



Citizen-Centered Approaches
to State and Market



A Framework for a New Silk Road in Asia

REPORT I

Ashraf Ghani

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Institute for State Effectiveness

600 New Hampshire Ave NW
Suite 900
Washington DC 20037

+1 (202) 298-5959
info@effectivestates.org

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I. Introduction

The specter of war has haunted both Europe and Asia for five hundred years. The long European civil war was ultimately resolved through the use of economic cooperation to achieve political ends. The formation of the European Coal and Steel Community provided the basis for this collective movement towards prosperity and stability. Europe evolved from the consolidation of democratic forms of governance, through the reunification of Germany, the collapse of Communism and the resolution of conflicts in the former Yugoslavia, to its present embodiment in the twenty-seven-member European Union. The territories collectively understood as Asia, however, have been marked by conflicts and conflagrations through the second half of the 20th century and into the first two decades of the 21st century. Asia has witnessed violence from the partition of the Indian subcontinent, through the “hot” wars of the Cold War and the resulting large-scale deployment of US forces in Korea and Vietnam and Soviet forces in Afghanistan, and up to the present US and Coalition deployment in Afghanistan and Iraq, not to mention all manner of intra-state conflicts and violence, including genocide in Cambodia. Just as the final stage of Europe’s long civil war became a series of World Wars fought over larger territories and involving other state and non-state actors, the “long Asian civil war” has effectively drawn the whole world into its net. An end to this conflict would not only enable tremendous economic, political and cultural growth in the most populous region on earth, but also carry profound implications for many of the challenges confronting our interconnected world.

Asia as a territory has been and in some places still is a battlefield. Asia as a concept, however, is beginning to coalesce around a new economic unity. During the twentieth century, a number of places in Asia—beginning with Japan and followed by South Korea, Taiwan and Hong Kong—formed distinctive pathways to economic growth and social change. In the 1960s, Singapore, a country surrounded by hostile neighbors and without natural resources, embraced economic cooperation and opened its economy to the region and the world, precipitating a rapid economic transformation. Malaysia pioneered a vision of development entitled “Wawasan 2020” and set off a global trend among both governments and corporations.¹ These previous efforts, however, were aimed at developing economic relations either between Asia and the US or between Asia and Europe. With the rise of China, India and the Gulf, a new set of relationships is being developed within Asia – that is, between Southern, Eastern, Western, Central and Southeastern states and regions. The dynamics of growth in China and India indicate that by 2050, the continental-scale economies of these two countries will account for around one third of the world economy, just as they did two centuries ago.² These economic factors make it possible to project the beginning of an end to conflict within Asia.

In 1869 the United States was transformed through infrastructure – the joining of the Atlantic and Pacific railways - from a unified concept of a nation into an integrated economic space. Within

¹ Because the Malaysian leader Dr. Mohamed Mahathir was trained as an ophthalmologist, “Wawasan 2020” referred both to the year 2020 and to 20/20 vision.

² Hawksworth, John and Danny Chan, *The World in 2050: Will the Shift in Global Economic Power Continue?* PricewaterhouseCoopers, 2015. (11)

the next twenty years, Asia could have its 1869 moment. Before the continental landmass can be linked by infrastructure, however, the way must be prepared with frameworks of cooperation that can overcome the following **baseline conditions that block collaborative investment and collective growth**:

- i) South Asia is still one of the least economically integrated regions of the world, due to political tensions between neighbors that impede the free flow of goods and people across borders.
- ii) East and South Asia are net importers of energy, and will not be able to consistently draw upon the energy resources of Central Asia, Afghanistan and the Gulf unless Afghanistan is stable, peaceful and secure enough to function as a land bridge between the regions.
- iii) China, India and Russia are each continental-scale economies in their own right, with vast internal infrastructure requirements that may take precedence over regional projects.
- iv) The continued expansion of China's role as "workshop of the world" and the increasing industrialization of India both depend on their access to natural resources, ranging from copper and iron to rare earths. This demand provides a positive incentive for improved linkages with Central Asia but may also provide a negative incentive for unsustainable or over-exploitation of natural resources.
- v) A large majority of the Asian population is still desperately poor, without access to the property rights and economic tools that could lift them out of that poverty.
- vi) Environmental issues that precipitate natural disasters continue to pose significant problems for the region. China, Pakistan, Bangladesh and Japan, among other countries, are vulnerable to these events. While mitigation requires cross-border cooperation, blame can also be assigned across borders.
- vii) The population of Asia was once mostly rural, but is now becoming predominantly urban. This process of rapid but uneven urbanization requires innovations in design, planning, and implementation to create networked, livable cities and solutions to urgent problems such as ensuring access to water and fair distribution of natural resources from the local to the national and regional levels.

The Silk Road, as both historical fact and metaphorical image, describes a trans-Asian network in terms that can be immediately understood all across the continent, where the echoes of the old Silk Road can still be heard in both expected and unexpected quarters. To propose a New Silk Road is to provide a path towards ending the long wars of the past and building a future of regional peace and prosperity.

II. The Old Silk Road

The idea of the old Silk Road evokes images of caravans and trading journeys across Central Asia. In truth, the Silk Road was much more than a commercial network - the continental-scale interconnectivity provided by the old Silk Road was made possible by a complex web of highly sophisticated institutional arrangements. A rules-governed but open system of trade linkages, the Silk Road could not have been created by any one component or actor, but gained strength from diverse and complementary hubs, governed by complex but consistent institutional arrangements. Examination of the old Silk Road suggests some particularly significant institutional features:

- i) *A sophisticated financial system* in which vast amounts of currency, in the form of *hawala*-guaranteed paper checks, were transferred across borders, thereby overcoming both the security and transport costs of transferring huge amounts of coinage. Prior to the invention of paper currency, there were systems of exchange rooted in networks of trust.

- ii) ***Dispute resolution systems*** including the Islamic and Mongol codes of conduct, which subsequently evolved to form an umbrella of protection for private sector actors. Further codes, agreed to and enforced by merchants, created risk protection even for those far from home.
- iii) ***Nodal cities*** that were closely connected to one another formed vast networks across Central, South, West and East Asia, on the one hand, and across the Indian Ocean, on the other, serving as key linkages in global commerce. Urban elites were brought together through these networks, interacting and even intermarrying across the boundaries of empires.
- iv) ***Diversification and comparative advantage*** were a key part of linking extremely diverse commodities, from dyes and spices to textiles and precious metals, for a variety of consumer and input products.
- v) ***An integrated transport network*** that linked not only urban populations but also nomadic and settled, non-urban populations, offering a range of goods to consumers across empires.
- vi) ***Commercially-oriented interactions*** which created a culture of exchange across boundaries of religion, culture, ethnicity and language. Commercial networks were further reinforced by these extensive cultural and scientific exchanges that, among other things, allowed for the elaboration of Arabic numerals on the basis of Indian arithmetic and the generalization of algebra across the world.

Contrary to common perceptions, the rise of sea trade and advent of Europe did not put an end to the Silk Road. Northern India remained connected to Central Asia as late as the 1870s. By the 1890s, however, the fatal blow had been delivered by the colonial agents of the Russian and British empires, who used railways and tariffs to weave their territories into imperial economic systems. For a brief moment, it seemed possible that this process would result in Europe and Asia being unified by the railways. Ferdinand de Lesseps, the builder of the Suez Canal, envisioned a railway from Berlin to Bombay, with a branch to Beijing. By 1880, the rapid expansion of railways in continental Europe, Russian-dominated Central Asia and British-dominated South Asia had sufficiently advanced to make that vision feasible. The critical missing piece was the stretch from the Russian-Afghan frontier in Herat to the Afghan-Indian frontier in Kandahar. Both empires were ready to cooperate in building the line, but the Afghan ruler Abdur Rahman (1880-1901), who saw the railways as an instrument of colonial expansion, refused. The changed conditions of the 20th century, and in particular the emergence of the Soviet Union, made the vision of de Lesseps into a distant dream.

The area known today as Afghanistan owed its former vitality and wealth to its position as an integral hub within the Silk Road. For millennia Afghanistan was what historian Arnold Toynbee referred to as a “roundabout”- a place through which ideas, people, and goods flowed and from which they dispersed throughout the entire region. In Toynbee’s schema, the “roundabout” is contrasted with the “cul-de-sac,” or dead-end regions, where ideas, people, and goods were unable to connect and flow within wider systems.³ All major cities on the old Silk Road were what Toynbee called “roundabouts”; none were “cul-de-sacs.” In Persian, the center of this kind

³ Toynbee, Arnold. *Travels Between the Oxus and the Indus*. Oxford University Press, 1961. (2)

of city, its marketplace, was known as “*char-su*” or “four-corners,” and the city had four gates, each named for the city to which that road directed the onward traveler.

While the old Silk Road is not a blueprint for the creation of a New Silk Road, it does offer some useful insights. The New Silk Road cannot succeed simply by creating transportation networks throughout the region. Broader institutional arrangements will be required. Finding ways to embed the states of the Middle East, Central, South and East Asia within regional flows will be a critical challenge. One example may be offered by the provincial and border cities of France, which had lost their vitality under the hierarchical capital system of the nation-state era, but quickly regained dynamism under the European Union. With the re-opening of trade routes between Asian states, those states will have a parallel opportunity to deliberately build up the provincial and border cities with key roles to play in facilitating customs, shipping and transit logistics.

III. The New Silk Road

The Asian continent is undergoing a great economic transformation, as centers of growth and economic vitality shift inland. China, India and Russia have all begun to balance their infrastructural investments in maritime trade with equal investments in land-based economies. In China, large-scale infrastructure development has shifted from the southern coast to the northern and western provinces. India is now primarily concentrated on upgrading its continental infrastructure across the country. Russia and China are both connecting to Central Asian energy fields; gas supplies from Turkmenistan now reach Europe through Russian pipelines. These harbingers pave the way for increasing intra-regional trade. India’s growth provides the possibility of integration with Pakistan, Afghanistan and Central Asia, while simultaneously depending on energy from Afghanistan and Central Asia. Further development, however, is currently blocked by the political stance on Pakistan and the insecurity and landlocked nature of Afghanistan and Central Asia. By contrast, Turkey is increasingly integrated with Central Asia through infrastructure, and its growth in recent years has been phenomenal. The example of Turkey demonstrates that integration through infrastructure presents tremendous opportunities for all countries in the region. But without a vision for a collaborative future, and a program of action to realize it, the opportunity for large-scale transformation will be lost.

The legacy of the 19th century still looms large in the region, with notions of national economies and competition for control of dwindling resources preventing recognition of the vast potential of today’s economic dynamics. By invoking a period of past prosperity - before the emergence of the Tsarist and Soviet empires turned Central Asia away from regional and global networks and opportunities - the New Silk Road suggests that national and regional prosperity can be mutually reinforcing rather than mutually exclusive.

Examination reveals that the old Silk Road was not only a network of roads, but rather a constellation of rules, agreements, relationships and institutions that created an integrated economic and political system. The New Silk Road would similarly consist of much more than just physical infrastructure. However, it should not be over-designed at the outset: the goal should be to create a platform capable of being adapted in response to future needs.

A New Silk Road would not be built on a blank slate, but rather within a complex political, economic, social and physical landscape. This environment includes various stakeholders who might act as allies or opponents of the agenda, while existing institutions and systems might serve either as assets or constraints, and might need to be adapted or scaled up. **Understanding the**

existing terrain is a first requirement, and will require the following:

- i) **Stakeholder Mapping.** The vision of the New Silk Road will meet with both support and resistance, and it is vital at the outset to map whose interests will be served or harmed by this agenda. Opponents may range from those who may not want to see a broader regional framework to others who may aim to use a New Silk road for their narrow self-interest. Mapping and engaging stakeholders, and persuading them that the New Silk Road will offer opportunities for all rather than threats, will be essential. Equally significant is the need to spell out the implications of the New Silk Road for individuals, groups and countries that are likely to be the major beneficiaries of the vision, but who are not yet organized or focused to mobilize in its favor. The private sector, the poor and the youth, for example, are likely to be particularly important beneficiaries. Potential opponents of the agenda could be persuaded and co-opted through a variety of measures. Regional and global partners possess a range of instruments and incentives that could help win over possible opposition, including their power to convene key actors and new sets of stakeholders from across the region. Initial forays by such organizations could play an important role in identifying, creating and implementing a series of early wins that would demonstrate the feasibility and credibility of the vision and establish momentum.
- ii) **Asset Mapping.** Any new Silk Road will need to build upon assets that already exist at both national and regional levels, which could be used, adapted or scaled up to help achieve the vision. These assets include physical infrastructure, projects, programs and institutional arrangements. Actions by countries in the region have already begun to reconstitute the Silk Road. For example, China, India, Russia and the Gulf now invest a combined \$1.7 billion annually in infrastructure - a trend that is set to continue. Developmental organizations - particularly the Asian Development Bank, through its Central Asian Regional Economic Cooperation (CAREC) transport initiative - have allocated billions to developing infrastructure that would create regional synergies. These disparate and emerging assets must be actively mapped, with the process encompassing comparisons between existing and emerging infrastructure, the uses to which each has been put, and the economic returns generated.

Asset mapping must also cover the organizational systems, vehicles and mechanisms that have been created to finance, build, operate and maintain the infrastructure. This process should be attuned to finding opportunities for synergies. For example, the World Bank's Infrastructure Index reveals a wide discrepancy in the quality of infrastructure to facilitate trade and transit throughput between the key countries that are likely to be part of the Silk Road. The World Bank's Logistics Performance Index (LPI), which measures multiple factors affecting trade logistics, shows that the Asian outliers like Singapore – the first countries in Asia to develop both infrastructure and the human capital to support it – are among the top performers in the world vis-à-vis income, customs, and the amount of goods shipped through. Moreover, the LPI demonstrates that when infrastructure is comparable, the critical difference comes from human and institutional capital, in the form of management systems and organizational capability. Consequently, there is enormous scope to create a system of benchmarks allowing for mutual learning, cooperation and partnerships both among the governments and across the private sectors of the countries in the region. The asset mapping should also examine the existing trading systems to identify the key organizations, stakeholders, and networks that are leading the expansion of trade flows in the area.

Other existing initiatives may well yield wider lessons, and might be adapted or scaled up.

For example, lessons might be learned from examining the mechanisms and agreements that have facilitated NATO's northern supply route. More generally, NATO supply arrangements, particularly during the last two years, have involved creating and managing one of the most complex supply chain systems in contemporary history, offering significant lessons for civilian economic synergies and efforts going forward.

- iii) **Identifying Constraints.** The Silk Road is often understood purely in terms of gaps in existing infrastructure in the region. Although infrastructure gaps are certainly an important constraint, they are not the only type of constraint preventing the re-emergence of the Silk Road. Various other types of constraints can be identified, with the first being **political constraints through political elites**. This sort of constraint is created by political decisions and political will, rather than by a lack of existing resources, and tends to flow either from a prevailing mental outlook or from the desire to protect a narrow sectional interest. For example, some national railway networks could bear significantly greater traffic, but first political decisions would have to be taken to use railways over state-owned trucking companies. The lack of will to make such a decision may be driven by a belief in autarky, an indifference to regional opportunities, a desire to protect trucking interests, or a combination of the above. A political economy approach may help to identify and manage political constraints.

Knowledge and governance constraints, meanwhile, are created by decision-making and accountability frameworks inadequate to mobilize available assets. Ideally, these constraints would be resolved by referring to the existing body of global knowledge and experience in alternative governance structures and standards. Within the region, ports provide the clearest example. If all Port Authorities were to benchmark against the excellent knowledge and experience of Singapore or Dubai, their gaps in performance and knowledge would be revealed immediately, although significant clarity, effort and time would then be needed to close the gap. In practice, political constraints frequently come into play in tackling knowledge constraints, since reorganization typically entails dismantling existing interests.

At the same time, constraints in the market itself are inhibiting the emergence of the New Silk Road. Global knowledge of value chains and supply chains has been revolutionized by radical improvements in information technology. This knowledge is not yet being thoroughly applied in the region despite its potential to transform economic possibilities. Various other types of **market constraints** can also be identified. For example, financial intermediation remains too low for efficient lending to small and medium-sized enterprises, which should be the engine of economic growth in the region. Productivity too, remains low - another area in which incremental improvement would yield great returns. There is only very patchy agreement on or adoption of norms and standards, and property rights remain insecure - both of which drive informality, illegality and exclusion.

Finally, **gaps in physical infrastructure** remain a very serious obstacle to the New Silk Road. Initiatives such as CAREC are beginning to address the issue of regional infrastructural integration. Systematically identifying and prioritizing the gaps and opportunities can ensure that regional assistance is systematic and that discrete projects combine as a coherent overall approach. Similar consideration should be given to operation and maintenance.

Towards the New Silk Road

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The New Silk Road is a broad vision of a future in which the states of South Asia, Central Asia, East Asia, and West Asia / the Gulf are peacefully bound together by webs of mutually beneficial and self-reinforcing connections. This is a generational program, not a project that can be initiated and completed in the short term. Realizing such a wide-scale transformation will require the creativity and imagination to adapt to conditions as they shift and seize opportunities as they arise. The path towards the New Silk Road, therefore, cannot be precisely mapped out from start to destination, but must rather be planned as a series of incremental movements.

Once a first phase of mapping stakeholders, constraints and existing assets has been completed, a second phase must focus on **building a multi-stakeholder coalition**. This process of institution-building is a delicate balance between maintaining a vision of the ideal goal – an integrated Asia – and representing the real, present desires and needs of each individual stakeholder. The final, broad-based coalition may be reached through a patient process of building up smaller agreements across single borders or between narrower groups – for example, private sector to private sector, or city to city – that gradually push consensus past the constraints that block larger agreements. In post-WWII Europe, the ideal coalition would have been the United States of Europe; because of the constraints of France and Germany, the real coalition realized in the moment was the European Coal and Steel Community (ECSC). Over time, however, the opportunities for further synergy provided by the ECSC led to the gradual movement towards European economic unity. It is worth noting, however, that the UK was specifically excluded from the ECSC by De Gaulle, acceding to the European Economic Community in 1973 and becoming one of the 12 founding members of the EU. Exclusion cannot be a part of this process; initial, temporary-seeming coalitions must remain open so that they can be expanded, joined, and networked into more ideal forms over time. But unlike the design of infrastructure, which must be done to specification, the design of institutions can be open and flexible. The vision of the New Silk Road will unfold over time, so that vision must be adapted to circumstances and experiences in a process of reflective learning. The leaders of Singapore in 1962 could not have predicted the Singapore of 2011, but they had a clear vision of a government that provided a set of services to its people, and their decision-making was creative, innovative, and adaptive, but always guided by that vision.

Once stakeholders have invested in the vision and built a coalition of institutions to support it, they can proceed to a third phase of **harnessing existing assets** through specific strategies, programs and projects. This process will require improvisation as well as orchestration, but some principles to guide future actions might include:

- i) ***Improve existing assets.*** Given the amounts of money spent on construction in the region, gains in efficiency and quality control would yield massive savings. Singapore's finance minister in 2010 revealed in a speech on the budget that even that paragon is only half as productive as Australia and one-third as productive as Japan, when their construction industries are compared head-to-head.⁴ This example gives only a small indication of the scale of improvements that could be made. Benchmarking between different countries, and agreement on norms and standards, could both generate major gains.
- ii) ***Connect existing assets.*** Once physical and institutional gaps, and the constraints that have produced and sustained those gaps, are identified, opportunities to connect existing assets will become clear. For example, attention to improving the ports in the region could bring tremendous connectivity gains. Products could be brought to new and different markets,

⁴ Singapore Budget Speech 2010, p. 24.

and the construction industry in the region could be transformed by a timely and reliable supply of raw materials. Border communities that have a history of cross-cutting ties, which were neglected during the nation-state era, could become particular assets if those ties were carefully revived. Finding ways to share existing expertise - for example, through exchanges between universities and other centers of specialization in the region - could similarly yield concrete benefits while building new networks and relationships.

- iii) ***Adapt existing assets.*** A creative approach could adapt existing assets to overcome existing constraints. For example, Turkmenistan's natural gas could be developed as a liquid product for transportation by road or rail, until the planned pipelines to Pakistan and India are built through Afghanistan. Uzbekistan's 14,000 highway engineers are a major regional asset, and could help to radically improve infrastructure in the region. Putting these assets to work in new ways would require new types of regional agreements.
- iv) ***Scale up existing programs.*** A number of programs in the region provide micro-, meso- or national-level models of the work the New Silk Road proposes to do on a regional level. Once a forum for comparison and knowledge-sharing is created, it should be possible to scale up these existing programs. For example, while the region as a whole is still not using water efficiently, some innovations have been made which could be scaled up. Drip irrigation costs 1000 Indian rupees for four years and has been demonstrated to increase income from \$1 to \$4 per day. Dairy cooperatives in India, and other initiatives connecting rural producers to urban consumers, could also be considered as models. Telecommunications are also suggestive in this regard. Telephone usage is expanding rapidly, and it has been demonstrated that the poor use telephones to cut transport costs and generate business. Mobile phones with 3G and 4G licensing are even more versatile instruments and add yet more power to the equation. Telephones are already being used for citizen participation in monitoring of state-provided infrastructure, through citizen scorecards managed through telephone banks. Access to reliable information on prices and standards allows farmers to adjust products to markets locally, regionally, nationally and internationally. Large-scale connection of fiber-optic networks, particularly from landlocked countries to the globally connected deep-sea cables, would dramatically increase connectivity across Asia. This increased connectivity would allow for a range of initiatives to be tested. Telemedicine could potentially bypass the building of expensive medical facilities by enabling long-distance diagnosis. In education, while some elements must be developed to the specifications of each place, the basics are culturally transferable, and can be shared across telecom networks, which will be particularly helpful in the spread of education for girls.
- v) ***Design new international financial instruments and business practices.*** The international community is not currently configured to support this vision. With imagination and determination, however, it could marshal a range of latent assets, develop new financial instruments, and change its business practices to become a catalyst and partner for the New Silk Road. For example, moving beyond conventional aid to other types of support, such as new risk guarantee instruments, could yield tremendous results. A shift from three- or four-year time horizons to longer-term focus and support could also create the predictability required for large-scale change.
- vi) ***Create new arrangements.*** Some gaps will need to be filled through the creation of new institutions. The region is lacking in both financial intermediation and public trust in financial institutions, the latter of which is particularly low in Afghanistan and Pakistan in the wake of banking crises. It will be vital to create new institutions that are capable both of

lending to small and medium-sized enterprises, and of restoring public trust in the financial system.

Maximization of existing assets and investing in **new structures and systems** should be pursued simultaneously. Design and implementation of this fourth phase will be conditioned by how long the first three phases took, how much they accomplished, what lessons were learned, and how the context may have changed. As a general guide to action, however, the following areas will merit particular attention, with an emphasis on comparative experience sharing:

- i) ***The Rules of the Game.*** Lack of agreement on the rules governing flows of people, goods and ideas is a key obstacle to the re-emergence of the Silk Road. Rules create both a predictable system and the public trust that enables use of and investment in that system. All the players must reach agreement on the rules of the game. The ultimate goal should be to establish the rule of law in every country, all across the region, but that goal will only be achieved through the cumulative efforts of a generation. Incremental progress can be made through creative use of existing mechanisms - including arbitration, mediation, and other mechanisms of dispute resolution - in order to improvise and stitch together a steadily improving system of rules that will generate growing levels of predictability and trust.

Work towards the ideal vision of a future rules-based architecture of regional cooperation will inevitably need to be balanced by opportunistic use of pragmatic openings wherever they can be identified. The European Union, for example, was built incrementally, beginning with relatively narrow agreements on coal and steel that were progressively widened as the benefits became apparent and new stakeholders emerged to champion the agenda. ASEAN offers another example of extremely patient work towards gradual economic integration, where the real rules of the game were informal rather than mostly or entirely formal, as in the European model. By defining boundaries of conduct, rules create the playing field upon which different actors interact. Because the rules are always open to renegotiation, the system remains open and flexible, capable of adapting to suit future requirements. Current negotiations over the TAPI pipeline, for example, or over projected railway and improved electricity connections between Turkmenistan and Afghanistan, suggest areas of agreement, on the basis of which further agreements may be generated. Establishing clarity on the formal and informal rules has a broad range of benefits, including predictability and trust, which in turn encourage investment. Agreement on common norms and standards can also simplify the tasks of contractors by clarifying baseline cost and quality requirements. These standards can then be upgraded over time.

- ii) ***Levels of Governance.*** Defining the powers, functions and relations of different levels of governance – international, national, provincial, municipal, district and village - is an essential and complex task. Meeting this challenge at the city level is particularly important to the New Silk Road agenda, because a number of cities in the region will form key connective nodes. Asia is urbanizing with staggering speed. The UN projects that by 2050, Asia will account for 53% of the world's total urban population.⁵ This scale of transformation can be managed much more easily and creatively through regional networks and alliances than on a national or municipal level. Conversely, if these fast-growing cities are not designed and managed well, the social and environmental consequences will be disastrous. Historically, the old Silk Road underpinned the emergence of cities across the region, and helped create common sensibilities and connections between them. Today, the

⁵ United Nations Department of Economic and Social Affairs/Population Division, *World Urbanization Prospects: The 2011 Revision*. United Nations, 2012. (12)

cities are similarly likely to contain many of the entrepreneurs, brokers and connectors with the capacity to identify and capitalize on the opportunities presented by a new vision.

The New Silk Road should not support cities that are centers of informality and illegality. Part of the path towards the New Silk Road, therefore, is to create the conditions in which cities can grow or become revitalized through their linkages, while still being regulated. The success of this process will depend on two factors: whether citizenship can be understood as an active choice, bearing both rights and responsibilities; and whether the demands of the market can be balanced against the needs of urban development. Reform of property relations, for example, will be central to the empowerment of the poor, the reduction of informal and illegal housing and markets, and the repositioning of cities as centers of entrepreneurship. Again, regional and global experience in urban reform might yield valuable insights. Administrative reform in the city of Dalian, China, for example, has produced remarkable results in terms of delegation of decision rights. Abu Dhabi has also made conscious use of the theory of clusters, and applied a balanced scorecard based on the five top-performing countries in five sectors to evaluate its own performance in each sector. It will also be necessary to think through new methods of governance of the connections between cities across the region. Much can also be learned from the coping strategies of the urban poor and from past government and private sector successes in working with them, rather than against them, to create livable cities.

- iii) ***Financial Architecture.*** The financial architecture of the region is another area requiring careful consideration and development, and again there are global examples that may prove helpful. The best known, perhaps, is the moment in 1968 when Singapore realized that when San Francisco banks closed in the afternoon, banking stopped worldwide until 9 am Swiss time. Singapore positioned itself to fill this gap and create 24-hour banking around the world. Their regulations set the best possible standards for accountability and transparency, and since then, Singapore has been a global center for finance.⁶ Financial intermediation, however, remains generally low in the region. This leaves space for a range of new players to develop instruments to provide more reliable and less expensive credit, which would be directed towards growth and in support of small and medium-sized enterprises, as has been the case in Korea, Taiwan and Singapore. Continual financing of infrastructure requirements will be vital. Australia and Singapore, which lead the region on the World Bank Infrastructure Index, continue to spend billions on upgrading infrastructure, while in India a variety of infrastructure funds have emerged. This experience might offer lessons for financing the building of the New Silk Road. The structuring of public-private partnerships will also require specialized financial expertise. Again, the experience of Singapore, which harnessed pension funds to the task of building housing for the population, offers an illustration of the kind of innovative approaches that could be developed.

Understanding risk and developing appropriate risk management instruments is another area that, if developed, could yield wider benefits. Putting a price on risk serves as an impetus for addressing the risk. Common understanding and benchmarking of risk across different levels - from city to region - could also help prioritize responses to financial blockages. Perceptions of risks are very different at the local level, because opportunities are more clearly understood and because local actors are frequently in a better position to mitigate risks.

⁶ Yeu, Lee Kwan. *From Third World to First: The Singapore Story, 1965-2000*. HarperCollins, 2000. (71-82)

- iv) ***Supply Chains and Value Chains.*** The New Silk Road, like the economic integration of continental America in 1869, or the European economic integration that produced the European Union, has the capacity to deliver economic prosperity as well as peace and stability. Building the New Silk Road will require a shift in mentality from autarky towards regional cooperation. The latter would involve freely embarking on a path of increasing mutual economic dependency. Value chains - the full range of activities required to bring a product from conception to the marketplace - and particularly supply chains - the processes through which materials or services are moved from supplier to customer - are both essential disciplines for moving towards economic interdependence.⁷

Information technology has revolutionized these disciplines, with profound implications for every sphere of economic activity. Given the vast scale of infrastructure requirements in the region, however, consideration of value chains and supply chains in relation to infrastructure is especially significant. In Afghanistan today it is frequently impossible to locally purchase materials at the specifications stipulated by international contractors, forcing contractors to import materials. Unpredictability in the supply chain - for example, uncertainty as to how long materials will be held at the port, or at each border - is disruptive and expensive. The application of modern information technology – for example, RFID tagging - in combination with general agreement on norms and standards and state-to-state agreements on trade and transit, could greatly enhance supply chain predictability.⁸

- v) ***Approaches to Building Infrastructure.*** Infrastructure is at the heart of the New Silk Road. However, it is essential to grasp that the process of building infrastructure must occur simultaneously with a parallel process of building up institutional capabilities, partnerships, stakeholders and assets, including a deep pool of human capital – all of which should be based on the assets and constraints identified during the first-phase mapping process. Infrastructure requires a systems perspective, without which it will never be more than a series of isolated projects. Infrastructure also requires human capital, as project and program design, implementation, management and monitoring are all specialized disciplines. Supporting the physical systems will provide careers and prosperity for millions of people. Development agencies can play an important role here, by working in advance to developing the human capacity that will be needed. Clear and consistent norms and standards will also be required in order to eliminate confusion among contractors, which is rampant in the current context. In Afghanistan, for example, different bi-lateral and multi-lateral donors each apply different norms and standards to construction contracts. Consolidation would simplify contracts, clarify quality and price, and provide predictability, which would assist the development of value and supply chains. Standards could then be improved over time.

Finally, infrastructure creation to date has been driven either by the priorities of the international aid system or by a narrow national focus. The existing procurement model favors large companies while undermining genuine competition, and often fails to generate sustainable outcomes. This model introduces multiple layers of sub-contracting that effectively salami-slice the allocated funding without adding value on the ground. A different model can be imagined that combines the strengths of global and regional, public and private stakeholders. Rather than outsourcing due to a lack of capacity on the ground, a partnership or mentorship system could be introduced that would gradually build domestic skills in design, implementation and project management, while also strengthening the

⁷ Blanchard, David. *Supply Chain Management: Best Practices*. Wiley, 2010.

⁸ Jacoby, David. *Guide to Supply Chain Management*. Bloomberg Press, 2009.

state's ability to supervise and the private sector's capacity to partner on the ground. In the current model, aid money produces a one-off benefit in the form of a particular building. In the proposed model, the money would leave not only the single building but also a set of new capabilities on the ground, which would continue to produce benefits in the medium and long terms.

- vi) ***Utilization of Natural Resources.*** Politics, markets and infrastructure intersect with particular intensity in the field of natural resources. Central Asia contains enormous mineral resources: Afghanistan alone, according to the US Geological Survey, is estimated to contain some \$1-3 trillion worth of mineral wealth. It has the potential to become the largest producer of copper and iron in the world, and a significant player in the markets in rare earths, gold, and precious stones. This wealth is important for Afghanistan, but, if harnessed, could also fuel the economic dynamics of India and China and the development of all players in the region. As a landlocked country, Afghanistan cannot develop its minerals without integration into world networks. The governance of this natural wealth will define whether it drives corruption and mismanagement, or stability and prosperity. To ensure the positive outcome, it will be necessary to create regional consensus; ensure that extraction efforts produce value for citizens throughout the region; develop more imaginative and sophisticated approaches to building infrastructure; persuade or co-opt elites; and, pay close attention to the creation of value chains, supply chains, and human capital. Existing extractive industries in Chile and Botswana offer examples of proper management, while the Democratic Republic of the Congo and a large majority of other countries that have based their economies on extractive industries should provide stark warnings about the "curse" of natural resources.

Afghanistan, the US, Pakistan and the New Silk Road

The disruption of the Old Silk Road at the end of the 19th century transformed Afghanistan from a roundabout into a buffer state, effectively a cul-de-sac. When Abdur Rahman refused to allow the imperial railways inside Afghan borders, killing the Berlin to Bombay to Beijing railway project, South Asia was effectively disconnected from Central and East Asia. The Afghan land bridge remains critical to South Asian integration. A vast potential trade network depends on its peace and security.

Since the creation of the Soviet Union, Afghanistan's conflicts have been perpetuated by a 19th century view of hegemony, rather than one of regional cooperation. The Afghan people, however, have an entrepreneurial culture, like that of the Chinese and Indians, which now is reinforced by one of the largest diasporas both in the region and worldwide. Afghanistan is also the headwater for rivers flowing to its northern, southern and western neighbors. Given global warming and the risk of desertification on the one hand, and floods on the other, its water is critical both to its own future and to that of the region. These are two powerful incentives towards cooperation.

At the same time, Afghanistan has been the site of one of the largest military deployments of contemporary times, and is currently the place where use of force is most direct and the risk of regional conflict is most clear and present. We have come to a fork in the road: either conflict will increase, Afghanistan will be fully militarized, and Afghanistan and Pakistan will be locked into three or four generations of enmity; or a vision of collaboration and regional peace and security will be articulated and implemented. Given the massive poverty of people in Afghanistan,

Pakistan and India, this alternative vision is what will lift hundreds of millions out of that poverty and into security and prosperity.

The value of the New Silk Road for Afghanistan, therefore, plays out across multiple dimensions: economically, turning potential assets like mineral wealth into instruments of prosperity; shifting military focus from the use of force to human security; networking cities and attractions to leverage the diaspora to maximum effect; and providing opportunities for ordinary Afghan men and women to rise out of poverty through education and employment. Afghanistan reclaims its place as a true roundabout, shifting from being the epicenter of conflict to a focal point of global and regional collaboration. Because of the West's current military investment in Asia, and particularly in Afghanistan, the replacement of conflict with cooperation will lift a military burden for the West, with great benefits both in human and financial terms. Indeed, in the current environment of global fiscal constraint, the shift from massive military expenditure to focused investments in human capital and infrastructure would be a win for everybody.

The US in particular would make the following economic, political, and security gains:

- i) The US is heavily invested in the Afghan war, and reduction of those costs without losing security interests would be a major gain in the short, medium and long-term, if the war in Afghanistan can be ended with regional stability and elimination of Al-Qaeda.
- ii) The US has taken on a negative image in much of Asia. Playing a catalytic role in this process could result in a tremendous image boost; leadership by the US in stakeholder coalition-building would also consolidate a whole series of relationships from bi-lateral to multi-lateral. If the right financial instrument of the US, like the OPIC or EXIM Bank guarantees, were put to work, the process could also result in jobs in the US, and generate knowledge and innovation that would be useful worldwide.
- iii) In the past, increased prosperity in Asia, for example in South Korea and Singapore, has expanded opportunities for trade by the US and into the US. Asian prosperity has never been at the expense of the US, but rather to its benefit. In the present moment, a boom in Asia could be extremely helpful in jumpstarting global financial systems.
- iv) Two of the most potentially unstable countries in Asia are nuclear and at odds with the US: Pakistan and North Korea. A process that reduces the risk of Asian conflict, and brings about Asian prosperity, is to the major benefit of the US and everyone else.
- v) Threats from non-state actors will be contained when state and societal actors become strong enough to take the ungoverned spaces. Threats can shift from one ungoverned space to another until and unless continent-wide stability is achieved. Promoting prosperity preempts possible future threats, and will bring about a permanent decline in the present threat level.

Historically, the current territory of Pakistan functioned as a node of connections between Central and South Asia. Today, however, Pakistan's policy decisions have cut many of its long-standing economic ties to India. Meanwhile, Pakistani decision-makers persist in viewing Afghanistan from a military rather than an economic standpoint, which blocks cooperation with Central Asia. The result has been the increasing marginalization of Pakistan in the world economy, and the escalation of internal poverty, violence and disorder. If Pakistan were to embrace the vision of Asian integration, this process of isolation would be definitively reversed, making both Pakistan's government and its people among the greatest beneficiaries of the New Silk Road. Pakistan's infrastructure would be put to new purposes, while its entrepreneurs would find new outlets in Central Asia. Moreover, its territory would once again be of central importance, which would make it both an Asian and global priority to support peace and sustainable development in Pakistan. The longer Pakistan holds itself separate from the new dynamic of the Asian economy,

however, the more costly it will be, for Asia and especially for Pakistan. The New Silk Road is already being built, piece by piece; each new trade agreement and infrastructure project leads, inexorably, one step further towards the networked future. If Pakistan abstains too long, both agreements and infrastructure will be constructed around its refusal, and the road will bypass it altogether – increasing its marginalization still further, in a manner that may take generations to resolve.

Afghanistan and Pakistan are currently perceived as the crucible of global conflict. A vision that translates relatively quickly into solving Afghanistan's stability problem through a non-military mechanism, and provides a compelling economic incentive to end the political isolation of Pakistan, would therefore have worldwide appeal.

IV. Conclusion

The New Silk Road is not a distant dream. It is an idea with historical and present resonances, a vision which translates across national borders, and a catchphrase around which consensus can be built. Time, patience, creativity and imagination will be required to move, one small step at a time, from vision to reality. The most essential part of this process will be the strengthening of the existing networks, and the creation of the new networks, that will eventually knit the region together. In order to promote this process of connection, **spaces for collaboration and communication** must be created at several levels.

- i) At the national and sub-regional level, the space of the forum will be key to promoting discussion of the most important linkages to promote Asian economic integration. Meetings between states, within and across countries between government and private sectors, between private sector actors across sub-regions, and so on, will promote system creation and the removal of obstacles to trade.
- ii) At the regional and international level, a knowledge network should be created to distill, build upon, and distribute information and experience produced throughout the process. An initial consortium of major stakeholders, including state representatives and financial institutions like the World Bank and Asian Development Bank, can set up the network and begin by assessing existing assets and synergies. In particular, the network should study the question of how existing Asian infrastructure has been financed - from planning through construction, operation and maintenance – and consider how to learn from and scale up existing financial instruments.
- iii) At the leadership level, where vision is articulated and clarified, the G20 could perhaps be useful as a global forum for discussion of the larger implications of the New Silk Road. ASEAN and other sub-regional groups could be linked into a network of networks that would serve as a regional forum for further refinement of the debate.

Secretary Clinton's 2011 speech in Chennai, which embraced the metaphor of the New Silk Road, has already opened the door for China, India, Russia and Turkey to enter a new era of cooperation.⁹ The potential for future Asian integration is real, and the payoffs enormous, as demonstrated both by Europe's example and by the smaller cases of individual countries. The

⁹ Since that speech by US Secretary of State Hillary Clinton (in Chennai, India, on July 20th, 2011), the New Silk Road has been cited by the Secretary and other State Department officials in speeches in the US, Afghanistan, Pakistan, Tajikistan, and the UN General Assembly, among others.

true test, however, will be whether this transformation will extend to all of Asia and benefit all of its inhabitants, or widen the already extreme gap between its rich and poor. The human dimension of this project must not be neglected, lest evolution become revolution. As recent events in Europe demonstrate, sweeping change always comes with reversals; the path will be neither easy nor straightforward. But the “Asian Century” will never be realized unless the effort is made; and the 21st century will be irrevocably marked by this effort, and its success or failure.

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