. Because of this and given the magnitude of their development needs and their limited capacity to generate an investable surplus, the volume, timeliness and terms of external financial resources will be crucial and should correspond to their immediate short-term and long-term development needs. Foreign assistance should serve to promote domestic growth and long-term economic development and transformation, so that eventually they could reduce their dependence on aid.

## **B. Main alternative transit transport corridors for Central Asia**

9. For trade, Central Asia has a growing number of transit transport options: (a) the traditional rail and road connections through the Russian Federation; (b) the trans-Caspian ferry routes by rail and road; (c) rail and road links through the Islamic Republic of Iran; (d) to the East, by rail and road, through China; and (e) to

the south, by road, through China to Pakistan and India. The impact of these routes in opening up Central Asia for trade has been significant. Improving their efficiency by removing physical infrastructure bottlenecks and non-physical barriers in order to minimize the cost of transport will enable them to make an even greater contribution to trade expansion.

### **III. Physical infrastructure bottlenecks: solving short-term problems and adjusting to longer-term trends**

#### **A. Parameters for long-term development**

10. By virtue of their membership in regional organizations, such as ESCAP and ECE, the Central Asian countries have committed themselves to participate in common schemes and programmes, for example, the Asian Land Transport Infrastructure Programme (ALTID), and have also agreed to accede to basic international agreements and conventions which stipulate the rules and procedures that promote transit facilitations and lay down minimum technical requirements for the construction and maintenance of infrastructure and transit transport facilitation. If Central Asia were to become a land bridge between Europe and Asia, it has no choice but to adapt to common principles and standards, but the cost of adhering to European norms and standards for construction and maintenance of infrastructure and transport facilitation, as illustrated in paragraphs 29 and 30 below, is high, and Central Asia will certainly need and deserve financial and technical support from their trading partners and multilateral and financial institutions.

#### **B. Current developments to improve physical infrastructure**

##### **1. Prospective pipeline routes**

11. Major developments in Central Asia since the 1998 report of the Secretary-General have been in the area of pipeline development. In June 2000, Azerbaijan, Georgia and Turkey reached agreement on the legal framework for a proposed Baku-Tbilisi-Ceyhan pipeline. In July 2000, the state pipeline company of Turkey, Botas, invited tenders for preliminary engineering work on the Turkish section of the pipeline. This section, which represents over 50 per cent of the total distance of some 1,700 kilometres, is expected to cost around US\$ 2.5 billion when completed. Capacity is about 1 million barrels a day. Early commencement of construction is now, however, in doubt, owing to the recent increase in oil flows from Kazakhstan via the Russian Federation.

12. It has been reported that the Baku-Supsa oil pipeline from Azerbaijan to the Black Sea via Georgia had deteriorated to such an extent that the rehabilitation project had to be upgraded into a complete rebuilding operation. The refurbished pipeline will have a capacity of up to 20 million tons a year.

13. In Kazakhstan, the International Caspian Pipeline Consortium established in 1993 to build a US\$ 2.2 billion oil pipeline from the Tenghiz field to Novorossiisk in Russia on the Black Sea, is close to agreement with all interests along the route. It should be built during the forthcoming 12 to 18 months and, with an initial capacity of 28.2 million barrels per day rising to 67 million barrels per day, will increase the

oil exports of Kazakhstan by an initial 80 per cent. The possibility of a pipeline link to Azerbaijan under the Caspian is still under discussion. There are also plans for a 3,000-kilometre pipeline from Aktobe in Kazakhstan to the Karami oil field in China, which could have a capacity of 20 million tons per year, and also for a pipeline from Kazakhstan to the Persian Gulf via Turkmenistan and the Islamic Republic of Iran. The completion of oil trans-shipment port terminals at Iktan in Baku will increase Kasakh oil export capacity to 10 million tons a year.

14. In Turkmenistan, agreement was reached in December 1997 for the construction of a 140-kilometre gas export pipeline to Iran. Turkmenistan may also build a gas pipeline under the Caspian Sea to Erzurum in Turkey via the Caucasus at a cost estimated at US\$ 2 to 4 billion. A consortium of interests reached preliminary agreement in June 1998, but commencement of construction may now be a more distant prospect following a decision by Turkmenistan in May 2000 to double its gas deliveries to the Russian Federation. The proposed trans-Afghan pipeline from Turkmenistan to Pakistan has been put on indefinite hold awaiting a more stable transit environment.

## 2. Rehabilitation and improvement of transport infrastructure

15. With the main transit transport corridors virtually in place, the second phase of improving the transport infrastructure in Central Asia has mainly focused on rehabilitation, maintenance and upgrading. With regard to railway infrastructure, priority attention is being directed to improvement of bogey change stations, upgrading and reconstruction of tracks and bridges, and improving telecommunications and electrification. Road maintenance and rehabilitation have been given greater priority over new roads. Some of the main projects under way are summarized in table 1 below.

Table 1  
**Infrastructure improvement projects agreed to during the period 1998-2000, mostly due for completion during the period 2000-2004**

<i>State</i>	<i>Infrastructure project</i>	<i>Value</i>	<i>Organization</i>
Kazakhstan	Almaty-Gulshad road reconstruction	US\$ 9.57 million	IDB <sup>a</sup>
	Rail-track maintenance/renewal	Euro 64.8 million	EBRD <sup>b</sup>
	Road transport restructuring	US\$ 100 million	World Bank
Kyrgyzstan	Almaty-Bishkek road rehabilitation	US\$ 5 million	ADB <sup>c</sup>
	Bishkek-Osh second road rehabilitation	US\$ 50 million	ADB
Tajikistan	Road rehabilitation Dushanbe-Kulyab	US\$ 20 million	ADB
Turkmenistan	Ashgabat-Mary highway rehabilitation	US\$ 50 million	EBRD
	Turkmenbashi port rehabilitation	US\$ 30 million	EBRD
Uzbekistan	Railways modernization	US\$ 70 million	ADB/EBRD
	Railways rehabilitation Chengeldy-Tashkent-Samarkand	US\$ 70 million	ADB
	Road rehabilitation Bukhara-Turkmenistan border	US\$ 50 million	ADB

<i>State</i>	<i>Infrastructure project</i>	<i>Value</i>	<i>Organization</i>
<b>Regional projects</b>			
	Intermodal cotton exports		TRACECA <sup>d</sup>
	Electric freight locomotives	Euro 39.8 million	EBRD
	Container services Baku-Turkmenbashi	Euro 2.5 million	TRACECA
	Rail ferry facilities, Georgian Black Sea	Euro 3.4 million	TRACECA
	Cargo and container handling equipment	Euro 5.825 million	TRACECA

*Source:* Compiled by the secretariat of UNCTAD from information obtained from the organizations concerned.

<sup>a</sup> Islamic Development Bank.

<sup>b</sup> European Bank for Reconstruction and Development.

<sup>c</sup> Asian Development Bank.

<sup>d</sup> Transport Corridor: Europe-Caucasus-Asia programme of the European Union.

## **IV. Measures designed to overcome non-physical barriers to the available transit transport corridors**

### **A. Creating a conducive legal environment for transit operations**

16. Since attaining their independence in 1991, the Central Asian countries have taken measures to join the community of nations by becoming members of the United Nations and related agencies and affiliating themselves to a number of organizations in their region. As part of their strategy to be fully integrated into the community of nations, they have redoubled effort to conclude regional and bilateral agreements with their neighbouring countries and to accede to international conventions.

#### **1. Accession to international conventions**

17. The Central Asian countries, as illustrated in table 2 below, have done a commendable job in complying with ESCAP resolution 48/11 of 23 April 1992,<sup>3</sup> which recommends that its members should make efforts to accede to: (a) the Convention on Road Traffic, 1968; (b) the Convention on Road Signs and Signals, 1968; (c) international customs transit regimes, such as those stipulated in the Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), 1975; (d) the Customs Convention on the Temporary Importation of Commercial Road Vehicles, 1956; (e) the Customs Convention on Containers, 1972; (f) the International Convention on the Harmonization of Frontier Control of Goods, 1982; and (g) the Convention on the Contract for the International Carriage of Goods by Road, 1956.

Table 2

**Accession to international conventions by the Central Asian countries and their transit neighbours, as at February 2000**

<i>State</i>	<i>CMR<sup>a</sup></i>	<i>TIR<sup>b</sup></i>	<i>Containers</i>	<i>Harmonization frontiers</i>	<i>Road traffic</i>	<i>Road signs</i>	<i>ADR<sup>c</sup></i>	<i>ATP<sup>d</sup></i>	<i>AETR<sup>e</sup></i>	<i>AGR<sup>f</sup></i>	<i>TEMP<sup>g</sup></i>
Armenia		X		X							
Azerbaijan	X								X	X	
China			X								
Georgia	X	X	X	X	X			X			
Iran, Islamic Republic of	X	X			X	X					
Kazakhstan	X	X			X	X			X	X	
Kyrgyzstan	X	X		X		X					X
Mongolia					X						
Russian Federation	X	X	X	X	X	X	X	X	X	X	
Tajikistan	X	X			X	X					
Turkey	X	X	X							X	
Turkmenistan	X				X	X			X		
Uzbekistan	X	X	X	X	X	X		X	X		X

*Source:* Economic Commission for Europe.

<sup>a</sup> Convention on the Contract for the International Carriage of Goods by Road, 1956.

<sup>b</sup> Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), 1975.

<sup>c</sup> European Agreement concerning the International Carriage of Dangerous Goods by Road, 1957.

<sup>d</sup> Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be used for Such Carriage, 1970.

<sup>e</sup> European Agreement concerning the Work of Crews of Vehicles engaged in International Road Transport, 1970.

<sup>f</sup> European Agreement on Main International Traffic Arteries, 1975.

<sup>g</sup> Customs Convention on the Temporary Importation of Commercial Road Vehicles, 1956.

18. All of the international conventions stipulated by ESCAP in its resolution 48/11 are important. It is not possible, however, to describe all of them in extenso in the present report. Instead, the TIR Convention is covered in more detail, because of its worldwide importance in transit facilitation.

19. The TIR Convention of 1975, which replaced an earlier version adopted in 1973, had initially been restricted to the carriage of goods by road, but the current version covers other modes of transport (air, rail and multimodal transport), provided that part of the journey is by road. The TIR Convention enables a vehicle or container covered by a specific customs document, the TIR carnet, to journey from its point of departure to its point of destination without undergoing any customs examination when crossing intermediate frontiers.

20. TIR carnets are issued by the secretariat of the International Road Transport Union (IRU) at Geneva and distributed to national associations representing IRU in the countries which are contracting parties to the Convention. To obtain a TIR carnet, the carrier must belong to a national association which can furnish



professional and economic guarantees and which is authorized to issue carnets. Moreover, the vehicles and containers used must fulfil technical and other conditions laid down in the Convention.

21. Each association stands guarantor, under an agreement with the customs authorities, for the duties and taxes payable on goods carried under cover of the TIR carnets issued by it, or by any other member of the international chain of guaranteeing associations. Similarly, the national guaranteeing association must sign an undertaking with IRU, regulating the reciprocal rights and liabilities implicit in the operation of the TIR system.

22. To guarantee fully the payment amounts claimed on account of irregularities in a TIR operation, IRU has negotiated a surety bond with a pool of international insurance companies.

23. The essential pillars of the TIR transit system are that: (a) goods should travel in secure vehicles or containers; (b) duties and taxes at risk should be covered by an internationally valid guarantee throughout the journey; (c) the goods should be accompanied by an internationally accepted carnet taken into use in the country of departure and accepted in the countries of transit and destination; and (d) customs control measures taken in the country of departure should be accepted by the countries of transit and destination.

24. The TIR system, as illustrated in table 3, below is growing in strength in Central Asia, but the weak financial base of many local transport operators has been a major obstacle to their participation in the system, leaving the scene to the domination of foreign carriers. To remedy this unsatisfactory situation, substantially greater technical assistance to local banking and insurance sectors would be needed, so as to enable them to devise reliable and cost effective schemes for offering financial guarantees to the local transport operators. Without such guarantees, it will be difficult or impossible for road carriers to comply with the requirements of the TIR system, which, inter alia, demand the purchase of a special type of vehicle without which they would not be allowed to operate in Western markets.

Table 3  
Number of TIR carnets issued for Central Asian external trade

<i>State</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
Azerbaijan	0	0	0	300	600	650
Georgia	0	0	300	500	300	900
Kazakhstan	0	0	2 000	suspended	3 500	9 000
Russian Federation	121 000	110 000	145 500	191 500	218 000	174 350
Turkey	189 500	221 000	263 000	307 000	307 000	279 000
Uzbekistan	0	0	600	250	450	600

*Source:* Economic Commission for Europe and International Road Transport Union.

**2. Transit transport services**

25. The advantages of the TIR system can be seriously diminished if vehicles registered in other countries are not allowed to pass through national frontiers. More work in Central Asia is required to conclude regional or bilateral agreements in order to facilitate door-to-door road transport services.

**3. Road transit charges**

26. Road transit charges have also come under criticism from foreign carriers. They point out that not only were the level of fees high, charges were being raised by various authorities (government, provincial authorities, local communities etc.). Such a multiplicity of transit charges could be a serious obstacle to efficient transit operations; accordingly, every effort should be made to improve the situation. It should be pointed out that transit transport would be facilitated if road transit charges could be harmonized at the subregional level, a situation that has been achieved in southern Africa. Transit charges, axle load limits, visas and similar aspects of importance to transit facilitation are issues that could be best handled under the framework of regional agreements.

**4. Third party motor insurance**

27. The extension of the European Green Card for motor insurance to Central Asia has been mooted, but as prospects for implementation in the near future are not bright, proposals made in regional agreements, such as the Economic Cooperation Organization (ECO) Transit Transport Framework Agreement for the establishment of subregional schemes should be implemented as an interim measure.

**5. Using information technology to contribute to customs transit facilitation**

28. Within the context of transit arrangements, information technology can be used to help customs authorities to control transit and improve the efficiency of transport operators, and thus benefit traders. Flows of information, which are largely encoded in paper documents, are fast being replaced by telematic techniques. New information technology can be used: (a) to computerize data-handling tasks undertaken by individual suppliers of transit services, including transport operators, freight forwarders, banks, insurance companies, warehouse operators, customs and providers of market information; and (b) to computerize the exchange of information among suppliers of transit services, for example, between port and railway authorities, or with national customs authorities. A number of information systems, including the UNCTAD Automated System for Customs Data Entry, Control and Management (ASYCUDA) have been proposed for implementation in Central Asia. Countries which have not installed customs information systems may wish to determine their choice of systems and seek technical assistance.

**B. Cost implications of implementing international agreements**

29. While the political will of the Central Asian countries to accede to international conventions should be welcomed, the implications, financial and other, of implementing the provisions of such conventions should not be ignored or underestimated. Adherence to the European Agreement on Main International Traffic Arteries or the European Agreement on Main International Railway Lines

would, for example, involve large-scale upgrading of physical infrastructure that would cost millions, if not billions, of dollars in investment. The installation or upgrading of signs and signals in line with the Convention on Road Signs and Signals, 1968, would be expensive, given the long distances involved in Central Asia, a territory as large as India and Pakistan combined.

30. The construction requirements for vehicles under the agreement on the international carriage of dangerous goods by road would require complete fleet renewal, as well as certification and other administrative costs. Lastly, the agreement on drivers' hours of work requires the fitting and use of tachographs so as to provide a reliable mechanical record of driving time, rest time etc. Unfortunately, tachograph instruments and drive systems have proved inherently fragile and any tampering with components for the purposes of repair requires subsequent recalibration of the instrument. The economic costs of maintaining tachographs in the difficult operating conditions in Central Asia would be high. For this reason, a temporary derogation from the fitment requirement is in effect throughout the Commonwealth of Independent States.

### **C. Strengthening national managerial and institutional systems**

31. Apart from issues relating to financial constraints, it is important to recognize that the implementation of international conventions cannot be achieved in the absence of effective institutional and managerial support systems at both the public and private sector levels. Government responsibility is critical in three main areas: (a) ensuring that the legislative action needed to translate the various conventions and agreements into domestic law, if required, is secured; (b) that the judicial system has adequate capacity to administer the laws of the land, including those introduced through international conventions, and regional and bilateral agreements; and (c) public control agents, such as customs, border control police and the various licensing authorities, are well trained. The complexity and multilateral nature of international transport services also demand an effective private sector. The complexity and multilateral nature of transit operations require a new breed of transit transport operators vested with adequate financial and managerial capacity. Individual transport companies require support, not only from their national transporters associations, but also associated professional bodies, notably banking, insurance and freight forwarder services. Such professional bodies and associations, where established, must be strengthened since efficient international services would not be possible without them.

### **D. Technical assistance**

32. There are many transport bottlenecks that typically cause delay in the movement of goods throughout the world. Central Asia is no exception. Central Asia and its development partners and the bilateral or multilateral frameworks have attempted to address the problems through appropriate technical assistance projects. As indicated in table 4 below, technical assistance was directed towards a broad range of issues and problems, including those related to road transport maintenance systems, preparatory work in support of the implementation of multilateral agreements, and measures designed to strengthen institutional capacity.

Table 4  
**Major technical assistance projects agreed to during the period 1998-2000,  
mostly due for completion by the end of 2001**

<i>State</i>	<i>Technical assistance</i>	<i>Value</i>	<i>Organization</i>
Kazakhstan	Improvement road sector efficiency	US\$ 750,000	ADB <sup>a</sup>
Kyrgyzstan	Improvement road sector efficiency	US\$ 440,000	ADB
	Third road rehabilitation	US\$ 600,000	ADB
Tajikistan	Institutional/policy road sector	US\$ 500,000	ADB
	Road rehabilitation/sector profile	US\$ 840,000	ADB
Turkmenistan			
Uzbekistan	Policy reform in the railway sector	US\$ 600,000	ADB
	Railways modernization	US\$ 450,000	ADB
<b>Regional projects</b>			
	Vehicle emission action plan	US\$ 900,000	ADB
	Road funds/sustainable maintenance	US\$ 350,000	ADB
	Road transport transit facilitation	Euro 2.8 million	TRACECA <sup>b</sup>
	Traffic forecasting	Euro 2 million	TRACECA
	Implementation of multilateral agreements	Euro 1.1 million	TRACECA
	Silk Road regional cooperation	US\$ 1.2 million	UNDP <sup>c</sup>
	Road maintenance systems	Euro 2.5 million	TRACECA
	Intermodal services	Euro 2 million	TRACECA
	Trade facilitation	US\$ 1.35 million	ADB

Source: Organizations listed.

<sup>a</sup> Asian Development Bank.

<sup>b</sup> Transport Corridor: Europe-Caucasus-Asia programme of the European Union.

<sup>c</sup> United Nations Development Programme.

## **V. Towards a framework for better cooperation and coordination**

### **A. Financial and technical cooperation**

33. There has been an assumption that the more projects launched, the greater the demonstration by the world community of its determination to help ease the process of transition in Central Asia. With the hindsight of nearly 10 years of aid delivery effort and the realization that logistical, transaction and administrative costs have absorbed a large proportion of resources, estimated at between 60 and 70 per cent of project funds, the time now appears to be ripe for a re-evaluation in order to improve the way aid, in particular technical assistance, is designed and delivered.

34. Another weakness in the donor-led projects has been the realization, some time well after the projects have been completed, that the recipient countries did not in fact have appropriate institutions available for the implementation of the new

projects. A case in point has been the TIR Convention which became applicable before road transport associations, banking and insurance support institutions were established in Central Asia, with the consequence that many local transport operators, for lack of adequate financial and managerial capacity, were not able to take advantage of the TIR system.

## **B. Aid coordination**

35. Aid coordination has also been weak. Fortunately, some of the lending institutions have now begun to cooperate more and more systematically in order to reduce duplication of effort and maximize outcomes. EBRD and ADB have, for example, signed a memorandum of understanding concerning their activities in Central Asia. ADB will take the overall lead in infrastructure projects in Kyrgyzstan and Tajikistan, while both institutions will cooperate in the development of specific infrastructure projects in Kazakhstan, Uzbekistan and Turkmenistan, in particular when co-financing is necessary. A US\$ 70 million railway modernization project in Uzbekistan marked the first major application of the new strategy. In similar fashion, EBRD and the World Bank have an understanding, whereby EBRD is taking the lead on rail infrastructure projects.

## **C. An organic process must underpin the transition to a market-based economy**

36. Recent annual reports of the multilateral development banks and an increasing number of position papers and technical assistance project reports emphasize the need for coherent institutional development strategies to be adopted and implemented by Governments in the region as a high priority. Indeed, good governance is beginning to be appreciated by the lending institutions almost as a precondition to sustainable economic growth and long-term foreign investor confidence as the realization grows that investment alone will not produce results.

37. Good governance in the context of the transport sector does not only involve competitive tendering for the construction and maintenance of equipment and infrastructure. At the heart of good governance lies effective legislation, adequately drafted and sufficiently and impartially enforced, and regulatory mechanisms to ensure fair competition. During the early years of activity by the international development agencies in transitional economies, legislation tended to be regarded as a component to be added, almost an afterthought instead of as part of an organic process. As has been eloquently put in an ADB review, for the creation of a responsive and well-established legal system that is supportive of private sector operations, a systematic approach to legal reform must be adopted. This implies a move away from a purely reactive approach to specific problems towards an approach that seeks to understand and take into account the working of the legal system as a whole. This involves shifting the focus of the law reform efforts away from normative law reform (i.e., writing up new laws, though it must still be maintained), towards strengthening the institutional capabilities of the judiciary and governmental agencies through training, including continuing legal education for existing professionals.

## **D. Intergovernmental institutional support arrangements**

38. There is need for an institutional mechanism which is dedicated to promoting the simplification, harmonization and standardization of rules, procedures and documentation applicable along all the main transit corridors radiating from Central Asia. Transit operations will be facilitated if the rules agreed through regional or bilateral agreements to complement international convention provisions were harmonized throughout the region. Target regulations should include rules relating to axle load limits, driver licence requirements, working hours at border checkpoints, and transit charges etc.

39. The current subregional organizational arrangements in Central Asia have their mandates essentially linked to specific corridors: the European Union Europe-Caucasus-Asia TRACECA programme is modernizing the physical and regulatory framework for transit along the Trans-Caspian transport corridor; ECO focuses largely on the transit corridors that radiate from Indian ocean ports; CIS addresses the development and regulation of transit transport along the traditional corridor and routes via the Russian Federation; transit issues relating to the Eastern corridor through China are discussed separately between that country and interested Central Asian countries; and the ECE/ESCAP Special Programme for the Economies of Central Asia (SPECA) coordinates United Nations technical assistance programmes or projects within Central Asia.

40. In the circumstances, the need for an institutional arrangement vested with overall mandate is evident but, with so many subregional organizations or arrangements already established, it would be inappropriate to propose yet another institution. It is therefore incumbent upon the existing organizations to find a way to cooperate and coordinate. The Central Asian countries themselves also have an important role to play. They must not allow themselves to negotiate one day a set of rules and procedures for application in one corridor only to agree the next day to different rules and procedures in respect of another corridor. To do so will impede efficient transit transport operations, with a consequent increase in transport costs, thereby undermining their external trade efforts and competitiveness in world markets.

### *Notes*

<sup>1</sup> Asian Development Bank, selected economic indicators for developing Asia, 1997-2001.

<sup>2</sup> International Monetary Fund, *World Economic Outlook* (Washington, D.C., May 2000).

<sup>3</sup> See *Official Records of the Economic and Social Council, 1992, Supplement No. 11* (E/1992/31), chap. IV.

## Annex

### Status of Economic Commission for Europe transport agreements and conventions as at 9 February 2000<sup>a</sup>

#### Legend

- X = Rectification, accession, definite signature.
- S = Signature.
- \* = Non-ECE member countries.
- 1/ = Done by the former republic of China.

#### Acronyms

ADR	European Agreement concerning the International Carriage of Dangerous Goods by Road
AETR	European Agreement concerning the Work of Crews of Vehicles engaged in International Road Transport
AGR	European Agreement on Main International Traffic Arteries
AGC	European Agreement on Main International Railway Lines
AGN	European Agreement on Main Inland Waterways of International Importance
AGTC	European Agreement on Important International Combined Transport Lines and Related Installations
APC	Agreement on Minimum Requirements for the Issue and Validity of Driving Permits
ATP	Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be Used for such Carriage
CLN	Convention relating to the Limitation of Liability of Owners of Inland Navigation Vessels
CMR	Convention on the Contract for the International Carriage of Goods by Road
CRTD	Convention on Civil Liability for Damage caused during Carriage of Dangerous Goods by Road, Rail and Inland Navigation Vessels
CVN	Convention on the Contract for the International Carriage of Passengers and Luggage by Inland Waterways
CVR	Convention on the Contract for the International Carriage of Passengers and Luggage by Road
TIR	Customs Convention on the International Transport of Goods under Cover of TIR Carnets

<sup>a</sup> Prepared by the Transport Division of the Economic Commission for Europe (ECE).

*pp 16-23 prepared for offset.*