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**WOLFENSOHN CENTER FOR DEVELOPMENT AT THE
BROOKINGS INSTITUTION**

**“INTEGRATING CENTRAL ASIA INTO THE WORLD ECONOMY:
PERSPECTIVES FROM THE REGION AND THE U.S.”**

PART 2: THE U.S. PERSPECTIVE

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MARTHA BRILL OLCOTT: Thank you very much. It's my pleasure this afternoon to preside over our final session today. Taking the same set of questions we did in the panel before and now turning to the U.S. government to share with us their view on these questions. We have two speakers and I'm going to introduce them first and then they will speak in order.

It's a pleasure to introduce to you panelist Spratlen, who is currently the director of Central Asian Affairs and the Bureau of South and Central Asian Affairs as her bio says, the department's most recent bureau and one of its very, very most active. It's delightful to have Pamela here with us today. She coordinates, she helps develop and coordinate U.S. policy in the states of Central Asia and is in charge, in part, of the expanding cooperation between the U.S. government in South and Central Asia. Pam Spratlen is a career foreign service officer who's had a number of policy coordinating positions. I won't go through them all, but the one that's my favorite is that she was consul general of Vladivostok. This is a job many of us envy – (inaudible, laughing.)

And after she finishes speaking, Robert S. Deutsch will speak. He's a senior advisor, focusing on questions of economic integration in the State Department's Bureau of South and Central Asian Affairs. He focuses, not exclusively, but very intensively, on questions of infrastructure and policy. And he will tell us something of the nitty-gritty of the U.S. government approach at this point in time. Prior to taking over this post, he was the secretary of State's deputy senior advisor on Iraq. And I am sure Central Asia is a much more quiet place to hang out – (chuckles) – and we're delighted to have you join our area of expertise. We'll start with Pam.

PAMELA SPRATLEN: Well, thank you – (inaudible, off mike) – all right, good afternoon everyone. It's great to see a room full of people who are interested in U.S. policy on integrating Central Asia into the world economy.

My name is Pamela Spratlen, as Martha has said, and I'd like just to thank the Carnegie Institution and the Brookings Institution for this opportunity to speak to you this afternoon. Andrew Carnegie, a name that rings all kinds of bells for people who are Americans, had a line, it said, pick an area and stick to it. And he became very wealthy with that. And Martha, you certainly have done that, as somebody who knows Central Asia better than almost anyone, and same for Johannes. So it's a pleasure to be on the panel with you both today. You've done a great deal to advance knowledge in this area and we very much appreciate that because we work on a region that is often not very well understood.

Now, my colleague, Bob Deutsch, is going to speaking to you about the nuts and bolts of what we're actually trying to do in Central Asia, but I just want to give a little bit

of an overview before he speaks. And then after the two of us present, we'll be happy to take questions.

I'd just like to start with a little story, since the key word here is integrating Central Asia. I've been in this position for a little over a year. And when I first came on board, I had the very ambitious idea that I would go visit all five Central Asian capitals in two weeks. And I thought I would be able to get around and come back, and have a more fulsome understanding not only of the capitals, but I was even ambitious enough to think that I could get out into the regions in this two-week period.

Well, we started planning my travel, and I hear the chuckling. It turned out that the flight connections, not just within Central Asia but just getting to Central Asia; I mean, I had to sort of remind myself of the amount of time that takes. And then, the idea of actually traveling within turned out to be a great deal more challenging than I ever imagined; all the connections either went through Moscow or Istanbul or Frankfurt, and it just wasn't possible to fly between some of the capitals. And so I thought, well perhaps what I could do is fly between some, and then I would drive to get to other places; how about driving from Dushanbe to Ashgabat, for example. Well, we looked at that – (laughter) – and it turned out that wasn't going to be possible either.

So I have a very personal understanding of the importance of integrating Central Asia, and the difficulties of trying to make that happen. And if I, as a U.S. government official going on a one-time basis or irregular basis to the region, have this understanding based on my attempt to try to do this travel, I can only imagine what it's like for a businessperson who's thinking about trying to build a business from the ground up in Central Asia or develop a partnership and really address the challenges of trying to do business there in one country, but certainly in trying to do it in many. So this is a great challenge, and it's one we've taken on in the U.S. government but it's absolutely daunting, as I know from personal experience.

But I think the reason that we're interested in this, and what motivates us in terms of U.S. policy are a number of things. But one of them is the dramatic shift that has taken place in the geopolitical balance of power in the world. It's no secret to anyone in this room that we've seen the countries of Central Asia move from being on the periphery of the European sphere of the world to really being at the center of a new global architecture, in which Asia, not just China but India and Pakistan and other countries, are very, very important. And the question is how to take these landlocked countries and how to help these fairly new states of the post-Soviet world, and help them take advantage of this shift, which would assist not only them but the region and the globe.

And what it takes to really address that is a vision of how things might be done differently. And so the secretary of State, a couple of years ago, decided that our paradigm of organizing ourselves along the lines of the former Soviet Union no longer served what was actually happening in the world. And we shifted with the idea that we would create or help be part of creating a new Silk Road, as it were, an opportunity to create opportunities within the region that is historically landlocked. That would include

not just from the region going north, or from the region going west, but also east and south.

Now, this vision very much shapes the way we think about Central Asia now. And the idea is that we want to support the sovereignty and the stability and the democracy of all of the states of Central Asia. But what does that really require? It requires that they have economies, they have resources and the ability to actually sustain the mechanism of the state.

Now, often when we think of the shift that we're participating in, in the State Department, we read about it in the presses as kind of a great game. And my boss Evan Feigenbaum was at Carnegie about a month ago and talked about this idea, once again, which we frequently intoned, which is that we don't believe that there is a great game. We understand that there's competition globally, there always is, but the great game was a zero-sum match between two powers who saw the countries that were involved in the region. That's not how we see it at all. We see the countries having agency; we see them as sovereign over their own fate, and we'd like to participate in it.

The other issue is that we don't see the great game because we don't see it as a zero-sum match that has a winner and a loser; that when markets are in play, when technology is in play, when reform is in play, we have an opportunity to have many, many winners. And so it's that that we want to try to advance, on the idea that nobody should have just one option or one market.

So in pursuing this we've attached a name to it, and that name is regional integration. And what we mean by that is not just the roads and the power-lines, but really the institutional connections that make that kind of cooperation possible. And the countries themselves have come a long way, I think you heard in the last panel some of the members of the governments talking about what they have done to try to advance this idea of regional integration. But the idea of it is that it advances not only of their individual interest as a state, but their ability to trade with one another and to participate actively as partners with other countries in the world.

Now as we look at the individual states of Central Asia, and in our conception I know – I was at a conference actually, not long ago, with Chris van Agt, I see in the audience, and one of the issues is what is Central Asia. And there are many, many definitions of it; it's kind of an accordion that can expand depending on the conference and the audience. But in our definition, it is the five countries of Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

And as we look at Kazakhstan, which is the largest, northernmost of the Central Asian countries that we deal with on a daily basis, we see a country that has taken enormous strides over the last 16 years to change its economy, to bring in foreign investment, to take advantage of its national resources, to begin to reform the various systems that would allow it to diversify.

And it has to show for it a very, very strong growth rate; I think what we're seeing this year is, in spite of some banking challenges, the ability to withstand some turbulence in the economy, increasing diversification. It's interesting, any conference that I've attended where members of the Kazakhstan government have been there, everyone has the idea ingrained that the country is on its road to becoming not only a regional player but a global player, and this is something that every official articulates. This is a country that has a vision for its future and is in the process of implementing it. It's also beginning to export capital, and really invest in the region. So Kazakhstan has taken enormous strides in the economic sphere.

But we're also working with Kazakhstan, and hopeful that Kazakhstan will advance in the political sphere and also in the area of security in Afghanistan and in the development of its own civilian security structures, having named its first civilian minister of defense last year. So Kazakhstan has been very, very successful, and we're hopefully going to step up its participation in the idea of regional integration.

Now Kyrgyzstan has moved fastest toward opening its market; it is the only country among the five that is a WTO member, although Kazakhstan is in the process of accession now. It is relying heavily on its national resource reserves, but those of course are dwindling, and Kyrgyzstan is really challenged to figure out how to take advantage of its hydropower, how to take advantage of its human capital, to move from being one of the poorest countries in the region to a country that can not only sustain its own economy, but actively participate with others in the world. Its major partners are China, Russia and Kazakhstan, so it sticks pretty close to home in developing its economy. And in order for this to change, a process of reform really does need to – we'd like to see it advance.

Now, Tajikistan is a country that is extremely important in this conception that we have of regional integration. It sits, in terms of its geographic location, very, very close to Afghanistan. Our secretary of Commerce opened a bridge this past year between Tajikistan and Afghanistan; we were very proud of that achievement, which was kind of the signature event in this policy of regional integration. But for Tajikistan it's been very challenging to move through the last 16 years because they had not only one shock, that is, the departure of the Soviet state apparatus as the glue that held the economy together, but also a civil war which was wrenching and incredibly demoralizing in many, many ways.

I visited Tajikistan in May and it is stark, the wonderful, beautiful country that clearly is going to have to work hard to catch up with some of its neighbors. Turkmenistan, another country that is blessed with natural resources, but is at really only the beginning stages of taking advantage of the development of those natural resources. And clearly, a lot of institutional change will be needed in order for Turkmenistan to be the kind of regional player that it has the opportunity to be. In the past, it's pretty much stuck to a fairly safe course of having pretty much one partner. And now, it has the opportunity to look out. President Gurbanguly Berdimuhammedow is taking decisions that seem to indicate that he wants to move, possibly, in some new directions and open up

some new opportunities. And we're watching this process very, very closely and hoping that this is the case.

In terms of Uzbekistan, of course Uzbekistan is extremely important in Central Asia, the country that's really in the center of all of them, borders all of them, largest population, a very energetic population in many ways. But, over the last few years, after reaching the high water mark in terms of U.S.-Uzbek relations in 2002, when we signed the framework agreement with them, we've seen relations move to a place that we really see is far, far less than what we could be doing with Uzbekistan.

Even though, if you look at the IMF and some of the other figures, it looks like the growth rates are high, I was really struck by going to Uzbekistan myself and just seeing a country that should be much more active, a capital city that doesn't have nearly the kind of activity that it has for a country that ranks 13th, for example, in proven natural gas reserves, but really doesn't have the infrastructure needed to take advantage of that. And continues to have pretty much just one economic partner.

Uzbekistan, as we all read in the press every year, is a country that is very involved in the energy issue, tensions that take place between Uzbekistan and its neighbors. And so, moving to a place from just maintaining itself as a state to cooperating with its neighbors and the world is something that we can talk about later, but where there's a lot more work that could be done. Now, we have a number of efforts that we've engaged in. One is called the Trade Investment Framework Agreement. But there are many, many others that we have that are attempts to try to get our Central Asian friends and partners to talk to one another about how we can foster this issue of regional integration in policy terms and in actual operational terms. Bob is going to speak more specifically, but I think, at the end, what I really just want to underscore is that progress takes a long time.

We understand that any process of change is not simple or easy. And we're often asked how viable this concept of regional integration can really be when we're talking about states that are increasingly disparate in terms of their own economic paths, states that have differences with some of their southern neighbors. All of those things, I think are true to some extent. But I also think that when you look at the enormous opportunities, the enormous advantages that there are to all of the countries within the region to cooperate, we think that that really is the path that we'd like to see people take and that we want to try to use our energy to encourage.

We think that – what's the benefit of that? The benefit is the kind of sovereignty that the countries themselves seek, the kind of stability that the countries themselves seek, and the kind of institutional participation and calm that they all would like to have. That comes from having a strong, vibrant economy, a strong ability to participate, cooperate with your neighbors. And that is what the United States, in its policy of regional integration, is really trying to foster and I'll turn it over to Bob to talk about exactly how we're doing that. Thank you.

ROBERT S. DEUTSCH: Thanks, Pamela. Let me add my voice to the chorus that I've heard in the course of the day. Martha and Johannes, thank you for the effort of organizing this conference, which being halfway through, being the last speaker on the first half, I can say that this has created a great deal of information and dialogue and I think has been very useful to do here in Washington, not just for organizing this conference, but for all of the wealth of work and knowledge that you have brought to us over the years about this region. So thank you for bringing us together and thank you for giving us the opportunity to talk about the U.S. perspective.

I think as Pamela said, Pamela talked about defining Central Asia and our policy of integration. And it really is – and she talked about Central Asia as five countries or an accordion. I certainly, in my responsibilities, go beyond those five countries and look at integration, not only among the five Central Asian countries themselves, but also across the spine of the book, if you want, that's Afghanistan, which may well be in Central Asia.

And I think in the way that they relate to CAREC and their recent membership in SAARC, their participation as the sixth country in our trade and investment framework agreement, we see them very much as part of this region and that the really new element of economics and politics for the five Central Asian countries is the opening up of Afghanistan and the opportunities that that presents to the south, and then, integration, in my sense, reaching out across Afghanistan down to the rapidly growing markets in South Asia.

That's not one option for the five Central Asian countries, but we see it as a new option in a policy of connecting to the global economy in all – as one of the speakers I think said this morning – in all of the directions of the compass: north, south, east, and west because that's what creates the difference; that's what can create the new vibrancy and prosperity in the Central Asian space.

So we are attempting to integrate and help the five countries of traditional Central Asia recognize that cooperation among them, across the economy, across their societies, can be an impetus to development and prosperity. And as the secretary announced in 2005 in Kazakhstan when she created the institution change in the State Department that Pamela described. She set us out to work more broadly to demonstrate Central – the benefit of Central Asia's ties to the international economy to its international productive, financial, and trading systems and in the physical links that connect Central Asia, notably where the U.S. can be active to the south across Afghanistan to South Asia.

I've been at this about the same length of time as Pamela. Assistant secretary Boucher, as he was looking at how to implement the secretary's initiative, asked me to come along and look for the tangible ways to make these interconnections really concrete. And I spent the last almost 18 months looking at the region, talking to colleagues, many of you in the room, and seeking to develop new ideas, more ideas on how to make the connections.

The U.S. has been, as Pamela said, a number of programs that are working to integrate the region and the regions. And I'd like to talk about a series of them. One that I think I'd like to look at is our regional assistance program, which operates out of Almaty. And there we have two particular focuses: our regional Central Asian electricity market program and our regional trade facilitation and trade liberalization program.

I also am going to talk about it a little bit more about our trade and investment framework agreement, which groups the five countries of Central Asia, of traditional Central Asia, in dialogue on economic issues, on investment issues with the United States where we have had the participation at the last several meetings of Afghanistan. I'd like to talk about the broader opportunities and energy, electrical trade, from the three southern-most, well actually it's four, three southern-most Central Asian countries to Afghanistan and from Kyrgyzstan and Tajikistan across Afghanistan down to South Asia where we're working on developing those interactions. And then, I'd also say a bit about our efforts to assist on the issues of oil and gas export routes.

Of course, all of that is not something that I just laid out in our efforts is not unique. As I looked at the agenda for this conference, I saw the range of issues on which I spend a lot of my time. When I look at any agenda for the CAREC, for the Central Asian Regional Economic Cooperation Program, which the ADB provides the secretariat for and which is also a cosponsor of this program. I see the same, same list of issues, and I think that we heard several of the speakers on the previous panel from the government say that these are issues that have been discussed in the region now for 15 years, or the best part of 15 years. And I heard a little bit of regret that we're still talking about them.

I think we're doing more than talking about them. I think there actually is a lot of movement in implementation. But as Pamela said, it takes time. Let me start with the trade facilitation work. What we've been doing over the last couple of years is looking at the region, looking at the roots on the region, and trying to gather data on the cost and times of transport across the region. We've been doing some of this; there have been similar studies done by the International Chamber of Commerce, other private sector organizations, the World Bank has been doing some of this. There are no surprises; they all come out fairly similar.

And it's no surprise, given the infrastructure, that the costs of transport, whether it be by rail where there is rail or by road is high. And in that cost, the cost of informal payments, a nice way I guess to say petty corruption, are also a significant burden. And the transport times are long, not only in terms of the speed of travel, but even more in terms of the time spent at border crossings and other checkpoints. Just to take one instance I picked from a number of routes that we've looked at, a route from Khujand in Tajikistan to Novosibirsk, cutting through Uzbekistan, across Kyrgyzstan and Kazakhstan.

The cost for this 2,638 kilometers were – these were for civil textile shipments – were about a dollar a kilometer. And of that dollar, 45 cents were for official payments, 20 cents were for the actual transport – for fuel or wages – and 35 cents were for

unofficial payments, money that it took to get past checkpoints and past clearances. The total time to do that two thousand six hundred some odd kilometers was almost eight days. The state of the roads was a significant factor because when traveling, the average speed was only 35 kilometers an hour. But of the eight days, five, or almost five, were spent sitting at borders, sitting at checkpoints. This is, this is a route I took that would be slightly different numbers from other routes. But really, that's the consistent picture. We do these kinds of studies because we think it's important to look at this data so that we can raise understanding in the private sector, raise understanding among governments of the need to address some of these different kinds of issues. Yes, there's a lot of work to do building the infrastructure, but there's also still a lot of work to do on the software, if you want.

We are going to continue doing – we the United States – are going to continue doing some of this work. We have an agreement with the World Bank where we're going to do more. There's a lot of – a lot of the private-sector work has been east-west. We've done north-south basically only to Afghanistan. Together with the World Bank, we're going to be looking at routes from Almaty down to Karachi and gathering the same kind of information so that we can identify the obstacles and try to work on them. But, what we're doing in the next phase is we're going to start working with the countries more actively in trying to identify particular obstacles and identify particular solutions.

Some of those solutions will be – and we're looking at regulatory reform. We actually have done a lot of work with the customs authorities, mostly, as some of the previous panelists said, to deal with illicit issues. But that also creates the opportunity to develop and facilitate legitimate trade. But we've done a lot of work with the customs authorities at the border and when we talked about this at our trade and investment framework agreement, there were several objections from some of the ministers because they felt that they were economic ministers and several of them had responsibility for customs. And they felt that they'd made a lot of progress. And actually, they probably really have.

And the data does show that the customs officials have made progress. And most of the borders across this region, in addition to customs and border guards, there are veterinarian services and there's agricultural services and there's safety regulation services. So there's six or seven different checks at every border crossing. And while the customs may be moving quickly, the trucks are still sitting or the trucks are still sitting for extended periods of time. So we are going to be continuing to use our work with the border authorities to help and encourage common processing so that those times get reduced; we're going to continue to work on the TIR implementation because most of the countries in Central Asia and I believe Afghanistan, has recently receded to the U.N. convention that governs the trucks in transit regulations. I don't actually know what TIR stands for exactly.

But these are the regulations that let cargoes be moved across borders in transit countries without being opened and examined and simply moving through. We're going to be working with countries in the region to improve those kinds of regulations as well

as on customs. Of course, we're looking very much to CAREC. And I heard several other organizations this morning, where they are working on specific corridors and looking at how to upgrade the roads. And that's a very important effort. The United States has brought its contribution as well. We've made some significant investments in the road network in Afghanistan. And as Pamela said earlier, we take particular credit or particular pride in the opening in August of the bridge across the Panj River from Tajikistan into Afghanistan which opens a new significant artery. And we look forward to continuing to work with Afghanistan and Tajikistan to make sure that the customs processing and the security around that bridge can be completed, organized, so that the bridge can achieve its full, its full operational capability.

The other major effort out of our regional assistance mission is our Regional Electricity Market Program. In that program, we are trying to help the countries of Central Asia, particularly Kazakhstan, Kyrgyz Republic, and Tajikistan, to organize their markets, their electricity markets successfully, to organize and trade successfully. One of the recent successes of that program was helping the representatives of the Kyrgyz transmission companies become accredited to and the Kazakhstan regional energy market where – in Kazakhstan, electricity is traded – so that they would be able to sell their surpluses directly on the market to a range of users and improve the returns that they get for their sales of energy.

We're also providing the countries involved with – as well as the central distribution control in Tashkent, which has responsibility for dispatch across the region for those interconnected transmission facilities with software and engaging them in a process to develop planning so that there will be greater transparency across the region in the movement of electricity. I think we have seen in the last couple of years, when one party or another has suggested that there was congestion on the line and they had been unable to transmit electricity, a lot of suspicion among the countries. And this transparency, based on this planning software and this planning project will let all the countries understand what is happening in the transmission so that we can deal with those suspicions, create the trust that I think earlier members of the panel, previous panels, suggested was necessary to have regional cooperation.

And then, we can ensure that the planning for new transmission and a new generation goes forward on a sound economic basis. So those are some of the activities of our regional REMAP program. Now, that in our view is one foundation of a larger electricity bridge that we are trying to build, creating a more stable Central Asian electricity system as a means for developing the potential for electricity and for exporting electricity.

Looking south, we're doing something very similar and helping with regional trade in South Asia with our SARI/Energy Project. And working with the international financial institutions, and particularly the four countries of the region, we're building the overlay bed or seeking to build the overlay bed of this electricity bridge which you'll hear much more about tomorrow as well as other electricity issues for the transport of electricity, transmission of electricity from Central Asia to South Asia. We're also

working very hard with Afghanistan in developing trade in Central Asia with Central Asia with Tajikistan, with Uzbekistan, with Turkmenistan as an efficient way to hopefully relatively quickly significantly increase the availability of electricity in Afghanistan.

Just some of the reasons – I like numbers, I'm sorry – some of the reasons that this kind of trade seems so, so attractive to us, let me just note that in Pakistan, new power from independent power providers, private sector independent power providers is being purchased at something like eight cents. Some of them are even higher than that. In India, if I understand correctly, they pay for peaking power at 23 cents, up to 23 cents a kilowatt-hour. In Afghanistan, in the winter, from diesel, they are paying, it costs something in excess of 32 cents a kilowatt-hour to produce electricity. And in Kyrgyz Republic or Tajikistan, they are increasing the prices for electricity with a target of maybe three cents a kilowatt-hour.

So there's lots of margin there to make transmission and trade a profitable venture. Sticking with energy, of course, electricity is one way to export Central Asia's hydro, coal, and gas energy resources. For oil and gas, there have been, there are, more direct ways to export that gas. I think as our colleagues this morning said, particularly the Kazakhstan ambassador. They support a multi-vector approach to export of oil and gas. And that has been U.S. policy and the U.S. approach for many years. We believe that it's important to have, in order to provide security for both suppliers and consumers of oil and gas, it's important to have multiple routes and multiple directions.

And we continue to, as we talk with Kazakhstan about its growing potential to export, we favor solutions that follow that particular tenet, whether they include increased capacity through Russia, pipelines to China or barging across the Caspian or eventually pipelines across the Caspian. When we talk to the Turkmen authorities as part of our dialogue with the new authorities. We were looking at technology and the investment available on the international market. And we're suggesting that they consider the benefits of new outlets whether that be gas pipelines across the Caspian or routes that connect them up to the markets of South Asia.

Our trade and development, the U.S. Trade and Development Agency is assisting with feasibility studies on the potential for trans-Caspian transport options. And those are the kinds of feasibility studies that we're continuing to do across the region. We've done a number of them in the electricity sector, on transmission, for the Kyrgyz Republic with Tajikistan. And we're working with Tajikistan now on the possibility, on feasibility studies to look at generation from Tajikistan's coal facilities.

Communications infrastructure is another major obstacle to integrating the region into the modern economy. And we heard this morning several discussions of telecommunications and, in particular, the need to connect up the booming global markets, particularly in Afghanistan, but across the region with trunk lines. And we had a regional conference in Almaty last April, where we brought all of the countries together to talk about policy and regulatory reform. And we generated a lot of interest in the

potential for linking up the fiber optic networks of each of the countries in the region to be able to connect up to that global market, to reach down to the main trunks in Karachi, across the fiber optic network that's being created in Afghanistan.

We are committed to having a second conference later, well, I guess early next year to look specifically at the potential for a project that would link up the fiber optic networks and reach the interconnect agreements. Again, USDA would be the sponsor of that, but we'd ask the countries involved to give us some basic data on their programs so that we could all share that information and identify the gaps. And we're still in the process of gathering that. And once we have that together, we will move forward to that conference.

We also heard this morning a lot about civil aviation and the benefits of competition and global regulatory approaches and divisions of airports, air traffic control and national airlines and how that can bring real service and greater opportunities to the countries of the region. We're committed also to a similar discussion that we would like to have again in the first half of next year with the countries in the region to look at regional solutions to air traffic control issues to safety issues and to traffic issues. We've mentioned our trade and investment framework agreement. This is a vehicle to have a dialogue on trade policies, on regional integration, on investment opportunities among the five countries and the United States.

In July, we had our Central Asian TIFA. We also had an Afghan TIFA and the Afghan delegation also joined the Central Asian TIFA – the participants in that forum – particularly useful – a half day that we spent with the private sector. And we are committed as we take our work together forward to increasing the private level of participating in these discussions, because the countries in the region are particularly interested, as we've heard, in the potential for private-sector investment.

The next TIFA meeting will be in Central Asia next summer. We're looking to do some workshops in between. Tajikistan is one country that has volunteered to be our hosts. We are still looking to have – and there's another Central Asian country that has also volunteered. We haven't yet sorted out how we will deal with that.

As the secretary said when she announced our integration initiative, the United States is fully committed to helping the Central Asian neighbors integrate themselves into the global economy. Central Asia has a long tradition as a host to some of the world's richest trading centers and trading routes. Today, regional economic trade can once again be a powerful engine with economic growth and opportunity.

For the U.S., let me say that we welcome a focus that this conference is bringing to the opportunity and we continue to be committed to helping Central Asia connect to the dynamic growth it's neighbors are also experiencing. Thank you.

MS. OLCOTT: Thank you so much. Before we turn to the audience, you –

MR. LINN: Thank you. Yeah, let me sort of kick off the question session. First of all, let me thank both Pamela and Robert for joining us, but also I think I personally am extremely gratified and pleased, of course, that the State Department of the U.S. more generally in its approach to Central Asia has made regional integration and regional cooperation and support for those two interrelated goals the prime objective. Because I personally believe, as you may not be surprised to hear, that this is absolutely central for the future of Central Asia. So that is terrific.

And I also have to say that the specific interventions that you are supporting, I think, are all very, very valuable. I have two quick questions. One is on resources. As I'm sure you know, the president of Mongolia is in town just now and will be signing the agreement for Mongolia's access to the MCC which will provide major injection of resources relative to Mongolia's economy and its investment resources. And we heard earlier today that indeed many of these resources, as I understand, will be put into the transport system.

What do you see as the chances that perhaps other countries in the wider Central Asia region that are in principle could access, that they might gain access in the near future, or the foreseeable future let's say? Because that would obviously provide a tremendous underpinning, financial underpinning, to your engagement in the region.

On the other hand, in the absence of the engagement through the MCC, given what I understand, at least, the limitations, serious limitations on the amount of resources that the U.S. finds in its budget to invest, to make available, through its aid program in Central Asia. Do you see the contribution that your committee can make significant relative to what's needed or insignificant to what other partners of Central Asia are actually contributing. I'm thinking especially, of course, the new part, China. That's one question.

The other question is Afghan security. You know, I think the contribution you're making in helping Central Asia to open up and find access to the south is very, very welcome. But there is the issue of Afghan security and you know, reading the newspapers, one may not have accurate impression. But can you share a little bit with us what you see as the potential obstacle to the strategy of opening towards the south. That the – at least the last two, three years apparently rising issues of security in the southern and eastern parts I guess of Afghanistan might create to your strategy and how do you believe you can deal with this, especially if you at the same time do not support access of Central Asia through the alternative southern route which is Iran?

MS. SPRATLEN: Two very, very good questions. First, about resources – well, I just want to, by way of background, say that traditionally, the resources that have been available for technical assistance, not necessarily in the regional integration sense, but just more broadly have been in the Freedom Support Act. So we have construed of our assistance to this and cooperation with Central Asia in terms of the democracy and political and economic reform agenda that the Congress authorized each year in the Freedom Support Act resources.

Of course, that was supplemented by others, but that was a major component. The Freedom Support Act program continues and it is still a very, very important part of what we are helping our friends and partners in Central Asia do, but those resources are, in fact, in decline. We have considerably fewer of FSA dollars now than we have had in the past. And that's why I think – I heard that earlier one of the panelists said that this whole concept, whether we call it regional integration or however we look at it, is going to be extremely resource intensive. And that means that no single government and no single private entity or international financial institution is alone going to be able to do this. It's going to take cooperation to build cooperation, I guess I would say.

And that is that all of these entities are going to need to work together in order to get the kinds of resources that will make it possible to make inroads. Because just in our own country, if we're trying to build roads, sustain bridges, start new networks of communications, start new airline routes – all of these things are incredibly resource intensive. And they take business people and entrepreneurial spirit. They take institutional mechanisms and laws. It's going to be an enormous undertaking all the way around. And, of course, that's what we're engaged in trying to do.

And you specifically mention the Millennium Challenge Corporation and the process of allocating resources there. It's an extremely important and innovative program. It's not just a question of getting resources to the region; it's also a program that requires a reform component. So far, only Kyrgyzstan has qualified at the threshold level; and we're very excited about what's happening now. The specific area is not really going to be regional integration in the brick and mortar sense, but regional integration in the sense of helping to strengthen the judicial sector, which is extremely important for rule making, for building confidence that contracts can have sanctity and that sort of thing.

So the judicial sector does have a role to play. And I think the MCC threshold program can be important in that. But even the threshold program, it takes a long way to get to a compact program and we're really only talking about one country. So I think, while I would love to see it expand, I think realistically speaking, because of what's required on the parts of the countries themselves, we can expect that it will take some time. But it's certainly not something that I would want to leave out. Of course, as I mentioned, I think the public-private aspect of building cooperation is going to have to be important because of the kinds of capital needs that there are going to be for building a regional integration.

With respect to the issue of security, you're absolutely right; this is extremely important. We are seeing, we do see Afghanistan as sort of the hub of the wheel and in order for Afghanistan to play the role we'd like to see it play – and I think that Afghanistan itself would like to play – obviously, the security situation there is going to have to be improved. We are engaged in a coalition effort to try to help Afghanistan stabilize itself, but not just in security terms, but to build the strength of the central

government to help root out the elements of the Taliban that are still there. There are a number of assessments now under way trying to determine where we are.

I was listening to a program last night and heard of ambassador to the U.N. say that he is concerned – and I think we’re all concerned – about Afghanistan; it’s a serious situation. But I think, again, as with the question of resources, this is not just a question for the United States, but a question for all of the partners, not only the regional partners in Central Asia, whom we’re trying to encourage to participate in the effort to stabilize Afghanistan, but NATO and others as well. This is going to be a global effort to try to build Afghan security.

But I have to say that, in spite of our concerns, they don’t deter us from moving forward. And I think the example is the bridge that we talked about earlier. We have every expectation that this bridge will do exactly what we hope, which is facilitate legitimate trade between South and Central Asia. And this is happening and it was built while the concerns about security continued. So we’re working on a couple of fronts. We’re working on the security front, but it doesn’t stop us from working on the regional integration. And we need partners all over the globe and in the region to sustain both the fight to bring resources to this effort and to stabilize Afghanistan in terms of security. So we really need to work on both fronts. I don’t know, Bob, if you want to add anything.

MR. DEUTSCH: Let me just add – I’ll be brief. Yes, but it’s not just a question of government-assistance resources; it’s a question of approaches. I think Central Asia will be successful, more successful, will find the resources to do the infrastructure development, to do the soft development, the capacity development if it adopts the right policies. I think the example, if anything, of that is the financial resources that Kazakhstan is able to now muster because at independence, they adopted a particular set of market-oriented policies that have let them be relatively successful. You can say that they were very blessed in terms of God having stumbled and dumped his bag of goodies, but there are a similar set of goodies in Turkmenistan, for instance, which don’t produce or haven’t produced, over the same time period, the same economic prosperity.

So from our point of view, it’s a set of – what’s important is helping the countries obtain the resources that may be available to the best, to the best effect. With respect to Afghan security, let me just say, not only is it an effort among the alliance and coalition, but it’s comprehensive effort; it’s not just about security. It’s about dealing with security; it’s about improving governance; it’s about extending governance and the reach of the government throughout the country and it’s about providing economic opportunity for the people of Afghanistan. And I think this comprehensive approach to Afghanistan, which the coalition, the alliance has adopted over the last year, we think that we will see the fruits of it. We may already be seeing the fruits of it, even if some of the security incidents have reached out to parts of the country that didn’t seem to have them (go there?).

MS. OLCOTT: Thank you very much. Jim?

Q: Pamela, I would like you and Bob to go back to Iran. My basic question is this; all of these various projects you've described simply don't mention Iran. It's as though it's not on the map. To what extent is this distorting them or to what extent, as one panel mentioned this morning, are there other imperatives driving these projects in different directions? So someone mentioned the building of a railroad from I think it was Kazakhstan through Turkmenistan and Iran. You know, this was always one of my biggest problems; there was a big, white, blank space in the map. And yet, for many in Central Asia, the economics made sense to be using that white space.

MS. SPRATLEN: Well, that's a very sensitive and difficult question, but certainly a fair one, the question about Iran. And the thing I would say is, the United States is, as we think about building our policy and the way we're trying to cooperate in the region, there's some sort of ground rules that we have to use in order to operate. If we're going to build cooperation among all of the countries, we've got to be operating by a set of rules of the road that we all respect. We've got to be certain kinds of actors, not only with respect to our own populations, but also with respect to the region and the globe.

In the case of Iran, there are some very serious concerns about Iran's intentions with respect to its nuclear program. And those concerns have been articulated in Security Council resolutions; and there's concern that Iran is not obeying. In fact, there's evidence that Iran is not obeying them. And so, Iran is the kind of partner that the United States so far and many others, have not been able to trust. So while Iran is a country that, as you point out, geographically as you look at the map is located, borders on a number of the countries that we've been talking about today. But unless and until we're able to work with a country like Iran on the same basis that we can work with other countries, China, that we can work with Russia, that we can work with Turkey and the countries themselves. Until we have a basis for cooperation, we simply won't be in a position to include Iran in any of these kinds of calculus.

So I think that's really the key; Iran has a sort of geopolitical response that it needs to make to the U.N. Security Council and to the international community. And we're really not going to be able to talk about regional cooperation or any other kind of cooperation with Iran as long as they are that kind of actor. So it's really up to Iran, whether it wants to be part of this or not. And so far, based on its behavior in this very, very important realm of security, it has not indicated that it really wants to be a part of this whole agenda.

MS. OLCOTT: If I can throw something in, and then Joe Martin has the next question, I mean. I understand that's the U.S. government approach, but the presentation of it implies that Iran is not a major trading partner of these states. The U.S. policy has not really impacted save in the oil and gas sector in Iran's economic role in the region. In some areas, like Uzbekistan, Iran is a much stronger trading partner than it was three or four years ago, partly because of the failure to develop the kinds of policies that the U.S. is pushing, but have not – but the trade network is not yet in place, so Uzbekistan, seeking to sell its cotton, went out and got the best price they could get, which in this case

is Iran. So it's there in the region and the trade goes on across Iran. It's just not part of our plans, but it doesn't make it not exist.

MS. SPRATLEN: Well, I wasn't suggesting that Iran did not exist. And I wasn't suggesting that the countries of the region, particularly Tajikistan, for example, aren't engaged with Iran that – you know, we just the summit that took place on the 16th of October. A number of heads of state were in Tehran; they were all there. But the question is, what is the policy of the United States with respect to developing its infrastructure in the region. As I said, we can only work with partners who are willing to abide by rules that we consider to be reasonable for international behavior. I mean, again, one of the things I said at the beginning of this was that the countries of Central Asia are sovereign states who will make their choices and decide what they choose, what they wish to do. And clearly, some of them have done that. But if it's a question of what is our policy and what will we support, we will only give our political, economic, and any other support to efforts that really do work toward the long-term benefit of everyone operating by certain rules. And at the moment, that does not include Iran.

MR. DEUTSCH: If I may, Jim, you may remember that when you were looking at Iran at this white space, I was responsible for Iran as the country director. And what I used to say back then was, as we tried to convince – we were already concerned about Iran's nuclear program among other things, but nobody else was. But as we moved forward to try and pressure Iran, I used to say to my colleagues that our biggest assistance in preventing trade and deals and interconnections with Iran was the attitude of the Iranians and the way that they dealt with other countries and counterparts. And I think that's still very true today. You know, there has been, for years, talk about the Iranian-Pakistan-Indian gas pipeline. And there still is a great need for energy in South Asia. And with the economic boom in India, or the economic growth in India, as opposed to 15 years ago, there now probably is money to buy that gas.

But the Iranians are – the Iranians negotiate like nobody else. You never have a deal. You can ask them over and over and over again and you think you have a deal. And as soon as you go back and think you've got a deal, they open it up again. And so, if we're talking about a Central Asia that's interested in developing its economy based on economic principles, based on international investment, based on being connected to the international economy, Iran's not a great partner for that.

Q: Joe Martin – (inaudible). I'm from Central Asia and I have kind of two observations. Maybe I commence and then question. So you're saying that you start to do things in Central Asia to persuade regional cooperation. So every single donor from beginning of '90s went to Central Asia with exactly the same statement. However, now, not much things done.

I remember when I was, in 2002, at that time Treasury Secretary Paul O'Neill to Central Asia. And he exactly told what you just mentioned. I think that if you look to the countries where there's no political will, it's very risky to sacrifice the statement and to try to implement it in a very complicated environment. And many of the countries

already get tired of this type of attempt. Because all of these attempts were unsuccessful because of lack of political will. This is first.

The second about infrastructure and internal investments – now, both U.S. government and international financial institutions accumulated a lot of knowledge about infrastructure, for instance, energy and transport infrastructure in Central Asia. But not much happening. But at the same time, we see China; they come and invest hundreds of millions of dollars in one of our countries and will invest more in others. When we talking in development institution, can we work with China, then the board of respective organization said they cannot work with China. Can you comment?

Will it be possible for U.S. government and for other international financial institutions to work with China on infrastructure development in Central Asia because just to close the eyes and make feeling that China doesn't exist; it's not really practical over there. So this is, they will be there either with IFIs or Western institutions or without. So can you comment what kind of reaction we may be taking from that perspective?

MS. SPRATLEN: First, to the question of political will. Well, clearly this is extremely important, whether we're talking about an internal reform process or whether we're talking about trying to build cooperation. I think I said during my remarks that the whole idea of trying to build something like regional cooperation is an endeavor that is going to take time. We're talking about a process of change that is going to require a different approach – Bob used the word approaches. I think it's important not only internally. You know, these are largely countries that are run now by people who receive their training in a particular political system that was what we come to know as the vertical power, was very, very important. And where one individual or a small set of individuals held a great deal of power. And what their will was was kind of the way.

Slowly over time, at different paces, at different speeds, and in different ways, all of the five countries that I cover and work on each day are thinking through how they want to organize themselves and trying to deal with this question of political will. When all of them face the international community, one of the issues that comes up again and again and again is the issue of corruption. The issue, not only of side payments, that was mentioned by Bob, but also just the way that resources flow or don't flow in order to get things to happen so that a process of reform and transparency can really take place.

Again, as I said, each one of these countries has agency. And to the extent that a reform process permits more transparency, permits institutions to work, I think what we're seeing – and I think Kazakhstan is one of the best examples, not that there isn't a challenge of corruption there as there is. Goodness, there's a challenge of corruption in our country. There are challenges of corruption everywhere. But where there's a political will to solve it, obviously we can make progress. And I think I would want to challenge a bit the idea that very little has been done. I think if you look not only inside of Kazakhstan at what has been done, but what Kazakhstan is starting to do as an actor in the world, in the region, in terms of investing in other countries, a lot has actually been

done. There are reforms in Kyrgyzstan even, a country that's very, very poor. Some things have actually started happening and some things have been done.

The process of trying to cooperate among regions where historically there's been a great deal of mistrust, it's going to take time, it's going to be difficult. But I think this is the importance of doing some of the things that Bob is talking about, to get all of the ministers of trade together at the Trade and Investment Framework Agreement and get them to talk about common challenges that they face is one way of addressing that. And I think there are a number of other efforts. So I think that there's a challenge of political will and there's also a challenge of expectations that everything is going to happen very, very quickly.

I think it's going to take time. There will be forward progress; there will be stumbles; there will be sometimes there will be setbacks. But the long-term trend, which is what I think we need to be looking at, I think is toward more cooperation. Because all of these states fundamentally want to be successful as states. And I think, over time, it will be increasingly clear that to be successful as states, there's going to have to be more cooperation; it's simply there is not going to be the choice to survive in the old way as a state. So the viability of the very state over time, I think, is going to depend more and more on building the kind of linkages and cooperation that we're talking about.

Now, you also asked about the issue of China. Certainly, China – I began my presentation by saying that China is part of an enormous shift the geopolitical balance of power in the world. And certainly these countries of Central Asia who are neighbors of China are feeling that just as much as we in the United States. For a long time, we have been working on a bilateral basis with China about its role in the world. And clearly, one of the things that has worried us as we've looked at the issue of China in Central Asia has been the issue of the amounts of money that have been made available to Central Asian states in the form of low-interest loans.

Sooner or later, these loans will come due. And we don't know how the price will be paid, but there will be a price to be paid. And there it is up to, I think, the leaders of the country to be responsible, to think about the use of these resources, not only for whatever particular project people want to build today, but really for the kind of systems and institutions that these countries are trying to build.

China is an unavoidable force, I think. And what we want to do and I think this is happening in the World Bank; I think it's happening in the U.N.; I think it's happening bilaterally in our dialogue with China – is to talk to them about their role in the world and about how they work on the development, not only of China as a global player, but China working with the various countries of the region bilaterally. And we would like to see a different kind of arrangement with respect to the way some of the practices that we see. But that's a two-way street; it depends on China, but it also depends on the governments themselves. And we will certainly be partners in trying to help make sure that there's as much responsible development all around as we, as possible. Thank you.

MR. DEUTSCH: I just want to take exception to the suggestion that we would ignore China in the region. We won't. We recognize – as Pamela said, we recognize that they are there; we have some concerns about their activities based on the approach; we actually have a periodic, we have a periodic global dialogue with China, but we have a specific, periodic meeting with China to talk about this part of the world, Central Asia.

I think when you talk about an unwillingness to see cooperation between some of the iffy's and China, I don't know that that's correct, but there would be a concern that China doesn't evaluate, either financially, economically, or socially, environmentally, the projects that it undertakes in the same kinds of systems that we see being applied by most of the international financial institutions. And if there's a problem in that level of cooperation, it may be in that system of evaluation.

Q: Kelly Spence, International Crisis Group – I was wondering what sort of negotiations the U.S. government is taking with Central Asian countries to ensure good governance, democratic freedoms and human rights when considering bilateral trade agreements. And secondly, how does the fact that the president no longer has fast-track authority influence these negotiations?

MS. SPRATLEN: Well, perhaps Bob may want to take the part about the fast-track authority, but just on the part about human rights, I'm glad you asked that question. I think across the region, whether we're talking about the Bureau of South and Central Asia or other parts of the State Department, I think we always try to have a balance in our foreign policy. We're interested in moving ahead on regional integration and economic reform; we're interested in the security agenda; but of course, the issue of political reform, democracy, and human rights also is very much at the forefront of what we think about when we're dealing with all of the countries of the region bilaterally.

Just one example – we had Foreign Minister Ednan Karabayev here in Washington last month to kick off what we call a comprehensive dialogue. And as a part of that, we talked about the issue of democracy and human rights. Bob mentioned our dialogue with the Chinese; again, we talked about the issue of democracy and human rights. My boss, Evan Feigenbaum, will be going to Europe to talk to the EU about their new strategy. And a part of that will be democracy and human rights.

In every country, whether we're talking about Uzbekistan and it's upcoming presidential electoral procedure, whether we're talking about Kyrgyzstan and some of the actions that they took last fall that made the international community kind of scratch its head with respect to their printing presses. We challenged them; they opened the press again right away. The issue of human rights and democracy is very much at the forefront of our agenda.

In the case of Turkmenistan, since the death of Saparmurat Niyazov last December, we've sent almost 20 delegations to Turkmenistan to see where it might be possible to cooperate. And we're looking across all of the areas of engagement that the United States talks about. And of course human rights is very much at the forefront of

that. The U.S. Commission for International Religious Freedom was there in Turkmenistan in August; that's a Congressional body. But nonetheless, one of the things that happened, there were some prisoner releases that occurred before that group went to Turkmenistan.

We are seeing President Berdimuhammedov actually begin, we hope, to make good on some of the campaign promises that he made to his people concerning education, concerning access to the Internet, some of the requests that they are making of us for cooperation. This whole topic is very, very much at the center of what we think is important, not only because we just want to talk to them about human rights, but because we believe that the process of political reform, the process of openness, the process of elections that work, citizen participation in the development of the state. All of these things are important to developing and integrating Central Asia, to have a common basis for operating and institutions that actually function in the country. So the issue of human rights and democracy are very, very important in everything that we do, both bilaterally and in terms of the way we think about developing the region as a whole.

MR. DEUTSCH: And we're not negotiating any free trade agreements in the region. We have other kinds of – TIFA is not a free trade agreement; we have other kinds of trade benefits that can accrue to the countries in the region, but they are already established in things that are established in U.S. law that the countries might, in one sense of another, be able to qualify for. And I'm sort of scratching my head because there are the two WTO candidates, Kazakhstan and Tajikistan is also a WTO candidate, though not quite as far along as Kazakhstan. But I don't believe that implementation of WTO accession agreements requires fast-track authority since it is already, they are concessions that are already within the U.S. system of trade concessions in the WTO. But I'm not 100 percent sure of that.

Q: Were you then considering a generalized system of preference agreements?

MR. DEUTSCH: Again, the generalized system of preferences is an established system within the U.S. which the countries in the region do benefit from, can benefit from, and specific treatment of specific articles which may be adjusted is within the U.S. legislation and therefore does not require fast track.

Q: (In Russian) – we go back to the topic of our conference? We know that the main condition is the stability in the region, as you said, the balance of interests of three main players: China, Russia, and the United States. But in the past number of different events took place that have a certain character. For example, in Bishkek there was a concept of an energy club. It is also a conference in Iran and Ashkhabad where Iran managed to push through its placements of armaments in those countries. It is also the conference of Caspian countries that also had an unusual character. Did you think it might disbalance, if you allow me the pun, the balance in the region?

MS. SPRATLEN: I'm not sure I understood the question. I'll just repeat it and tell me if I have understood it correctly. The question has to do with whether – some

things like the energy club or the emphasis on energy will create an asymmetry in foreign policy, and that the balance will not exactly be there I guess for the individual countries of Central Asia, as well as for the larger powers if that is a correct understanding.

Basically, the issue, again, Central Asia suffers so much from a certain kind of stereotyping that takes place in the press. And one of the common themes is that it's all about oil; it's all about gas; and once all of the larger powers sort of sort out their deals with respect to that, we'll be finished with Central Asia. And I think, from the point of view of the United States, certainly, well, and I guess just to sort of underscore this in a way, this past summer there was the Shanghai cooperation organization in Bishkek, Kyrgyzstan. And one of the things that came out of that was a proposal for an energy club. Now, to my knowledge, nothing has occurred that would actually implement –

MS. OLCOTT: Well, actually, there are meetings that are going to be held on that soon.

MS. SPRATLEN: Right, but nothing so far has really happened. I mean, this is some kind of a work in progress; people are thinking about it. I don't know exactly what the outlines of it are, same thing for the summit in Tehran; I still haven't seen a full text of whatever the declaration was. I've seen pieces of it, but not really the whole thing. This whole area can sometimes be very opaque, but I think in terms of the way we see U.S. interests and the balance of U.S. interests, we would like to see energy developed in the context of the market. And that would provide for options and opportunities and a lot of transparency that we don't always see.

But in terms of our overall interests in Central Asia, energy is one, but not the only interest that we have. I think we're pursuing this policy of regional integration because we see the long-term stability of the region, prosperity in the region, viability of the region being tied not just to one sector, not just to one country, not just to one issue, but the whole balance. That's what it's really going to take for the longevity and the success of all of the states in Central Asia.

So in terms of our policy, we are interested in a multidimensional policy that takes into account political and economic institution building and reform, that takes into account the development of energy, but in the context of large economic development and that takes into account the issue of security. We are looking at the whole range of foreign policy issues when we are building our policy and not one single issue. That isn't to say that some other actors in the region don't have energy higher on their agenda than we don't have energy higher on their agenda than we do. And I don't want to suggest that the United States is not interested in it; clearly, we are. Our corporations are interested in participating in the development of the resources, both in oil and gas. But I would say that it's balanced across all of the other interests that we are looking at in Central Asia.

MS. OLCOTT: I'm happy, too. I'm really delighted that you both came this afternoon, that you have such interesting presentations, that you sat through our grillings.

And we really are very grateful that you have done it. Before I bring this to a close, I'd like to invite you all downstairs for some reception – for a reception and some refreshments when we conclude here right on the first floor below us. And I hope you join me in thanking our speakers. (Applause.)

(END)