

The New Silk Road and
the Northern Distribution
Network: A Golden Road to
Central Asian Trade Reform?

Graham Lee

Central Eurasia Project



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The New Silk Road and the Northern Distribution Network: A Golden Road to Central Asian Trade Reform?

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Contents

About the Author	4
Executive Summary and Recommendations	5
Note on Sources and Methodology	7
Introduction	9
The Role of the Northern Distribution Network in Regional Trade and in the New Silk Road	11
Laying the Foundations for the New Silk Road	11
Assessing the New Silk Road Narrative	16
Is the Northern Distribution Network Incentivizing Regional Cooperation and Border Reforms?	16
Is the Northern Distribution Network Helping to Fight Corruption in Central Asia?	22
Has the Northern Distribution Network Made Transshipment through Central Asia More Efficient?	27
Are Ordinary Central Asian Citizens Benefitting from Northern Distribution Network Trade?	32
Conclusion	38
Recommendations	40
Notes	41

About the Author

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Executive Summary and Recommendations

The United States is promoting a “New Silk Road” that would link Afghanistan to Southern and Central Asia via an interconnected web of transit corridors, which could transform the regional trade environment, tearing down commercial barriers and offering economic benefits for all.

It has been suggested in some Washington policy circles that the NATO Northern Distribution Network (NDN), the logistics supply chain that ships war materiel through Central Asia to Afghanistan, can lay the foundations for such a New Silk Road. The NDN, it has been proposed, could create a more efficient, less corrupt trade environment, demonstrate the advantages of regional cooperation, and generate broad-based economic benefits for Central Asian citizens.

This paper aims to provide a constructive assessment of the conditions and challenges that could confront efforts to use the NDN as the basis for a New Silk Road. It does this by reviewing the U.S. New Silk Road strategy, the mechanisms through which it proposes to transform Central Asian trade, and the strategy’s relationship to the NDN. It identifies key aspects of this relationship and formulates them as the following four questions with which to explore the model:

1. Is the NDN incentivizing regional cooperation and border reforms?
2. Is the NDN helping to fight corruption in Central Asia?
3. Has the NDN made transshipment through Central Asia more efficient?
4. Are ordinary Central Asian citizens benefitting from NDN trade?

Using evidence gathered through extensive interviews with industry professionals, trade experts, and Central Asian citizens, combined with open source research, this paper attempts to answer these four questions. It finds that, in each case, the NDN is not performing in practice as was expected in theory. There is little evidence to suggest that the NDN is increasing regional cooperation, and in some cases, it may be causing rises in border fees. Indirectly, the NDN also appears to be stimulating corruption in Central Asia. It has done little to improve the efficiency of regional trade, and its revenues flow overwhelmingly to opaque state coffers rather than to ordinary citizens.

The failure of the NDN to bring broad-based benefits and reforms to Central Asia has implications beyond its lifespan. The evidence presented here suggests that, if the United States is to succeed in leading the creation of a New Silk Road, it needs to better address the economic mechanisms at work in autocratic, centralized, and patronage-based Central Asian states.

Recommendations

Based on the research contained in this paper, in order to further a successful New Silk Road strategy, the United States government should:

- Recognize the limited power of economic incentives to prompt Central Asian leaders into regional cooperation and develop alternative incentivization strategies.
- Develop and implement an anticorruption program in Central Asia that engages with all levels of the state hierarchy, rather than concentrating on lower-level functionaries.
- When possible, and militarily expedient, prioritize road transit over rail transit for the NDN, thereby increasing the benefits that flow from it to ordinary Central Asian citizens.
- Adopt payment disclosure rules for NDN contractors analogous to Section 1504 of the Dodd-Frank Act for the extractive industries, in order to provide oversight of the flow of NDN funds to the various actors operating in Central Asia.

Note on Sources and Methodology

Methodology

Owing to the closed nature of many Northern Distribution Network (NDN) transit countries, there is little information in the public domain about the effects the NDN is having “on the ground” in the areas through which it passes. This report, focusing on the Central Asian countries of Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, was motivated by a desire to fill that information gap but, as the reader will attest, it nevertheless falls short of painting a complete picture.

The field research was conducted without the knowledge of regional authorities, and had they known about it, they almost certainly would have taken measures to stop it. Many of the interviews were conducted while traveling incognito, under the guise of a tourist or a businessman on holiday. As such, the data which was gathered is occasionally piecemeal, and when firm conclusions cannot be made, the paper instead offers hypotheses which fit the known facts.

Particularly in Uzbekistan, this method of low-profile, first hand research is probably the only one which can yield useful results. Interviews with representatives from official and semi-official agencies, when they can be obtained, rarely get beyond generalities and platitudes. Official pronouncements are often mutually contradictory, and due to restrictions on freedom of speech, local media and NGO reporting on Uzbekistan is extremely limited. Statistical data on Central Asia collected by international institutions can be useful, but it is rarely geared to assess the “informal” barriers to trade, which are so prevalent in the region.

In the author’s experience, the most informative interviewees in any Central Asian state are precisely those who have a vested interest in genuine reform. In the case of this paper, those are the businessmen and workers whose livelihoods depend on regional trade and commerce. Interviews and research conducted for this paper was therefore targeted accordingly.

Sources

Out of concerns for their personal safety and job security, a number of sources whom the author spoke with, requested that they be cited anonymously. In accordance with this request, these sources are described in the report as follows:

- Director A: An executive officer in a major Tashkent shipping company, which serves the NDN.
- Director B: The general director of a large Almaty-based expeditor, which handles NDN cargo.
- Director C: The director of a Dushanbe freight company, which ships NDN goods by road.
- Director D: The chief representative of a Tashkent-based NDN contractor, which ships U.S. cargo to Afghanistan by rail.
- Analyst E: A Tajikistan trade expert who has conducted extensive research for donor-funded reform programs.

Introduction

Over the course of several speeches in 2011, U.S. Secretary of State Hilary Clinton committed U.S. foreign policy in Asia to the vision of a “New Silk Road.” The vision is for regional prosperity achieved by harnessing the economic benefits of increased international and intercontinental trade. It calls for liberalization of border controls, as well as large infrastructure projects, such as road and rail improvements and new energy pipelines. Indirectly, it hopes to improve security in Afghanistan, where the United States has been seeking solutions to a stubborn insurgency for over 10 years.

The U.S. New Silk Road concept originated in Washington-based think tanks and was quickly adopted by government policymakers.¹ The idea’s emergence coincided with the establishment of the Northern Distribution Network (NDN), the logistics chain that supplies U.S. and coalition forces in Afghanistan through the Central Asian states, and the two entities are often linked in policy circles.¹

Speaking in Chennai, India, in July 2011, Secretary Clinton proposed the New Silk Road thus:

Let’s work together to create a new Silk Road. ... an international web and network of economic and transit connections. That means building more rail lines, highways, energy infrastructure, it certainly means removing the bureaucratic barriers and other impediments to the free flow of goods and people. It means casting aside the outdated trade policies that we all still are living with and adopting new rules for the 21st century.²

i It should be noted that this Washington-centric New Silk Road narrative is not the only one which exists. The Asian Development Bank, for example, has its own vision of the New Silk Road, which is not dealt with in this paper.

Secretary Clinton’s sentiments follow those made by the Central Asia and Caucasus Institute (CACI), a think tank, in 2009:

[The NDN’s] existence opens the possibility of heretofore unimagined economic advances in Afghanistan, Pakistan, and all their neighbors...most of the minimal infrastructure needed is already in place. It can be improved, of course, but that is not a serious impediment. What does this leave? Only the urgent need to simplify and speed the processing of trucks at the borders and to prevent corrupt officials and rent-seekers from taking advantage of the new openness. It is as simple as that.³

This paper analyses specific aspects of the New Silk Road and the NDN in order to gauge whether the last three years of NDN operations have moved Central Asia closer to the New Silk Road vision. It is based on the author’s extensive interviews with stakeholders in Central Asian countries, as well as open source material. It presents and attempts to answer the following four key questions that relate the NDN to the New Silk Road:

1. Is the NDN incentivizing regional cooperation and border reforms?
2. Is the NDN helping to fight corruption in Central Asia?
3. Has the NDN made transshipment through Central Asia more efficient?
4. Are ordinary Central Asian citizens benefitting from NDN trade?

The Role of the NDN in Regional Trade and in the New Silk Road

Over the three years of its current lifespan, the NDN has risen to critical importance for U.S. forces in Afghanistan. The first shipment through the network was completed on March 14, 2009.⁴ A year later, NDN traffic accounted for 35 percent of U.S. Afghanistan-bound supplies, rising to 50 percent in April 2011.⁵ A December 2011 Senate Committee on Foreign Relations report stated that 75 percent of supplies to U.S. forces in Afghanistan were currently shipped through the NDN,⁶ and when Pakistan severed the U.S.'s southern supply route to Afghanistan on November 26, 2011, the NDN became the *de facto* conduit for 100 percent of U.S. ground supplies. At the time of writing, U.S. supply lines through Pakistan are still closed.

As the NDN's importance to U.S. military logisticians has increased, it has likewise become increasingly prominent in Washington policymaking and analytical circles.

Laying the Foundations for the New Silk Road

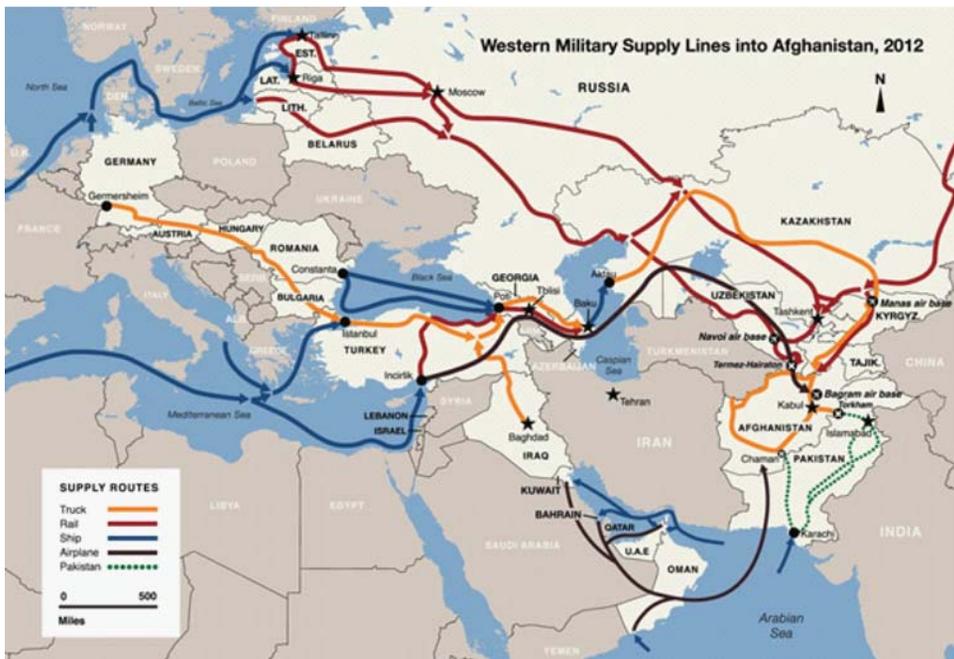
In April 2010, the Center for Strategic and International Studies (CSIS), a Washington-based policy institute, produced *Afghanistan: Building the Missing Link in the Modern Silk Road*, a paper that contemplated the potential long-term value and impact of the NDN:

While the creation of the NDN was motivated by the U.S. military's immediate logistical needs, its establishment nonetheless offers a unique opportunity for Washington to lay a foundation for a Modern Silk Road, which would help stabilize Afghanistan in the long term and transform Eurasia. By linking Afghanistan with Europe, the Caucasus, and Central Asia through commercial carriers, existing infrastructure, and multiple routes, the NDN demonstrates that the embattled country is currently accessible.⁷

The paper builds on the CSIS’s December 2009 report, *The Northern Distribution Network and the Modern Silk Road*, which states that “In effect, it is best to view the NDN and the MSR [Modern Silk Road] as serving the same objective at different points in time” and that “Through [the NDN] the U.S. military is helping create and sustain transcontinental transport capacity that could one day service the MSR and become the engine for Afghanistan’s economic growth.”⁸

In November 2010, these remarks were echoed by David Sedney, the U.S. Deputy Assistant Secretary of Defense for Afghanistan, Pakistan and Central Asia, who stated that “By expanding trade linkages, the NDN has the potential to one day reconnect Central Asia to India, Pakistan, and other formerly closed markets.”⁹

Figure 1: NDN supply routes



Source: Uchikawa/Talbot Graphic Design.¹⁰

The above map shows the various routes which constitute the NDN (in yellow and red).ⁱⁱ Over these routes, the U.S. State Department estimates that a total of 58,000

ii This map is not the author’s own and should be taken only as a rough guide, as it is not 100 percent accurate. For example, it does not show a truck route through Uzbekistan, although such a route does exist (see note iii on page 13).

shipping containers of goods transited to Afghanistan between March 2009 and January 2012,¹¹ an average of 394 containers per week. The State Department cites a target volume (as of January 2012) of 750 containers passing through the NDN at full capacity.

The Department of Defense estimated in February 2012 that it costs \$17,500 per container to transit the NDN.¹² At 750 containers per week, this would equate to an influx of \$13.125 million weekly into the economies of transit nations, \$682.5 million annually.

On top of this figure, Central Asian states have negotiated \$500 million in annual transit fees for use of their infrastructure by the NDN, according to the Department of Defense,¹³ meaning that the total value of the NDN to all transit nations combined (when it is running at full capacity) is upwards of \$1 billion annually.

The author was unable to obtain reliable data on the way in which this figure is broken down between countries. However, it is possible to gain an impression of the likely split of income by examining trade volumes and individual case studies.

All NDN traffic must cross Kazakhstan, and interviews with multiple freight forwarders indicate that virtually every container does so by rail.ⁱⁱⁱ Prior to arrival in Kazakhstan, NDN freight may have either crossed Russia and the Baltics by rail, or crossed Europe and the Caucasus by road and sea. After arriving in Kazakhstan, there are three main NDN routes onwards through Central Asia; goods can be shipped through two routes in Uzbekistan, road and rail, or alternatively by road through Kyrgyzstan and Tajikistan. Goods traveling onward from Kazakhstan by road through the Uzbek route or the Kyrgyzstan–Tajikistan route are typically unloaded from trains onto trucks in Almaty and Bishkek.

“Director A,” an executive officer in a major Tashkent shipping company that serves the NDN, estimates that 5–10 percent of traffic transiting Uzbekistan to Afghanistan goes by road, while the remainder travels by rail.

Ravshan Abdullaev, executive director of the Eurasia Foundation of Central Asia’s Tajikistan branch, which has researched regional trade for USAID, estimates that less than 10 percent of NDN traffic transits through Tajikistan. This figure is corroborated by Myles Smith, a former research manager on USAID’s Regional Trade Liberalization and Customs Project, who estimates the Tajik share of the NDN at 5–10 percent.¹⁴

iii In a leaked diplomatic cable dated November 8, 2008, U.S. Transportation Command suggests that around 10 percent of NDN cargo might eventually bypass Kazakhstan, travelling by air to Navoi, Uzbekistan, and onward by land from there. However, very little information is available on logistic operations through Navoi so, in keeping with much of the literature on the subject, this paper omits it from the breakdown of the NDN. The cable is available at <http://www.wikileaks.org/cable/2008/11/08TASHKENT1382.html>.

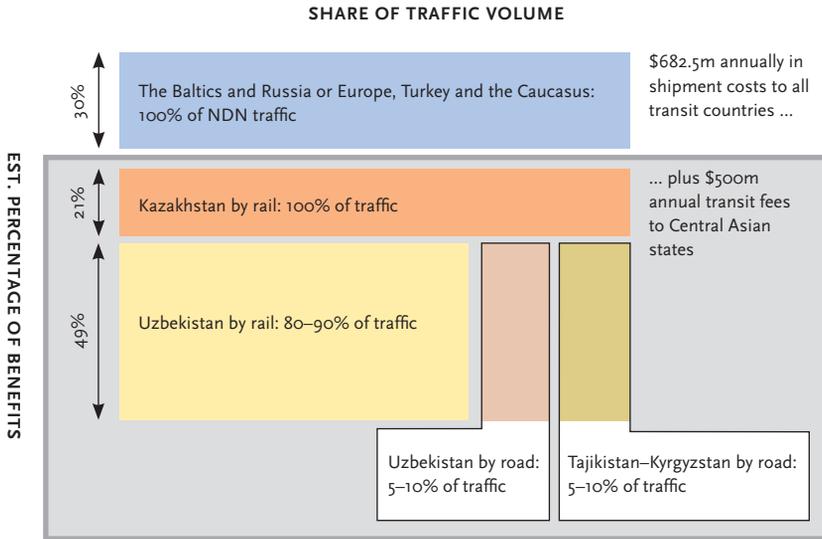
These estimates are consistent with the author's observations of truck numbers in the southern regions of Tajikistan and Uzbekistan. During a December 2011 field trip, almost identical numbers of cargo trucks were recorded on the Samarkand–Termiz road and the Dushanbe–Panji Poyon road over equal periods of time.^{iv} This suggests that the volume of road traffic to Afghanistan through both countries is broadly the same, and hence is consistent with a 5–10 percent share in NDN traffic for each route. A statement to Kyrgyzstan's parliament by the State Customs Service also corroborates this assessment, asserting that roughly equal volumes of goods travel to Afghanistan through both Kyrgyzstan and Uzbekistan.^v

“Director B,” the general director of a major Almaty-based expeditor which handles NDN cargo, stated to the author that for a container of A1 jet fuel shipped by his company from the Baltic ports to Afghanistan, 30 percent of rail fees^v went to Russian Railways, 21 percent went to Kazakhstan Railways, and 49 percent went to Uzbekistan Railways. All three are state owned enterprises. By assuming that this breakdown is representative of all NDN benefits accruing to transit countries, and combining it with estimates of NDN volumes, it is possible to form an estimate of revenue flows by country. The volume of the shaded areas in the diagram below equates to the proportion of benefits which each country receives. It assumes, additionally, that the Europe–Turkey–Caucuses route is roughly as costly as the Baltics–Russia route, and therefore that a similar percentage of total benefits will accrue to the transit countries on either route.

iv While traveling on these two routes, trucks were counted coming in the opposite direction. Over four hour daytime periods, 57 trucks were observed on the Dushanbe–Panji Poyon road and 59 were observed on the Samarkand–Termiz road.

v Here “rail fees” means the fee per shipment that freight forwarders pay to state railway companies, as opposed to “transit fees,” which are the overall payments that the United States and other governments make to Central Asian states to allow cargo to transit their territory.

Figure 2: Estimated trade volumes and distribution of benefits on the NDN, operating at full capacity.



By way of comparison, Kazakhstan’s GDP was \$149 billion in 2010, while Uzbekistan’s GDP was \$38.98 billion, and Tajikistan and Kyrgyzstan’s GDPs were \$5.64 billion and \$4.62 billion respectively.¹⁶ The NDN therefore represents a very modest fraction of Kazakhstan’s economy, but could contribute one or two percentage points to the economies of Uzbekistan, Tajikistan, and Kyrgyzstan. In each of these countries, however, it is overshadowed by other international revenue sources. Kyrgyzstan reportedly received \$1.2 billion in remittance revenues in 2010 (21 percent of GDP),¹⁷ while Tajikistan reportedly received \$2.1 billion in remittance revenues (45 percent of GDP).¹⁸ In the same year, Uzbekistan received an estimated \$4.8 billion from international gas sales (12 percent of GDP).¹⁹

Assessing the New Silk Road Narrative

This paper presents, and attempts to answer, four key questions for the New Silk Road narrative and the NDN. It deals with each in turn, first by establishing the question's relevance to the narrative, then by reviewing available evidence, and then by interpreting this evidence and offering a resolution to the question.

Is the NDN Incentivizing Regional Cooperation and Border Reforms?

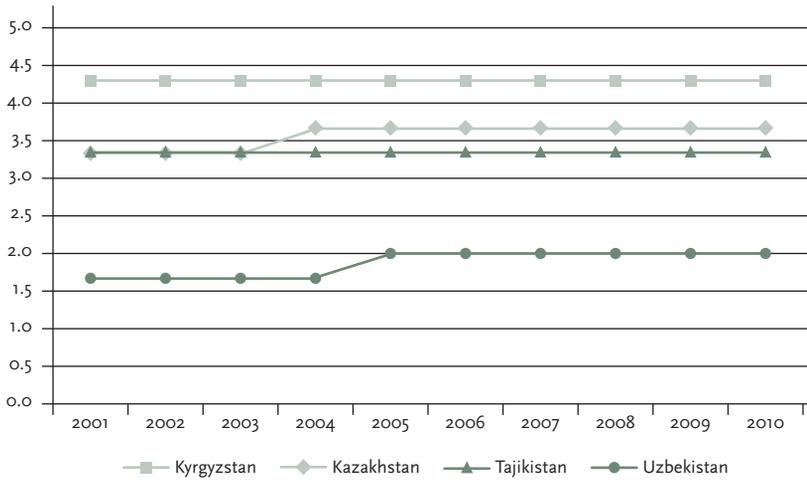
It has been proposed that the NDN could provide economic incentives for Central Asian countries to cooperate more closely on trade. The CACI, for example, characterizes the NDN as a cooperative effort between Central Asian countries, and argues that increased potential for transit revenues may foster healthy competition, thereby inducing Central Asian states to free up their trade regimes:

The cooperative development by half a dozen countries of the U.S. military's Northern Distribution Network provides ample proof that regional nations appreciate the promise of expanded trade and wish to capture the revenue it generates... Internal incentives for promoting trade are growing. As increased trade begins to absorb unused capacity, each country begins to calculate how it might reap further benefits from trade. The possibility of expanding tariff yields through greater volume rather than higher tariffs presents itself.²⁰

Speaking on a similar theme in November 2011, S. Fredrick Starr of the CACI argued that "the only losers [in the New Silk Road] will be those who refuse to compete, and those who try to prevent others from competing."²¹

The Available Evidence:

Figure 3: European Bank for Reconstruction and Development Index of Foreign Exchange and Trade Liberalization²²



The above table charts the European Bank for Reconstruction and Development (EBRD) Index of Foreign Exchange and Trade Liberalization for the four Central Asian states involved in NDN ground transit. The EBRD defines any score higher than four as achieving the “standards and performance norms of advanced industrial economies.”

The table indicates that Kazakhstan and Uzbekistan made modest improvements to their trade environments in 2003–5, but that the performance of all four countries has remained static since then. NDN operations, which have been underway since March 2009, have not yet made any measurable impact on the rankings. The World Bank Ease of Doing Business indicator “Trading Across Borders” was consulted for comparison to the EBRD figures, but unfortunately data for Central Asian countries does not extend back beyond 2011.

Director A, speaking in Tashkent in December 2011, agreed with the picture of the trade environment painted by EBRD statistics. “The changes over the last two years [in Uzbekistan] are just in volumes of trade,” he stated. “Everything else in the trade scene has stayed the same.”²³

There are indications that some aspects of cross-border cooperation may be on an upward path in Central Asia. Afghanistan, Tajikistan, and Kyrgyzstan signed a Cross-

Border Transit Accord in August 2011 that is designed to streamline customs inspections and reduce requirements to transfer shipments between vehicles, according to the Asian Development Bank (ADB), which funds the project.²⁴

In December 2011, the first train ran on a newly-completed stretch of railway from Hairaton, at Afghanistan's border with Uzbekistan, to Afghanistan's main northern city, Mazar-i-Sharif. The line is designed to ease congestion of rail freight at the Afghan-Uzbek border and is seen by many as the first step in linking Afghanistan to the wider Asian rail network. As with the Transit Accord described above, this project was funded by the ADB.²⁵

Notwithstanding these two projects, other aspects of regional cooperation are deteriorating markedly. Over the period of NDN operations Uzbekistan has taken a series of damaging economic steps against its neighbor Tajikistan. Its actions have reportedly been a driving factor behind a 20.9 percent decrease in Tajikistan's international rail traffic from 2010 to 2011.²⁶ Many analysts believe these measures are intended as punishment for Tajikistan's Rogun Dam, an on-going hydroelectric project, which Uzbekistan fears will disrupt its water supplies.²⁷

Tajikistan's only rail links with the outside world run through Uzbekistan, and since early 2010 traffic on these lines has been stopped frequently by the Uzbek authorities, citing reasons such as "technical and logistical issues," which many commentators, and Tajikistan's government, believe are spurious. By August 2010, 1200 containers were backed up on the Uzbek side of the Uzbek-Tajik border, causing serious economic hardship for Tajikistan's traders and farmers,^{28, 29} as well as disruption to NDN supplies.³⁰

In mid-November 2011, a blast at a railway bridge in Uzbekistan disabled a line that serves southern Tajikistan. The Uzbek state-controlled media described the incident as a "terrorist act," although several international commentators later speculated that the blast was in fact deliberate sabotage by Uzbekistan.³¹

A December 2011 visit to the blast site by the author lent strong evidence to this theory. Based on a short visual inspection, the blast damage was incongruously precise for a terrorist attack, and when questioned about the incident, a local state official said that "it is not terrorism. You should not ask what it is. It is our secret." Full observations from the visit have been described by the author for EurasiaNet.³²

The incident cut off areas of southern Tajikistan from badly-needed food and humanitarian supplies. This caused food price hikes for ordinary citizens according to the country head of the World Food Program.³³ At the time of writing, this supply line is still severed, and the Tajik authorities have reported that Uzbekistan is actually dismantling segments of the railway, ostensibly in order to relocate a train station.³⁴

Several other incidents illustrate a downward trend in cross-border cooperation during the operation of the NDN. In May 2011, Tolo News reported that Tajikistan had banned

four major Afghan freight companies from operating on its territory. The news service reported that there were no apparent reasons for the exclusion of these companies, but quoted the head of the Association of Afghanistan Freight Forwarder Companies as saying “our transit companies had taken control of market [in Tajikistan].”³⁵

And, although unrelated to Afghan transit, Uzbek-Kyrgyz cooperation also suffered a blow in 2010–11, when the countries’ border was sealed for 18 months following the ouster of Kyrgyzstan’s president, Kurmanbek Bakiev. The closure by Uzbekistan was officially characterized as a security measure, although it has been linked by commentators to ongoing disputes on border demarcation between the two countries. The closure reportedly decreased bilateral trade by 90 percent during the period of its enforcement. It “made things unbearable for ordinary people,” one resident of Kyrgyzstan’s southern city of Osh was quoted by EurasiaNet as saying.³⁶

As well as witnessing multiple border closures, the period of the NDN’s operations has seen little in the way of trade liberalization in Central Asia. Over the course of this research, no instances of regional governments lowering barriers to trade, such as reducing transit tariffs, have been identified. In several cases, an opposing effect has in fact been observed—that of hikes in regional shipping fees.

Uzbekistan increased cargo tariffs five times in 2010–11, according to regional press.³⁷ In August 2010 the Tajik media group Asia-Plus wrote that Uzbekistan had raised its basic rail freight tariff for Tajikistan and Kyrgyzstan by 10 percent on both February 1 and August 9 of that year.³⁸ On March 30, 2011, Asia-Plus reported that Uzbekistan had hiked fees on Tajikistan-bound rail container cars by 74 percent.³⁹ Then on July 1, the rate for road freight from Uzbekistan to Tajikistan was hiked by 15 percent, from \$230.00 per truck to \$265.00, again according to Asia-Plus.⁴⁰

On February 1, 2011, EurasiaNet reported that Uzbekistan had raised its fees on coalition supplies by rail to Afghanistan in what may have been a fit of pique by President Karimov. Quoting a source familiar with NDN developments, EurasiaNet relayed that the tariff hike “may be coincidental, but probably isn’t. ... Karimov’s [January 2011] visit to NATO and the European Union didn’t quite play out as he hoped, what with everyone involved denying they had invited him. This is unlikely to have pleased him.”⁴¹

The EurasiaNet article referenced a press release by the forwarding company FMN Logistics, an NDN contractor, who described the fee hike as “significant,” but would not specify a dollar amount.

During a December 2011 interview with the author, Director A discussed a major problem that his company had faced in June of that year. He claimed that his company had been presented with a bill for recent carriage of ISAF (International Security Assistance Force) goods to Afghanistan by Uzbekistan Railways, which contained a new and unexpected fee of \$2,000 per shipping container. Railway officials, he said, were afraid

and did not want to discuss the fee. When questioned, they responded simply that “it’s our internal instruction to charge you this much. You just pay the money.”

Although this incident occurred four months after the one reported by EurasiaNet and FMN Logistics, it seems likely that the two do in fact relate to the same rate rise. An increase to \$2000 per container is certainly a significant fee hike. Both instances specifically concern ISAF cargo, and Director A did not report that the tariff increased in June 2011, but rather that that was when his company received the bill for it. He stated that the rise itself was not publicized. It is, therefore, quite plausible that the rate rise he referred to occurred in February, and his company received its first bill at the new rate in June. Conversely, had there been two separate but significant rate hikes in four months, both almost certainly would have been reported, and so such a scenario is unlikely.

Uzbekistan’s fee hikes targeting Tajikistan have continued into 2012. In January of that year, Universal Newswires reported that Uzbekistan had raised transit fees for freight bound for Tajikistan by 32 percent. Tajikistan retaliated by raising its own transit fees on Uzbek freight crossing its territory, although since Tajikistan is a rail terminus it is unclear how much Uzbek freight, if any, transits the country.⁴² Director B estimated total rate rises for Tajikistan-bound freight at 2.5-fold from January 2010 to January 2012.

When NATO begins to ship goods northward for the withdrawal from Afghanistan in 2014, Uzbekistan will reportedly hike fees again, by 50 percent for NDN cargo.⁴³

Although the vast majority of recent regional transit fee hikes have been instituted by Uzbekistan, Tajikistan has also raised its rail fees since the commencement of NDN operations once as a retaliatory measure for Uzbek fee rises, as described above, and once beforehand, targeting Afghanistan-bound freight. In April 2011 RFE/RL reported that Tajikistan had begun charging forwarders \$20 per ton for rail freight to Afghanistan, when it had previously been charging \$12.⁴⁴ Afghanistan’s Chamber of Commerce commented at the time that the rate rise “does not promote expansion of bilateral trade and economic cooperation between the two countries.”⁴⁵

Interpreting the Findings:

There is little evidence to suggest that the NDN has spurred Central Asian nations to cooperate more closely with each other. Over the project’s lifespan, there have been many more incidents of deterioration in border relations than there have been of improvement. Where states have cooperated on trade, even on the NDN route, it is far from certain what role the NDN itself has played in bringing about this cooperation.

Afghanistan and Uzbekistan have coordinated their efforts on the newly-built Hairaton to Mazar-i-Sharif railway line, which is administered by the Afghanistan Ministry of Transportation and Civil Aviation, constructed by Uzbekistan Railways, and operated by Sogdiana Trans, an Uzbekistan Railways subsidiary.⁴⁶ However, it should be kept in mind

that this project did not arise organically from Afghan and Uzbek self-interest in cooperation, since it is a donor-backed initiative. Uzbekistan Railways constructed the new line for Afghanistan, but it may have benefitted unfairly from it—a leaked diplomatic cable claims that Uzbekistan Railways padded construction costs by more than a factor of two.⁴⁷ Moreover, while the project has the potential to ease NDN congestion considerably, it is not the NDN that directly catalyzed its development, but the ADB’s Central Asia Regional Economic Cooperation (CAREC) program.

Nevertheless, the completion of the Hairaton to Mazar-i-Sharif railway, and the signing of the Afghanistan-Tajikistan-Kyrgyzstan Transport Accord, do represent instances of cooperation on regional trade (although the latter has yet to show significant results). These instances could be characterized as “vertical” cooperation, where states that form parts of a logistic chain come together to improve the way in which freight is passed from one to another.

“Horizontal cooperation” between countries that host parallel transportation corridors has actively deteriorated in Central Asia during the period of NDN operations. Uzbekistan’s disruption of rail supplies to Tajikistan, either through delays or fee hikes, indicates that the Uzbek authorities would rather forego whatever transit revenues they may accrue from supplying Tajikistan for the sake of furthering bilateral disputes. “If [Uzbekistan] wants to punish Tajikistan, then economic interests can easily be sacrificed for the sake of political ambitions,” Dosym Satpayev, a political analyst based in Almaty, commented to Asia Times Online in August 2010.⁴⁸

It is likely that Uzbekistan’s animosity toward Tajikistan has cost the latter NDN revenue. “It seems that U.S. logisticians scouted out the Tajik branch of the NDN and decided it wasn’t worth it. The route was too unreliable and using it would annoy Uzbekistan,” former USAID manager Myles Smith commented to the author in December 2011.⁴⁹

The NDN does not appear to have incentivized transit nations to lower fees in order to attract higher trade volumes. On the contrary, it seems in some cases to have had the opposite effect of generating rises in transit rates. While Uzbekistan’s repeated hikes of freight fees to Tajikistan can most plausibly be attributed to the ongoing Rogun Dam dispute, other fee hikes seem to specifically target the NDN. Uzbekistan’s rate rise in February 2011 (which appears to have been \$2,000 per shipping container) was exclusively for ISAF cargo bound for Afghanistan. “The Uzbeks know that the Americans will pay the bills,” commented Director B to the author in January 2012.

Tajikistan’s April 2011 rate rise from \$12.45 to \$20 per ton was similarly aimed at Afghanistan-bound freight. This rise is particularly noteworthy, as it sheds further light on the competitive mechanisms at work in Central Asian trade. Even before the April rate rise, transit through Tajikistan was considered costly compared to the alternative corridor to Afghanistan via Uzbekistan, according to research conducted under the ADB CAREC Corridors Performance Measurement and Monitoring (CPMM) program.⁵⁰

Tajikistan is eager for a greater share of the NDN, and a leaked diplomatic cable from February 2010 assessed that the Tajik government “see[s] U.S. involvement in the region as a bulwark against Afghan instability, and as a cash cow they want a piece of,” noting that “[Tajik president] Rahmon and his family control the country’s major businesses.”

However, despite the already high cost of transit through Tajikistan, the government appears to have attempted to increase NDN revenues by raising transit fees further, rather than by lowering them to attract greater traffic. The leaked cable offers some insight into why this may be the case, as it goes on to quote an unnamed foreign ambassador who states that “President Rahmon prefers to control 90 percent of a ten-dollar pie rather than 30 percent of a hundred-dollar pie.”⁵¹ If this assessment is accurate, then any reduction in Tajikistan’s trade barriers based on competitive advantage seems unlikely.

In answering the question, “Is the NDN incentivizing regional cooperation and border reforms?” a preponderance of evidence suggests that it is not. During its lifespan there have been two NDN events on its route that augur well for regional trade: the linking of Mazar-i-Sharif to the Central Asia rail network and the signing of the Afghanistan-Tajikistan-Kyrgyzstan Transport Accord. However, neither of these events can be attributed to the NDN’s influence. Conversely, there have been several examples over the NDN’s lifespan of a deterioration in regional cooperation and border regimes, some of which may have been exacerbated by the NDN.

This evidence suggests that existing efforts to create incentives for greater regional cooperation have not succeeded. For future strategies to fare better they must address and improve on the shortcomings of their predecessors.

Is the NDN Helping to Fight Corruption in Central Asia?

It has been suggested that in order to access the full revenue potential of the NDN and the New Silk Road, Central Asian states will have to reform their notoriously corrupt structures of officialdom and commerce. Furthermore, it has been suggested that this desire for revenue will spur those in power to adopt the necessary anticorruption reforms. For example, according to a leaked diplomatic cable dated October 31, 2008, the United States’ then-ambassador to Uzbekistan Richard Norland stated:

Corruption remains endemic throughout all levels of the [Uzbek] economy and government in what often amounts to a public-private partnership for graft.

But Norland went on to argue that:

Nevertheless, the high degree of interest in NGLOC [Northern Ground Lines of Communication] underscores the economic and political benefits that the GOU [Government of Uzbekistan] perceives and would likely provide some countervailing pressure against the baser instincts of local ‘biznesmeni.’⁵²

The CACI echoed this sentiment in 2010, stating that:

[A]s the region begins to achieve its transport potential, political leaders come to realize that their greatest benefit will come only from further expansion, and that this requires practical controls on speculation and graft.⁵³

The Available Evidence:

There is currently little numerical evidence available through which to chart trends in corruption for Central Asian trade. The CPMM research program does collect detailed data on both official and unofficial fees^{vi} charged for transit in the region. However, the program is relatively new, having been underway since 2009, and is still developing. Several methodological changes and fluctuating sample sizes mean that precise trending data for corrupt payments along the NDN route cannot yet be extrapolated from CPMM research. The program is likely to become a valuable resource for precision tracking of the scale of corruption in Central Asian trade in the future.^{vii}

While CPMM data does not yet allow accurate analysis of these trends over time, it does offer good static assessments of corruption levels on the NDN route. The program report for the fourth quarter of 2009 states that for CAREC Corridor 6a, which roughly follows the path of the NDN from north-west Kazakhstan to Afghanistan, “[costs during] stop activities are rather high compared to other corridors. This deserves further investigation as such high costs add a heavy burden to road transporters using this route.”⁵⁴

Within the CPMM program, “stop activities” cover both official and unofficial payments that drivers are required to make on the road. The same report also gives the percentages of payments that are official and the percentage that are unofficial, broken down by payment type. For most activities, the split is around 50–50, but for certain stops such

vi In literature on the subject, bribes are commonly given the euphemism “unofficial fees.”

vii This assessment of the CAREC CPMM program is the author’s own, which he made following an extensive examination of CPMM data and through email correspondence with Jeff Procak, an ADB Regional Cooperation Specialist engaged in the CPMM program.

as GAI (traffic police) inspections, the percentage of unofficial payments is as high as 90 percent. This research is corroborated by the assessment of “Analyst E,” a Tajik trade expert who has conducted extensive research for donor-funded reform programs. Speaking to the author in December 2011, he claimed that “GAI has always been the most corrupt [state] agency, but no-one’s doing anything about it.”⁵⁵

Because of the lack of detailed numerical data on corruption in Central Asian trade, trends can be best inferred anecdotally. As cited above, the CPMM’s report from the fourth quarter of 2009 assesses that payment demands on the NDN route are high, even in comparison to other corridors in Central Asia. Experts interviewed for this paper have offered a broad range of estimates for changes in demands for corrupt payments since 2009. Some feel that payment demands have stayed roughly the same, while some claim that payment demands on certain routes have increased as much as tenfold. None have argued that payment demands have decreased over the period of NDN operations.

“Director C,” the director of a Dushanbe-based freight company that ships NDN goods by road, stated to the author in December 2011 that both the frequency and cost of GAI stops for his drivers had been unchanged over the previous two years.⁵⁶ This assessment was corroborated by Boimurod Abdurasulovich, first vice-president of ABBAT, the International Association of Automobile Carriers of Tajikistan, who stated to the author that “payments on the road have not changed over the last few years. They are the same as they always have been—both official and unofficial fees.”⁵⁷ Both men were referring specifically to transit through Tajikistan in their assessments.

Their comments appear to be directly at odds with those of Temirbek Shabdanaliev, chairman of the Carriers’ Association of Kyrgyzstan, whom the author interviewed for EurasiaNet in September 2011.⁵⁸ “[In Tajikistan] the bribe rate depends on the value of the goods you’re carrying,” he stated, “but it’s typically 300–500 [Kyrgyz] som each time a driver is stopped. Prior to the increase in [NDN] in business last year, the bribe rate was 100–200 som. Bribes are also demanded more frequently now. In Tajikistan, drivers used to be stopped around three times during the trip. Now they are stopped ten times.” A threefold increase in the cost of each bribe, combined with an increase in bribe frequency from three to ten times per crossing of Tajikistan, would result in a tenfold increase in bribe payments overall.

During a December 2011 trip to the Tajik-Afghan border, the author counted 10 GAI checkpoints on the approximately 150km stretch of road between Dushanbe and the Panji Poyon crossing point—a remarkably high number, even for Central Asia. According to a local NGO worker familiar with the route, the number of such checkpoints had increased significantly in the preceding three years. He stated that this was likely due to heightened security concerns in the area, rather than an orchestrated intensification of rent-seeking.

On the Uzbek branch of the NDN, estimates of trends in corrupt payments are more consistent than in Tajikistan. In December 2011, Director A claimed that payment demands by the GAI for road transit through Uzbekistan had increased around twofold in the previous two years. Director B cited a similar increase for rail transit through Uzbekistan, stating that over the previous two years unofficial payment demands by railway officials, per crossing of Uzbekistan, had increased from \$20 per ton to \$40 per ton on average.⁵⁹

The author was unable to obtain any information on trends in unofficial payments for transit through Kazakhstan.

Interpreting the Findings:

Because of the anecdotal and largely uncorroborated nature of these findings, they may not necessarily form an accurate picture of trends in corrupt payments on the NDN route. However, the data are not as mutually contradictory as they may at first seem, and on closer examination some causal links can be established between them and the NDN.

The most obvious incongruity in the data assembled above is the claim by Abdurasulovich and Director C that bribe rates have changed little in Tajikistan over the last two years, compared with Shabdanaliev's assertion that they have increased tenfold. There may, however, be a sound explanation for this inconsistency. In their accounts, Abdurasulovich and Director C were both describing the situation for Tajik trucking companies, whereas Shabdanaliev was speaking of Kyrgyz trucking companies operating in Tajikistan. Shabdanaliev claimed in the same interview that "since the fall of the Soviet Union there has been a tradition that Tajik officials demand more from Kyrgyz trucks than Tajik ones, and vice versa." He also described fierce animosity between Kyrgyz and Tajik truck drivers competing for NDN business at the railroad offloading point in Bishkek.

Ilya Segal, executive director of the Kazakhstan Freight Forwarders' Association, described a similar situation for Kazakh truckers operating in Tajikistan: "The Kazakh truckers are sharing the Tajik market with local truckers, and the two groups don't like each other, to put it lightly. USAID mediated a meeting between the feuding sides in Almaty, but everyone was just interested in what was in it for themselves, despite there being a common interest in cooperation."⁶⁰

It is therefore possible that Abdurasulovich, Shabdanaliev, and Director C were all accurate in their assessments of bribe trends for Tajik transportation; local drivers continue to be charged at historical rates, but drivers from other regional countries are charged vastly more than they were two years ago, as punishment by the Tajik GAI police for taking Afghanistan-bound business from local firms. This would indicate a causal link, albeit an indirect one, between the NDN and increased corruption in Tajikistan.

In Uzbekistan, where Directors A and B respectively claim that unofficial fees on road and rail routes have doubled in the last two years, there may also be some causal links

between corruption and the NDN. Explaining the increase in payment demands on the roads, Director A said that “the appetite for bribes has increased because traffic volumes have increased, but also because of inflationary pressures, electricity fee hikes, that sort of thing. GAI police don’t differentiate based on what cargo you’re carrying. They don’t say ‘that’s American goods for Afghanistan, I’ll charge you more.’”⁶¹

Based on this explanation, NDN traffic is not being specifically targeted for increased bribe demands. However, one contributing factor for the payment hikes does appear to be the increase in trade volumes, which is largely attributable to the NDN.

No NDN contractors have publically admitted to paying bribes in Uzbekistan, although the management teams of several, including those interviewed by the author, do seem to have detailed working knowledge of what bribery *would* entail if they were to engage in it. In June 2010, EurasiaNet quoted the USAID logistics subcontractor Afghan Management Group (AMG) that rail transport from Bukhara, Uzbekistan, to Hairaton “with no ‘speed up fee’ takes up to 35 days.” But with “payment of informal fees, the time can be reduced to 7 to 18 days (depending on amount of money paid),” and added that “AMG is very reluctant to pay bribes, but manages issues through established, good relationships with authorities involved.”⁶²

The risk of NDN contractors making corrupt payments was deemed serious enough that, when the U.S. Senate approved military aid to Uzbekistan in September 2011, one of the conditions it stipulated was that the State Department report on “expenditures made in support of the Northern Distribution Network, including any credible information that such assistance or expenditures are being diverted for corrupt purposes.”⁶³

If indeed NDN contractors do pay bribes for transit through Uzbekistan, then their payments are likely to encourage demands for further bribes on an on-going basis. This may indicate another indirect causal link between NDN traffic and increased corruption, since it would feed and incentivize the illicit economy.

Overall, there does not appear to be any evidence for the hoped-for decrease in Central Asian corruption accompanying the NDN. As has been shown, the NDN may actually be causing an increase in demands for corrupt payments in Uzbekistan and Tajikistan.

Were regional leaders to vigorously oppose graft in their countries, they would likely find it a formidable task. Alexander C. Diener, a Fulbright scholar researching Central Asian border regimes for a forthcoming paper, *The New Silk Road or the Road to Nowhere?* argued to the author that resistance to reform ran much deeper than the low-level officials collecting bribes from truck drivers. According to Diener:

Through multiple interviews with local experts, I built up a picture of dependence on corruption throughout the hierarchy of the transport police in Central Asia. To land a prime spot at a police checkpoint, a man first has to bribe his way into the police academy, and then he has to bribe

someone senior in the service to get that spot on the road. For the first few years all he does is pay off that debt, and only then can he start making a return on his investment.⁶⁴

Such a structure of mutual dependence on corruption, continuing up the chain of command, would place deep-seated obstacles in front of reformers. Even more serious, however, is the suggestion that regional leaders may themselves be central actors in the graft-based economy. As noted by the anonymous foreign ambassador in the previous section, “President Rahmon [of Tajikistan] prefers to control 90 percent of a ten-dollar pie rather than 30 percent of a hundred-dollar pie.”⁶⁵ Similarly in Uzbekistan, in 2007, the outgoing U.S. ambassador reportedly assessed that the country “is a post-Soviet police state run in the interest of a small coterie of families who monopolize political and economic life,” where the president “is not interested in reform of any sort.”⁶⁶

If such a characterization is accurate, then it discounts the proposal that regional political leaders will benefit from trade expansion and decreased graft. Rather, their greatest benefits would come from harnessing such activity instead of reducing it. Because of this it, therefore, seems unlikely that corruption could be counter-incentivized by an increase in trade volumes.

Moreover, it would also be unlikely that corruption could be counter-incentivized by donor-backed reform efforts targeting low level officials. The current formulation of the New Silk Road initiative calls for anticorruption controls focused on border posts, but the apparently systemic nature of corruption throughout state hierarchies would negate this approach. Instead, a strategy targeting corruption at all levels of state power should be adopted.

Has the NDN Made Transshipment through Central Asia More Efficient?

U.S. officials have voiced their aspiration that the NDN serves as an example to Central Asian governments to encourage them to liberalize and streamline their trade regimes. Before a congressional hearing in December 2009, George A. Krol, deputy assistant secretary of state, relayed that:

[We] hope that the Northern Distribution Network will encourage Central Asian countries to take steps to make it easier to do business along this route. Operation of the NDN will demonstrate regional trade opportunities and highlight existing impediments.⁶⁷

While Krol characterizes the NDN as an example-setting project, the CSIS proposes a direct link between the establishment of the NDN and the streamlining of regional trade.

[T]here is nothing preventing the more efficient and less corrupt border regimens created by the NDN from being transferred to the commercial transport sector.”⁶⁸

The Available Evidence:

As proposed by Krol, the NDN has indeed highlighted trade impediments in Central Asia to a wide audience. By far the most prominent example of this phenomenon has been the backlog of traffic due to increased freight volumes at the Termiz-Hairaton border crossing between Uzbekistan and Afghanistan. The crossing has witnessed severe tailbacks since the NDN’s inception with knock-on effects in the region, which have been widely reported in the regional press.⁶⁹ The delays have been caused primarily by a lack of unloading capacity at the Afghan port of Hairaton, which reached maximum throughput almost as soon as the NDN began operating, if not before, according to a leaked U.S. diplomatic cable.⁷⁰ Efforts were made to address this lack of capacity with the building of a second offloading terminal at Hairaton in early 2010.⁷¹

In terms of cargo handling, however, there is little evidence to suggest that the NDN has created more efficient systems in Central Asia. Rather than prompting regional nations to remodel their convoluted transit procedures, the NDN appears to have been integrated into the status quo. A leaked diplomatic cable from May 2009 describes the system which the Uzbek government devised for handling U.S. military cargo; it did not adopt streamlined Western procedures, but in fact increased the number of state structures which must weigh in on the approvals process:

Issuance of transit approvals for these initial shipments was lengthy, reflecting the fact that the Uzbek bureaucracy (not itself known as a model of efficiency under any circumstances) had to develop a system to handle them. Under the structure the [government] has established, the Ministry of Defense (MOD) plays a coordinating role, seeking clearance from the ministries of foreign affairs and interior, as well as the National Security Service, the Customs Service, the Border Guards, and Uzbekistan Railways. Once all interested ministries have given their approval, the MOD informs Uzbekistan Railways, which then sends a telegram to all railroad authorities along the route authorizing release of the train.⁷²

It is possible, though unlikely, that the new, ministry of defense-coordinated transshipment system contains improvements on the normal civilian system. However, even if this is so, these improvements are unlikely to be transferred to the private sector in the future. NDN cargo appears to be treated as a special case in Uzbekistan to be handled

separately from other cargo, rather than as a test case that will set the parameters for future traffic.

Based on the author's experience, there have been no improvements over the course of NDN operations to the stringent and sometimes bizarre customs procedures at Uzbekistan's borders. When leaving the country in mid-2009 through Termiz, the author was delayed for several hours waiting to be inspected by the sole customs officer on duty. At the inspection point, each person in turn was required to empty out every item of his luggage for examination. The author's books were examined page by page to see if anything was hidden in between the leaves, and his sun cream was unscrewed and smelled to make sure it was real.

When entering the country in December 2011, from the Tajik border town of Tursanzade, the customs procedure was much the same. The author was delayed for five hours in total, most of which was spent queuing to be inspected by the single customs officer on duty. At the inspection point, the author saw that each male (women were inspected in a separate room) was required to unpack every item in his baggage for examination. The customs building had an airport-style baggage scanner, but it was not in use.

The customs officer inspected the author's books page by page and switched on the laptop of the preceding person in the line, asking him to plug in his travel mouse and show it moving on the screen to prove it wasn't a smuggling receptacle. Once the author's baggage had been inspected, the customs officer asked, "What do you have in your coat, guns? Heroin?" When the author replied that he had neither, the customs officer allowed him to pass without turning out his pockets.

Although the author was unable to verify it explicitly, it seems likely that truck drivers crossing Uzbekistan experience similarly stringent border controls. Unlike rail delays, however, delays for NDN truck drivers have received very little media attention, and the author's conversations with drivers revealed a "business as usual" attitude toward waiting times at borders. For example, when the author interviewed a group of four drivers at the Tajik Panji Poyon border post with Afghanistan in December 2011, they formed a consensus that their border wait times have always been between one and three days and sometimes as long as a week. Interviews with drivers at other border posts indicated similar attitudes and waiting times.

Alexander C. Diener drew similar insight from his interviews with regional truck drivers. Speaking to the author, he stated that:

A consensus of 19 interviews held that delays ranging from a day to a week have been and remain common. Furthermore, it is the capacity to endure the delays that separates the long-term, career truckers from the short-timers. All those crossing borders with cargo apparently learn how to pay unofficial fees that facilitate a crossing. But the hours of waiting are described as exacting quite

another cost from truckers. The delays are time away from family, they are additional expenses (fuel, food, etc.), and they are profoundly taxing on the individual psyche.⁷³

Interpreting the Findings:

The completion of a new terminal at Hairaton does, to some extent, show that the trade impediments highlighted by the NDN have spurred the construction of new infrastructure. However, the improvements have been very modest compared to the huge and disruptive increase in traffic at Hairaton.

The second offloading terminal was built in early 2010,⁷⁴ but it did not result in a significant easing of congestion. In June of that year, an NDN contractor characterized the border situation as “thousands of rail cars both empty and full of all types of goods that have congested the rail stations for the past year while waiting to get to Afghanistan,” which caused Uzbekistan Railways to “frequently (often for some period of time each month) [ban] all rail traffic going to Hairaton.”⁷⁵ In May 2010, Uzbekistan’s Foreign Ministry cited an overload of Afghanistan-bound cargo as one of the reasons for severe delays in shipping food, fuel, and other supplies to Tajikistan.⁷⁶ According to an anonymous expert speaking to UzNews, “Supplies [to Afghanistan] are given a priority, while train cars bound for Tajikistan, which, despite Uzbekistan’s protests, decided to build the Rogun hydropower station, are being served last.”⁷⁷

When examining Uzbekistan’s abstruse customs procedures—in which people’s books are inspected page by page but their coat pockets aren’t checked—two possible explanations arise. Either the customs process is made tortuous so that bribes can be extracted from those willing to pay to circumvent it, or border controls are given the appearance of stringency so that lower-down officials can please their superiors in Uzbekistan’s elite, which is notoriously paranoid of foreign infiltration.

The truth may be a mixture of both explanations. The former theory is supported by Alexander C. Diener who relayed to the author his findings that border regimes are made difficult in order to extract bribes. Based on interviews with NGOs involved in training customs and border guards, he stated that:

The introduction of new document, cargo, and human scanning technologies at the borders are intended to speed the crossing process, but it seems that many officials view these innovations as a threat to their official and unofficial livelihoods. The machines are often sabotaged, so as to keep the evaluation process subjective and thereby allow officials to retain a capacity for exploitation, or the machines are co-opted for exploitation. For example, one informant spoke of being “wanded” (which was a reference to the hand-held drug detection device) by three different officials during one trip. In two of the three instances the “wands” beeped and the officials indicated she would be considered in possession of illegal narcotics and thoroughly searched should she refuse to pay a bribe.⁷⁸

A researcher accompanying a cargo truck for the German governmental development agency GIZ found in 2006 that it was possible to circumvent the arduous official customs procedure by crossing the Uzbek–Tajik border illegally at night and paying 50 Tajik somoni to customs agents (approximately \$10).⁷⁹ This suggests that officials’ vested interests in keeping border procedures difficult may be institutionalized; similar border regimes exist at both Tursanzade and Termiz (and probably several other points), and rent-seeking would necessarily be a group effort, at the very least, requiring the cooperation of the daytime customs officials who make legal border crossings difficult and the night-time customs officials who wave through bribe-payers and collect their money. Such a view of institutionalized corruption fits with the model put forth in the previous section of a hierarchy of power where even the senior members are willing actors in the illicit economy.

Whatever role rent-seeking might play in Uzbekistan’s customs systems, these regimes almost certainly also incorporate the need to please higher-ups with their fastidiousness. The lengths that customs officials go to in order to make border crossings difficult are excessive for the purpose of profiteering. Border officials in other highly corrupt countries, generally, find it easier simply to withhold permission to enter or exit until a bribe is paid (citing, for example, spurious documents that should have been obtained before arrival at the border). One notable difference between Uzbekistan and many other corrupt states is the paranoia of President Karimov, which permeates the Uzbek hierarchy of power.⁸⁰

Given the existence of deep-seated, institutionalized obstacles to border efficiency, it is perhaps no surprise that the NDN has failed to free up trade in Uzbekistan in any significant way. Had the inefficiency of Uzbekistan’s customs systems been unknown at the beginning of NDN operations, then the project could have played a valuable role as an example-setter. As it is, Uzbekistan’s customs problems have been self-evident for many years, but the Uzbek state does not seem incentivized to solve them.

Like Uzbekistan, Tajikistan is often characterized as a dysfunctional state, subject to predation by the political elite, although less prone to government-sponsored paranoia than its neighbor. While the author was able to obtain little data on trends in border delays in Tajikistan, it seems likely that here too the NDN provides the authorities with little incentive for reform.

In answer to the question, “Has the NDN made transshipment through Central Asia more efficient?” a weight of evidence suggests that it has not. Because of institutionalized resistance to reform, particularly in Uzbekistan, it is moreover unlikely to do so in the future.

Are Ordinary Central Asian Citizens Benefitting from NDN Trade?

RELEVANCE TO THE NEW SILK ROAD NARRATIVE

For the New Silk Road to succeed, its proponents both within and outside the U.S. Government stipulate that it must offer substantial benefits to ordinary Central Asian citizens. When speaking of the purpose of the New Silk Road to a meeting of women, youth, and civil society representatives in Dushanbe, Secretary Clinton stated that she hoped it would increase “economic opportunity here in Tajikistan so that so many of your people do not have to leave home to find work, that there can be a flourishing economy right here.”⁸¹

The CACI characterizes the New Silk Road as “decentralized, pluralistic, and market-driven”⁸² and proposes that “[The New Silk Road] must directly and manifestly improve the lives of Afghans, Pakistanis, and people in those Central Asian states that are key to this region-wide project.”⁸³

The CSIS, moreover, directly identifies the NDN has having the potential to accelerate this process:

U.S. military logisticians can further develop the NDN to help achieve ... economic development objectives ... which include mobilizing and developing local economic activity, initiating contracts with local businesses to stimulate trade, rebuilding commercial infrastructure, supporting broad-based economic opportunity, and promoting a free market economy.⁸⁴

The Available Evidence:

Over the course of this research, the author conducted more than 15 interviews with employees of firms handling NDN cargo, from company directors to truck drivers. Each interviewee strongly expressed positive views of the NDN. The business environment was typically characterized by interviewees as “better” or “much better” since the start of NDN operations, and Termirbek Shabdanaliev even described the initiative as a “massive economic injection” for Kyrgyz truckers.

In other economic sectors, however, there is little evidence of benefits derived from the NDN. To take a case study, if the NDN was stimulating local economic activity, then the city of Termiz in Uzbekistan on the Afghan border would likely be one of the chief recipients of these benefits. Approximately 90 percent of NDN traffic, both road and rail, passes within a few kilometres of the city (see estimations in “Volumes of traffic on the NDN, and its commercial value”).

During a December 2011 trip to Termiz, the author could identify almost no increase in economic activity which could be attributed to the NDN. Compared to a trip 2½ years previously, there were no new restaurants, hotels, filling stations, mechanical shops or any sort of commercial enterprise in the town that could have been linked to secondary economic activity arising from the NDN. On the road corridor itself, there was one recently-built restaurant on the outskirts of Termiz with three or four trucks parked outside.

The author polled ten local people in Termiz to assess the economic impacts they felt from the NDN. Interviewees were selected for their links to the local trade economy and their participation in free market economic activities. Interviewees comprised the owners of two small, regional import-export firms, two traders dealing goods within Uzbekistan, two businesspeople providing services to the trade economy, and four traders in Termiz's main bazaar. None of the interviewees reported that they had felt any benefits from the NDN. Surprisingly, nine out of the ten interviewees were unaware that NDN operations were even taking place in Uzbekistan, while the tenth remarked that "it is an inter-state trade, so there are no business links between it and my company."

At the Termiz border post a few kilometres from the town, there are no new amenities for those engaged in the transit economy. A Soviet-era administrative building guards the entrance to the compound where the customs facilities are located, which is sealed off with barbed wire. When visited, there was a queue of 16 trucks outside the compound waiting to be called forward, but no signs of commercial activity such as food or drink sellers. The nearest privately-owned structure was a dilapidated farm building cultivating vegetables. On the road north from Termiz as far as Samarkand, there were no new amenities such as restaurants or rest stops. Of the 36 filling stations observed on the route, one appeared to be newly-built, while two more were under construction. However, 31 of these filling stations were closed due to fuel shortages, while the three operational stations had queues between 50 and 100 vehicles.

Near the Tajikistan–Afghanistan border post at Panji Poyon, the author observed a similar situation. The border post itself had no newly-built facilities that might have reaped commercial benefits from the NDN. The official border facilities such as the customs building and guardhouse were all new, but the amenities for truck drivers were limited to a Soviet-era café and shop. The nearest residents to the border post were located 500m along a mud track and appeared to be engaged in goat farming. When questioned by the author, no link could be established between their economic activity and that of the NDN.

On the road from Panji Poyon to Dushanbe, 24 filling stations were counted. One was newly built and one was under construction. As in Uzbekistan, however, the vast majority were closed due to fuel shortages. Outside the four to five operational stations, queues ran to approximately 40 vehicles. There were no new (i.e., non-Soviet era) amenities on the Dushanbe to Panji Poyon road, such as transit hotels or restaurants.

While the author was unable to identify any positive impacts of the NDN on the wider economy of Tajikistan outside those transportation firms specifically contracted to carry NDN goods, there is evidence to suggest that some negative impacts have been experienced. As discussed in the previous section focusing on transshipment efficiency, Uzbek officials have cited the backlog of NDN goods as a cause of disrupted supplies to Tajikistan, which results in food and fuel shortages for ordinary citizens.

In Afghanistan, regional transshipment may also be hurting ordinary citizens. Analyst E reported to the author that his contacts in Turkish and Iranian companies, which shipped goods through Afghanistan to Tajikistan, typically paid \$400 per truck to local strongmen for safe passage. Similar payments of “protection money” have been linked to increased warlordism and instability in southern Afghanistan by the United States Congress.⁸⁵

Interpreting the Findings:

As detailed above, in “Volumes of traffic on the NDN, and its commercial value,” the NDN is worth just over a billion dollars to transit nations annually when running at full capacity. By way of comparison, Uzbekistan’s GDP was \$38.98 billion in 2010, while Tajikistan and Kyrgyzstan had GDPs of \$5.64 billion and \$4.62 billion respectively.⁸⁶ Using the estimate in “Volumes of traffic on the NDN” above, Uzbekistan, Tajikistan, and Kyrgyzstan combined receive just less than half of the commercial transport fees accruing to NDN countries each year. Between them and Kazakhstan, they also receive \$500 million annually in direct government-to-government payments from the United States. Bearing in mind that Tajikistan and Kyrgyzstan host 5–10 percent of NDN traffic, while Uzbekistan takes the rest, the NDN likely represents a modest, but not insignificant, component of all three countries’ economies.

When assessing why the NDN appears not to have any demonstrable impact on regional economies, one key consideration is the amount of NDN income which flows to commercial enterprises compared with the amount which flows to the state. As previously discussed, \$500 million of the NDN’s annual value is accrued directly to regional governments in the form of transit fees. Of the remaining value, commercial transportation cost case studies indicate that a very large proportion is also taken by regional administrations.

“Director D,” the chief representative of a Tashkent-based rail forwarder, relayed to the author that his company typically receives 2–3 percent of an NDN contract’s value for shipping goods from the Pacific coast to Hairaton, Afghanistan. Of the remaining money, 55 percent goes to Russian Railways, while 22.5 percent each goes to Uzbekistan Railways and Kazakhstan Railways, all of which are state-owned enterprises.⁸⁷ On the more typical NDN route from the Baltic to Afghanistan, Director B estimates his company’s share of a contract at just 1 percent, with the rest going to state railway companies.

Using the estimates of NDN traffic volumes and distributions of benefits previously established, it is possible to estimate a lower bound for the percentage of the value of the NDN that flows directly to transit states as follows: Over 80 percent of NDN traffic crosses Uzbekistan by rail (the rest takes either the Uzbekistan road route or the Kyrgyzstan-Tajikistan road route). This section of the NDN, getting from the southern Kazakh border to the Afghan border, is worth approximately 49 percent of an NDN contract's value. So around 39 percent of the sum total of all NDN contracts goes on crossing Uzbekistan by rail.^{viii} Approximately 21 percent of an NDN contract's value goes on crossing Kazakhstan by rail; so, of the 70 percent (= 49 percent + 21 percent) of NDN commercial income that is spent in Central Asia, 60 percent (= 39 percent + 21 percent) goes on railway transport. Subtracting a 1 percent margin for the forwarding company from this figure leaves 59.4 percent (= 0.99 × 60 percent) of total NDN commercial income for state railway companies in Central Asia.

When operating at full capacity, the NDN's total commercial value is approximately \$682.5 million annually. Seventy percent of this, added to the \$500 million that Central Asian states yearly receive from transit fees, equates to \$977.75 million annually for Central Asia. Similarly, 59.4 percent of this, added to \$500 million, equates to \$905.41 million for Central Asian governments. Dividing \$905.41 million by \$977.75 million shows that, of all the NDN money flowing to Central Asia, approximately 93 percent goes directly to regional governments. This estimate is a lower bound, as it does not include the revenues that governments receive from NDN road transit, such as fuel duties and customs fees.

It is impossible to determine what proportion of this 93 percent state share benefits ordinary citizens, given Central Asian governments' intransigent problems of budgetary mismanagement and corruption.⁸⁸ However, the predominance of Central Asia's monopolistic state railway companies in NDN business is manifestly incompatible with aspiration that the NDN is laying the foundations for a "decentralized, pluralistic, and market-driven" New Silk Road.

Using the calculation detailed above, approximately 5–10 percent of the NDN's commercial value is spent on road transit in Uzbekistan, Tajikistan, and Kyrgyzstan. For this portion of the NDN, case studies indicate that a far lower share is flowing to state budgets. However, it appears that its wealth-generating potential for ordinary citizens is still not being fully realized because of losses due to corruption.

A driver working for Director C's transport company described the following costs for a typical winter round trip from Bishkek, Kyrgyzstan, to destinations in Afghanistan, carrying NDN cargo.

viii The 39 percent figure is reached by multiplying the two previous percentages and rounding off ($0.49 \times 0.80 \times 100 = 39.2$).

Activity	Income [\$]	Expenses [\$]
Payment for shipment	4,300	
Fuel		2,300
Taxes at the Afghan-Tajik border		150
Corrupt payments (customs officials, GAI police, etc.)		500
Wages for first driver		500
Wages for second driver		500
Profit for shipper, and miscellaneous expenses (visa fees, truck maintenance, etc.)		350

So, for a typical journey, each driver (working back-to-back shifts) earns roughly as much as do the corrupt officials on the route. Were it not for this loss to the illicit economy, it follows that each driver would have an extra \$250 per trip to feed back into the licit economy, increasing economic gains from the NDN for a wider range of stakeholders.

As has already been noted, the NDN has not caused a sharp increase in the number of filling stations on its route through Uzbekistan or Tajikistan, despite this being one of the most seemingly obvious possibilities for secondary economic gains. This appears to be because of fuel shortages in both countries, which have caused the majority of already-operating filling stations to shut down. The author could find no explanation for the shortages in either country. According to Director A, his company often circumvents the diesel queues in Uzbekistan by giving money to drivers to buy fuel from street smugglers. If such behavior is widespread, this would demonstrate that the NDN is simply bypassing a dysfunctional aspect of licit economic activity, rather than providing impetus for reforms above board.

There is also evidence to suggest that, even outside the monopolistic state railway companies, the NDN is still not “market-driven,” at least not in the licit sense. According to Director A, it is normal in Uzbekistan for forwarding companies to be warned off bidding for particular contracts that have caught the attention of well-connected businesspeople. “You get an anonymous phone call saying ‘don’t touch this contract or that contract,’” he explained. In February 2012, an anonymous commercial source reported to EurasiaNet that “the Uzbek government has cornered any business that’s done on their portion of the NDN for themselves.”⁸⁹ High-up government officials in Uzbekistan are frequently linked to organized crime.⁹⁰

In December 2011, a Tashkent hotelier described to the author the consequences for defying the well-connected. He relayed that, after refusing to sell his business to a relative of a senior state official, “forty secret police raided my hotel. They kicked my guests out

onto the street and took away my operating license. If I speak to Human Rights Watch the government will put me in a mental hospital.”

As well as being entangled with the illicit economy, it should be noted that NDN road traffic does not appear to be especially pluralistic. While driving north from Termiz to Samarkand, the author observed 59 long distance trucks passing to the south and the Afghan border. Of these, approximately 75 percent belonged to the international haulage firm, Willi Betz, suggesting that much of NDN road cargo may be handled by a few large contractors. Indeed, the Uzbek government may be actively preventing small local trucking firms from taking a share of NDN trade. Speaking to the author, Director A stated that:

Uzbek truckers need to get permission to cross the border into Afghanistan from the Uzbek Border Committee, but 99 percent of the time this is refused. It’s probably because the Committee doesn’t want the headache of managing permissions for companies to cross to Afghanistan [because of safety concerns]. It’s easier for them to just say no. Or maybe it’s because of lobbying from Uzbek Railways. Considering the money they make from transport to Afghanistan this is quite possible.⁹¹

Overall, it seems that very little of the NDN’s value is spreading out to ordinary Central Asian citizens through the market economy. Some may be trickling down to them through national budgets, but because of the opacity of Central Asian nations’ state finances, the amount is impossible to determine. Where gains could be made for ordinary citizens through the market economy, they are often diminished by corruption, elite predation, and the reliance on illicit channels for goods and services.

As estimated above, not less than 93 percent of NDN income in Central Asia flows to the opaque budgets of regional governments, primarily through state railway companies. Therefore, if the New Silk Road is to be genuinely pluralistic and market-driven, it should primarily be a road network, rather than a rail network.

Furthermore, commercial contracts on the New Silk Road should be as transparent as possible to minimize the opportunities for elite predation and allow measurement of the benefits accruing to ordinary citizens. A necessary step in this process would be for U.S. contractors on the NDN to adhere to strict disclosure requirements for the commercial payments they make. The U.S. Congress has already recognized the need for such transparency for the extractive industries by passing Section 1504 of the Dodd-Frank Act (2010) requiring companies to disclose payments made to overseas governments, and thereby increasing the likelihood that ordinary citizens see the benefits of these payments. Given the close links between government and business in Central Asia, NDN contractors should go further by disclosing payments both to states and to commercial companies.

Conclusion

The evidence presented in this paper does not show that the goals of the New Silk Road—a prosperous and market-driven trade economy in Central Asia—are fundamentally unattainable. Perhaps, with the right approach, freight transshipment can indeed be harnessed to improve the lot of Central Asian citizens and even to open up closed societies.

What this paper does demonstrate, however, is that many of the aspirations for reform and development that have been vested in the NDN have not been realized. When the effects of the NDN are measured against New Silk Road goals such as regional cooperation, trade efficiency, decreased corruption, and benefits for ordinary citizens, it is found to be wanting. In the vast majority of cases, evidence suggests that it either has no effect on the furtherance of these aims, or it is actually having the opposite effect.

These findings deserve careful consideration by policymakers. The effects of the NDN on Central Asian societies may not in themselves be of historical significance, but they cast new light on the ways in which a successful New Silk Road strategy should and should not be implemented. In particular, they suggest that many policymakers' assessments of the mechanisms that act on the region's autocratic and graft-ridden economies have been highly optimistic.

This paper has suggested that economic incentives offer little to tempt Central Asia's leaders into greater regional cooperation. In centralized and patronage-based economies, a broad economic injection for ordinary citizens holds scant appeal for the ruling elite. Moreover, fighting Central Asian patronage systems will involve much more than targeting corrupt low-level officials. Graft in the regional transport economy appears to rely on mutual dependencies throughout the hierarchy of power, and must therefore be dealt with at all levels of this hierarchy, not just the lowest. How best to tackle these problems, however, remains an open question.

More research is required in order to develop genuinely effective strategies to encourage regional cooperation and discourage graft in Central Asian trade, but at the

very least these strategies must address the shortcomings of their predecessors, which are highlighted in this paper.

Additionally, if the benefits of the New Silk Road are to flow to ordinary Central Asian citizens, and do so demonstrably, then the project must adopt changes from the NDN's commercial model. As this paper has estimated, not less than 93 percent of NDN income in Central Asia flows to the opaque budgets of regional governments, primarily through state railway companies. If the New Silk Road is to be genuinely pluralistic and market-driven, it should be primarily a road network, rather than a rail network.

Furthermore, commercial contracts on the New Silk Road should be as transparent as possible to minimize the opportunities for elite predation and allow measurement of the benefits accruing to ordinary citizens. U.S. contractors on the NDN should adhere to strict disclosure requirements for the commercial payments they make. The U.S. Congress has already recognized the need for such transparency for the extractive industries, by passing Section 1504 of the Dodd-Frank Act (2010), which requires companies to disclose payments made to overseas governments, and thereby increasing the likelihood that ordinary citizens see the benefits of these payments. Given the close links between government and business in Central Asia, NDN contractors should go further by disclosing payments both to states and commercial companies.

Recommendations

In order to further a successful New Silk Road strategy, the U.S. government should:

- Recognize the limited power of economic incentives to prompt Central Asian leaders into regional cooperation and develop alternative incentivization strategies.
- Develop and implement an anticorruption program in Central Asia, which engages with all levels of the state hierarchy, rather than concentrating on lower-level functionaries.
- When possible, and militarily expedient, prioritize road transit over rail transit for the NDN, thereby increasing the benefits that flow from it to ordinary Central Asian citizens.
- Adopt payment disclosure rules for NDN contractors analogous to Section 1504 of the Dodd-Frank Act for the extractive industries, in order to provide oversight of the flow of NDN funds to the various actors operating in Central Asia.

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