

4 The Experience with Regional Economic Cooperation Organisations: Lessons for Central Asia

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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 (EU) 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 or by the need to grapple with the fallout of decolonisation, 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.

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, these were not successful, most notably the failure of the Commonwealth of Independent States (CIS) to maintain open borders, trade,

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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.

transport and capital mobility. Since then, various efforts have been made in different parts of the Former 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 Organisation (SCO) and the Central Asia Regional Economic Cooperation Programme (CAREC).

The purpose of this note is to survey the experience with regional organisations in developing countries and to draw lessons which can be helpful for Central Asia, and specifically for the participants in CAREC. We found that the literature on regional organisations is quite limited. There appear to be few thorough evaluations of specific regional organisations that are publicly available. Our note does not purport to fill this gap in the literature. It represents a brief summary of lessons from the experience based on the limited information that we were able to access.

A Typology of Regional Organisations

Regional organisations differ by the focus they have, the functions they are mandated to carry out, their form of organisation, the operational modalities that they employ and their membership. We briefly describe each of these dimensions, which together define a typology of regional organisations.

Focus: Most regional organisations have a mandate to support regional integration, but this is not always the case. They may focus on preservation of mutual security or on support for the development in each country.

Function: Regional organisations 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.

Organisational form: Regional organisations are either formal, i.e., treaty-based or based on other formal legal agreements, or they are informal programmes and forums where participants cooperate on the basis of looser understandings. They may operate as financial institutions with their own financial resources and instruments. Finally, they function at a level of heads-of state, at ministerial level or at the level of senior officials.

Operational modalities: Regional organisations may operate in an advisory capacity, and they may carry regulatory and financing responsibilities. They can have arbitration or enforcement mechanisms that allow them to ensure disagreements among members are arbitrated or binding commitments are complied with.

Membership: The membership consists only of countries belonging to a particular region, or it may include members from outside the region as

Table 4. 1. Key Dimensions of Regional Organisations Involving Central Asian Countries

Source: Authors' compilation

	Integration	Security	Trade	Finance	Infrastructure	Socio-economic	Form of organisation	Level	Modality	Arbitr./ Enforcement	Members, Participants
SCO	✓	✓	✓		✓	✓	Treaty	Summit	Adv./[reg.]		6 regional countries
EurAsEC	✓		✓		✓		Treaty	Summit	Adv./reg.	✓	6 regional countries
EDB	✓		✓	✓	✓		Treaty	Senior Off.	Financing		5 regional countries
ECO	✓		✓		✓		Treaty	Ministerial	Adv./reg.		10 regional countries
CAREC	✓		✓		✓	✓	Informal	Ministerial	Advisory/ financing/ regulatory		8 regional countries, 6 multilat. institns.
SPECA	✓		✓		✓	✓	Informal	Senior Off.	Adv./reg./ (fin.)		5 regional countries, 2 UN agencies

Table 4. 2. Key Dimensions of Regional Organisations in Other Regions

Source: Authors' compilation

	Integration	Security	Trade	Finance	Infrastructure	Socio-economic	Form of organisation	Level	Modality	Enforcement	Members, Participants
GMS	✓		✓		✓	✓	Informal	Summit/ Ministerial	Adv./fin./ reg.		6 regional countries, ADB
MRC	✓				Water	Envi-ronm.	Informal	Senior Off.	Adv./fin./ reg.		4 regional countries
ASEAN	✓	✓	✓	✓	✓	✓	Treaty	Summit	Adv./reg.		10 reg. countries
EU	✓	✓	✓	✓	✓	✓	Treaty	Summit	Adv./fin./ reg.	✓	27 region. countries
Stab. Pact	✓		✓		✓	✓	Informal	Ministerial	Adv./fin./ reg.		9 regional countries 31 countr. / intern. orgs.
IIRSA	✓				✓		Informal	Senior Off.	Adv./fin.		12 regional countries
MERCOSUR	✓		✓				Treaty	Ministerial	Adv./fin./ reg.		4 full, 6 assoc. reg. countries
CAF	✓				✓		Treaty	Senior Off.	Financing		16 reg., 1 non-reg. countries

well as supra-regional, multilateral institutions. Many regional organisations allow observers.

Tables 4.1 and 4.2 show how various regional organisations in Central Asia, South-East Asia, Europe and Latin America compare across these multiple dimensions. For membership of each organisation listed see the text box.

Performance of Regional Organisations in Central Asia

As noted earlier, thorough evaluations of individual organisations are rare, with the exception of analyses of the performance of the EU. Therefore, a summary evaluation of the performance of regional organisations by necessity has to be tentative.

In presenting such an assessment it is important to bear in mind the different goals, functions and instrumentalities that characterise the regional organisations we have reviewed above. No regional organisation is like another. Each has its own combination of characteristics and needs to be evaluated on its own terms.

In Central Asia, SCO has succeeded in providing a forum for regional leaders 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 so far has had little impact.

EurAsEC provides a forum among the leaders of its member countries to discuss and build trust around potentially contentious and disruptive issues, including water resource sharing, visas and treatment of migrants from member countries. However, overall EurAsEC has not so far managed to develop into a strong organisation promoting regional cooperation. One of its main goals, the creation of a customs union among its members, has not been accomplished. EurasEC also has had little impact so far in creating regional infrastructure or in addressing key regional water issues. With the recent creation of the Eurasian Development Bank (EDB), which has grown quickly as an organisation and acquired considerable technical expertise in its management and staff, EurAsEC may have acquired the financing instrument it needs to become more effective.

The track records of the Economic Cooperation Organisation (ECO) and the Special Programme for the Economies of Central Asia (SPECAs) 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 organisations reviewed here, 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", which is to support training, research and outreach on regional cooperation in Central Asia.

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

Performance of Regional Organisations in the Rest of the World

The most successful regional organisation in recent history no doubt is the European Union, in terms of creating political cohesion and stability, developing organisational 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 by the public

overwhelmingly as an intrusive, cumbersome and unaccountable bureaucracy.

The Stability Pact for South East Europe, which was formed after the Balkan wars of the early 1990s, has been reasonably successful 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 organisations, especially in regard to trade and trade facilitation. One of the major reasons for the success of the Stability Pact was the pull exerted by the expectation of progress towards 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.

In Asia, Greater Mekong Subregion Programme (GMS) and the Mekong River Commission (MRC) have on the whole successfully delivered on their narrow mandates (respectively, investment in regional infrastructure development and water resource development and protection). The Asian Development Bank's lead role in GMS, supported by China, was certainly a factor in keeping the programme on track.

The Association of South East Asian Nations (ASEAN) has a much broader membership and mandate and a long and somewhat uneven history. In its early years it pursued a regional programme of large industrial projects for South East Asia that was not successful and was eventually abandoned. In contrast, its trade liberalization efforts were more successful and were one factor contributing to the rapid export growth of its member countries. 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 organisational 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 organised in 2000 to allow for regional multilateral swap arrangements with which to supplement other international financial crisis management mechanisms. 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 none-the-less 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, the Andean Development Corporation (CAF) 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 it processes loan applications. 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. The Integration of Regional Infrastructure in South America (IIRSA) also contributed to the development of regional infrastructure in South America. In contrast to the generally successful performance of CAF, the Common Market of the South (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.

In Africa, many sub-regional organisations 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. There are however some notable exceptions of successful regional cooperation in specific areas, most notably the River Blindness Eradication Programme in West Africa, the Africa Hydropower Development Programme involving three countries in the Senegal River Basin and the Lake Victoria Environmental Management Programme.

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. 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.

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. However, the results of these two initiatives have been modest. 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.

In sum, the EU is clearly an outlier of success among regional cooperation efforts around the globe, but there are a handful of other success stories of regional cooperation in the developing countries, esp. in Southeast Asia and in

Latin America. 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.

Seven Key Lessons on Regional Economic Cooperation

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 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 organisations are weak and regional cooperation initiatives are poorly implemented. It helps if:

- countries have clearly shared interests and clear ownership of the;
- an external or third-party honest broker assists with the cooperation process;
- countries have come out of a shared crisis or conflict that drives home the need to cooperate for future conflict avoidance;
- financial resources are available to help provide incentives for cooperation;
- arbitration or enforcement rules can be agreed on to ensure that agreements are actually implemented;
- regional strategies are effectively linked with national strategies.

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. Other cases of relatively successful cooperation initiatives similarly show that success is measured in decades, rather than years. Some important ingredients make for success along the way:

- Patience and sticking with the process are essential;
- Setting ambitious, but clear and realistic intermediate targets with visible payoffs along the way will help keep the process on track;
- 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;
- Starting with a limited functional focus, rather than burdening the cooperation process with too many issues at the outset, is critical;

- Finally, it can help to let some countries in a regional grouping go ahead, while others at least temporarily go slow.

Lesson 3: Successful cooperation requires leadership.

Cooperation initiatives can benefit from strong leadership in three ways:

- At the country level, one or more countries may push the process of cooperation and are willing to commit their own prestige and resources, perhaps disproportionately so, to make the initiative a success. When the lead country is a regional power it needs to show respect for the sensitivities of the smaller countries, otherwise its efforts can easily backfire;
- At the institutional level, it helps if a strong organisation takes a lead, or members support the development of a strong organisation over time;
- At the individual level, visionary, effective organisational leadership is required at the top of the regional organisation or among key advisers and supporters of the initiative.

Lesson 4: Keep the membership of the regional organisation manageable.

Successful regional organisations attract the interest of other neighboring countries which want to join. This creates an unavoidable tension between the goal of inclusiveness and a focus on effective cooperation among the core countries of a region with shared geography and common regional interests. On balance it is better to start with fewer members and expand only when the capacity of absorb additional members is clearly established.

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

One of the complicating factors in regional cooperation is that various regional initiatives and organisations 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 and opaque customs rules at the borders. 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 great potential benefits of regional cooperation and of joining WTO;
- Consolidate regional organisations: In practice this is rare, as it is generally difficult to abolish an institution once created, but examples show that it can be done;

- Work towards an explicit division of mandates;
- Collaborate and share information.

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.);
- Create incentives for cooperation among governmental and non-governmental players;
- Provide 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.

Lesson 7: External actors should assist wherever possible.

External support can be very helpful for the success of regional organisations, 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 organisations can also succeed without substantial external support, provided enough of the other success factors are in place. In any case, International Financial Institutions should play a more active role in supporting regional organisations.

In conclusion, 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 organisations is possible and brings considerable benefits to the participants. The existing regional organisations present a number of strengths and opportunities, but also weakness and challenges that can and should be addressed in a cooperative spirit among the countries, together with the multilateral organisations and other partners, as well as among the various regional organisations themselves.

Membership of Regional Organisations

Central Asia

SCO: China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan.

EurAsEC: Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan; Uzbekistan announced suspension of its membership in 2008.

ECO: Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, Turkey and Uzbekistan.

CAREC: Afghanistan, Azerbaijan, People's Republic of China (PRC), Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan and Uzbekistan; EBRD, IMF, Islamic Development Bank, Asian Development Bank (ADB), UNDP and World Bank.

SPECA: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

Southeast Asia

GMS: Cambodia, PRC, Lao PDR, Myanmar, Thailand and Vietnam, ADB.

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

ASEAN: Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

Europe

EU: 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.

Stability Pact for South-East Europe: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Moldova, Montenegro, Romania, Serbia and The Former Yugoslav Republic of Macedonia; EU members states, the European Commission, various international and regional partner organisations, including UN agencies, EBRD and World Bank.

Latin America

IIRSA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Surinam, Uruguay and Venezuela.

MERCOSUR: Core members are Argentina, Brazil, Paraguay and Uruguay; associate members are Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela.

CAF: Its main shareholders are Bolivia, Colombia, Ecuador, Peru and Venezuela; associated countries are Argentina, Brazil, Chile, Costa Rica, Dominican Republic, Jamaica, Mexico, Panama, Paraguay, Spain, Trinidad and Tobago, and Uruguay; 15 private banks from the Andean region are partners.