

# Kazakhstan

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## Introduction

An important means of advancing Kazakhstan's economic and political independence is the development of internal and external transport corridors. The country's relative remoteness from major global transport corridors and its comparative isolation from southern and eastern neighbours (the result of under-developed communications) continue to be important factors limiting factors to the development of full-scale economic and political relations with potential new trading partners.

Central Asia's weak transport sector contributes to the region's economic instability. The issue is not just about oil and gas pipelines but extends also to railway transportation, highway networks, and port terminals.

The implications of these issues extend beyond economics. The continuing political conflicts along regional borders carry geopolitical significance. Historically, all the countries of this region have, at one time or another, been under imperial control from beyond their borders. Because of their vulnerability, these landlocked countries perceive all attempts to use transport communications as geopolitical instruments with deep suspicion. At the same time, smaller countries in the region have to accept the "rules of the game" (in most cases imposed), which in effect links geo-economical interests and geopolitical concerns.

Since the time of Alexander the Great, transcontinental trading routes have played an important role in the development of the Eurasian continent. The Silk Roads provided routes for the movement of goods, the exchange of ideas, the spread of religions, and the movement of armed forces. The Roman, Byzantine, Chinese, Turkic, Mongolian, and Ottoman empires, as well as the

Muslim caliphate, were, in many respects, dependent on the transport arteries of this trade route. Further, the success of these empires relied on their ability to coordinate and govern from a central location, allowing complex trade and economic interaction between cities and provinces. In order to promote successful trade, each country observed strict rules. Infringement on either a trader's safety or his property was met with severe punishment.<sup>1</sup>

In the end, such infringements occurred but with some frequency, causing the decline of trade, which led to the isolation of the entire region. By the sixteenth century improvements in sea transport leveled the playing field for sea trade between Central Asia and Europe and killed East-West land transport.

Countries with access to the sea experienced a boom in trade, while their landlocked neighbors struggled to keep up. Finding themselves cut off once again from trade, these lands developed in isolation. By the nineteenth century, the Central Eurasian region had become a source of geopolitical importance as a strengthened Russian Empire created safe transport and as both China and Russia expanded into Central Asia. It was this at this time that Russia began to be more attracted to the markets of eastern and southern countries such as China, India, and Iran. Europe's dominant geopolitical position with respect to sea routes and especially, most of all Britain's sea power, pushed Russia to search for alternative routes to Asian markets.

Central Asia's fractured nature can be traced to geopolitical shifts in the second half of the nineteenth and the beginning of the twentieth centuries, when European states and Russia created definitive borders that resulted in the creation of such notions as "Central Asia," "Russian Turkestan," "East Turkestan," and "Afghani Turkestan." From this time on, development in the region became inconsistent and uneven.

The above historical review of Central Eurasia helps us appreciate the importance of the current problems facing the region. In the near future,

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<sup>1</sup> Characteristic example: medieval Mongols consistently tried to observe these norms. In XIII century, the formal reason of war between Mongols and the state of Horezmshah's, was destruction of ambassadors and merchants of Chinghiz-khan.

solutions to the challenge of creating efficient international transport corridors will become of the utmost geo-strategic importance for the region as a whole.

### **Advantages of Expanding International Trade in Central Asia**

In light of the many factors surrounding the transport sector in Central Asia, it is certain that the future development of new routes to the north, south, east, and west will be shaped through a process of geopolitical struggle. Ethnic, territorial, religious, and interstate conflicts, as well as feelings of rivalry, mistrust, and fear all stand in the way of effective interaction. At the same time, competition and cooperation are not always regarded in the region as mutually exclusive processes.

The following five Eurasian transport corridors were all established within the framework of the European Economic Commission of the United Nations (EECUN) and the Economic and Social Commission of the United Nations for Asian and Pacific Countries (ESCAPUN), established in Bangkok in June, 2000:

1. from Western Europe to Russia to the Korean peninsula and on to Kazakhstan and China, or to Mongolia and China;
2. from Europe to southern and southeast Asia and on to Turkey and Iran;
3. from Europe to Turkey to Iran to Central Asia and on to China;
4. from Europe to the Caucasus and on to Asia (TRACECA); and
1. from northern Europe and Russia to Central Asia to the Persian Gulf (with an alternative route through Turkey to Iran).<sup>2</sup>

Territorial expansion is not only way a state can strengthen its geopolitical positions. Large empires have gained power through participation in various coalitions and integrated groups or unions. In this process one or two countries can act like locomotives.

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<sup>2</sup>Karibzhanov, Khayrat; Tuleugaliev, Gaziz, *Economic and legal basis of the transit*, Petropavlovsk (Kazakhstan), 2002, p.22.

Initiatives geared toward regional and international cooperation are often dictated by geo-political and geo-economical intentions. For international organizations the goals tend to be regional and international security, mutually advantageous trade, and harmonious economic relations. The involvement of a country in interstate organizations can neutralize some negative geopolitical factors, expand international transport and communication infrastructures, and increase stability and safety.

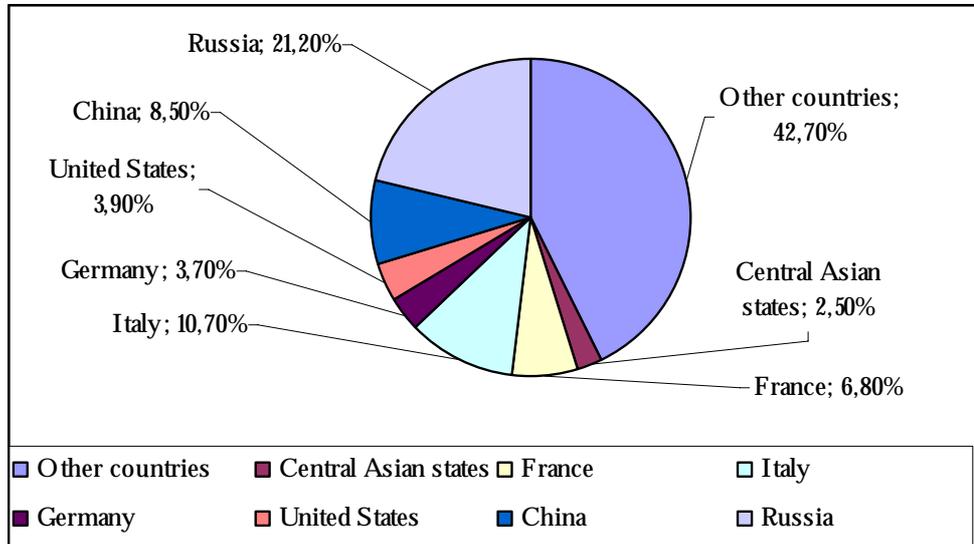
The success of Central Asian integration with the global community depends on the strength and focus of those international organizations involved in the region. Such organizations include, among others, the Eurasian Economic Community, the Shanghai Cooperation Organization, and the Organization of Economic Cooperation. Despite varying levels of participation in these organizations, it is possible to assume that not all these structures will be viable, which may give rise to yet more transnational groupings. Central Asia has always been of geopolitical importance as a trade hub linking Asia with Europe. Yet the integration of Central Asia with the global economy has been slow. Weak transport and communication infrastructures, at both the national and regional levels, have hampered Central Asia's integration with the global economy.

The development of functioning structures for interstate transport is a major task for this region. Central Asia's ability to meet this challenge will shape the region's relative competitiveness, economic attractiveness, and ability to build strong relationships with the international community.

### **Trade between the Republic of Kazakhstan and the Countries of Central Asia from 2000 to 2005**

Trade between Kazakhstan and its Central Asian neighbors is insignificant, a mere 2–2.5 percent of the country's total. These data, however, highlight the potential for greater mutual trade among regional states (Figure 1). Statistics show that trade between Kazakhstan and Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan for the period 2000 to 2005 reached \$3.7 – 5.7 billion, with Kazakh exports to these states at \$2.6 billion and import at \$4.8 billion (Table 2-4).

Figure 1: Ratio of Various States Trade with the Republic of Kazakhstan, January-September, 2005 (In percent)



Source: Customs Control Committee of the Ministry of Finance, Republic of Kazakhstan.

Kazakhstan's trade with its neighbors is as follows: Uzbekistan \$16,7 billion (44.2 percent); Kyrgyzstan \$11 billion (29.7 percent); Tajikistan 5 billion (13.4 percent); and Turkmenistan \$4,8 billion (12.7 percent) See Table 2, Figure 2.

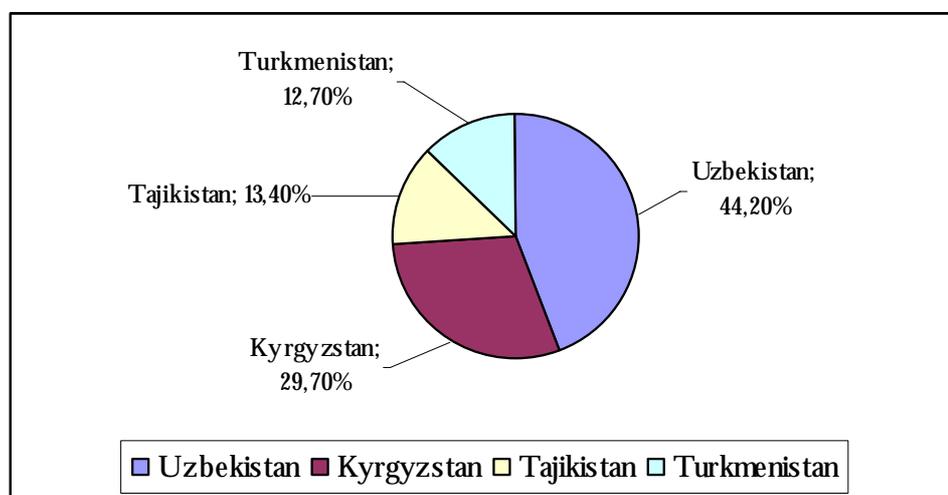
Table 2: Turnover of Goods: Republic of Kazakhstan with Central Asian Countries (In thousands of U.S. dollars)

	2000	2001	2002	2003	2004	2005 *	Total for the period
<b>Kyrgyzstan</b>	900,852	1,195,983	1,395,180	2,050,742	3,132,038	2,511,858	<b>11,186,653</b>
<b>Tajikistan</b>	577,596	635,718	488,207	827,391	1,396,132	1,109,856	<b>5,034,902</b>
<b>Turkmenistan</b>	515,241	915,577	898,351	868,384	1,016,490	543,403	<b>4,757,446</b>
<b>Uzbekistan</b>	2,124,887	2,290,449	1,884,155	2,187,215	4,293,006	3,847,019	<b>16,626,731</b>
<b>Total by year</b>	<b>4,118,576</b>	<b>5,037,727</b>	<b>4,665,893</b>	<b>5,933,732</b>	<b>9,837,666</b>	<b>8,012,136</b>	<b>37,605,732</b>

\*Jan.-Sept., 2005

Source: Statistical Agency of the Republic of Kazakhstan.

Figure 2: Ratio of Central Asian Countries in Foreign Trade with the Republic of Kazakhstan (In percent)



Source: Statistical Agency of the Republic of Kazakhstan.

## Export

The main regional importers of Kazakh products are Uzbekistan and Kyrgyzstan, with export volumes of \$8 billion (39.3 percent) and \$7,9 billion (34.9 percent), respectively. Export levels to Tajikistan and Turkmenistan have reached \$4,76 billion (20.9 percent) and US\$1 billion (4.9 percent), respectively (Table 3 and Figure 3).

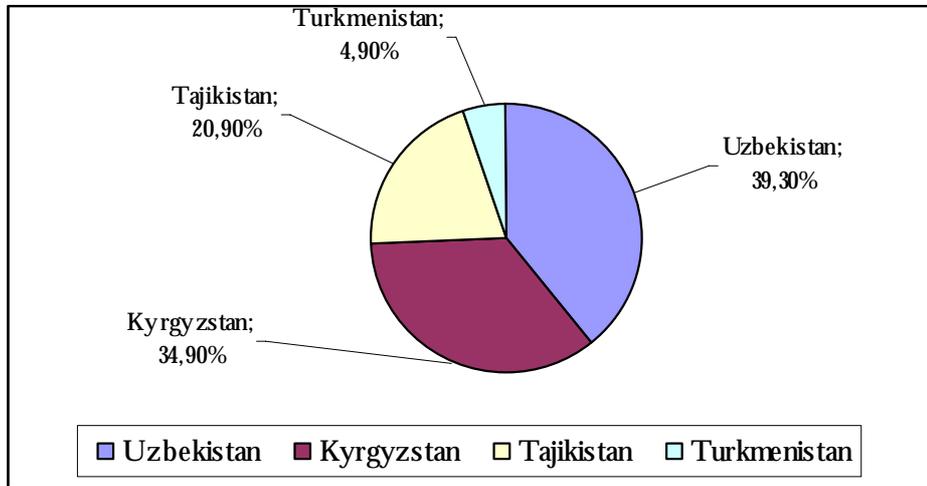
Table 3: Export from Kazakhstan to Central Asian countries  
(In thousands of U.S. dollars)

	2000	2001	2002	2003	2004	2005 *	Total for the period
<b>Kyrgyzstan</b>	584,942	870,534	1,075,832	1,525,492	2,219,646	1,673,632	<b>7,950,078</b>
<b>Tajikistan</b>	522,815	613,253	460,080	755,295	1,361,352	1,046,335	<b>4,759,130</b>
<b>Turkmenistan</b>	74,492	140,807	152,363	369,970	260,912	116,590	<b>1,115,134</b>
<b>Uzbekistan</b>	13,92,331	1,488,410	1,035,475	1,291,061	2,016,924	1,737,970	<b>8,962,171</b>
<b>Total by year</b>	<b>2,574,580</b>	<b>3,113,004</b>	<b>2,723,750</b>	<b>3,941,818</b>	<b>5,858,834</b>	<b>4,574,527</b>	

\*Jan.-Sept., 2005

Source: Statistical Agency of the Republic of Kazakhstan.

*Figure 3: Export Ratio of Central Asian Countries in External Trade with the Republic of Kazakhstan (In percent)*



Source: Statistical Agency of the Republic of Kazakhstan.

## Import

Kazakhstan's neighbors import from Kazakhstan the following: Uzbekistan \$7 billion (51.7percent) Turkmenistan \$3.6 billion (24.6 percent); Kyrgyzstan \$3.2 billion (21.8 percent); Tajikistan \$2.76 billion (1.9 percent); (Table 4 and Figure 4).

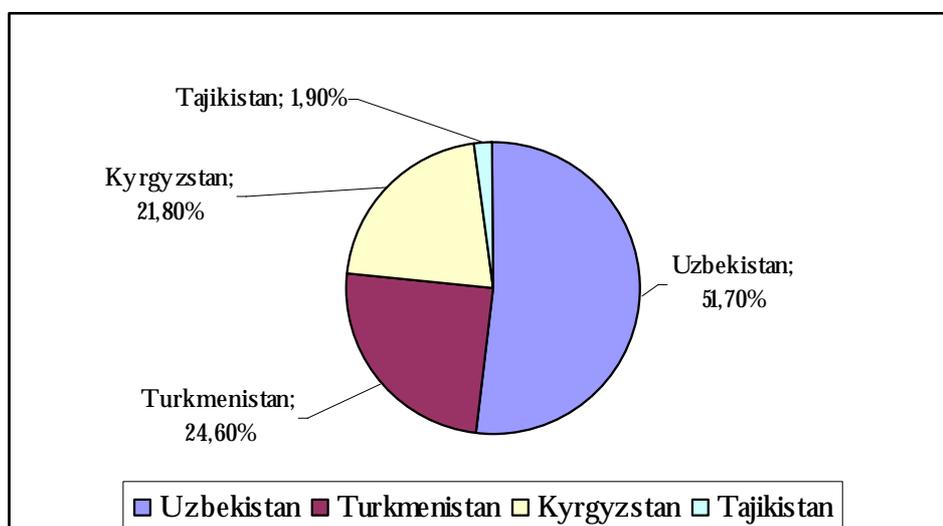
*Table 4: Imports to Kazakhstan from Central Asian Countries  
(In thousands of U.S. dollars)*

	2000	2001	2002	2003	2004	2005 *	Total for the period
<b>Kyrgyzstan</b>	315,910	325,449	319,348	525,250	912,392	838,226	<b>3,236,575</b>
<b>Tajikistan</b>	54,781	22,465	28,127	72,096	34,780	63,521	<b>275,770</b>
<b>Turkmenistan</b>	440,749	774,770	745,988	498,414	755,578	426,813	<b>3,642,312</b>
<b>Uzbekistan</b>	732,556	802,039	848,680	896,154	2,276,082	2,109,049	<b>7,664,560</b>
<b>Total by year</b>	<b>1,543,996</b>	<b>1,924,723</b>	<b>1,942,143</b>	<b>1,991,914</b>	<b>3,978,832</b>	<b>3,437,609</b>	

\*Jan.-Sept., 2005

Source: Sstatistical Agency of the Republic of Kazakhstan.

*Figure 4: Ratio of Imports among Central Asian Countries from Kazakhstan  
(In percent)*



Source: Statistical Agency of the Republic of Kazakhstan.

### **Growth of GDP (2000–2005)**

With the exception of Turkmenistan, the average gross domestic product figures for the countries of Central Asia increased by 7.48 percent between 2000 and 2005. Annual growth rates in 2000 were 6.83 percent and about 6.07 percent for 2005 (Table 5).

*Table 5: GDP (In percent compared with the previous year)*

	2000	2001	2002	2003	2004	2005 *
<b>Kazakhstan</b>	109,8	113,5	109,8	109,3	109,4	109,2
<b>Kyrgyzstan</b>	105,4	105,3	100,0	107,0	107,1	99,4
<b>Tajikistan</b>	108,3	109,6	110,8	111,0	115,0	108,5
<b>Uzbekistan</b>	103,8	104,2	104,0	104,2	107,7	107,2*

\*Jan.-Sept., 2005

Source: Statistical Agency of the Republic of Kazakhstan.

Between 2000 and 2005 Kazakhstan's annual GDP grew by 10.16 percent (9.8 percent in 2000 and 9.2 percent in 2005). The implementation of economic reforms and the active development of small- and medium-size businesses have fostered the development of industry, agriculture, transport, and external trade, among other sectors. By 2004 Kazakhstan's GDP had the following structure: services sector: 39 percent; industry: 33 percent; transport and communication: 13 percent; agriculture: 9 percent; and construction: 6 percent. It should be noted that some international estimates of GDP growth in this same period are lower, reflecting the minimal diversification of production and inefficiencies in bank taxation, and law-enforcement.

Between 2000 and 2005 average Tajikistan's annual GDP growth in Tajikistan reached 10.53 percent (8.3 percent in 2000 and 8.5 percent in 2005). In an effort to counter the effects of economic and social shocks during the earlier civil war, Tajikistan has implemented certain internal stabilizers. The inflation rate has been kept under control, the exchange rate is stable, and poverty has been reduced from 83 percent in 1999 to less than 60 percent in 2005.

From 2000 to September 2005, average GDP growth in Uzbekistan reached 5.18 percent (3.8 percent in 2000 and 7.2 percent in 2005). This traces to developments in agricultural, industry, and the transport and communication sectors. At the same time, growth in general increased through sales in rare metals, gas, and oil. In terms of GDP structure, the ratio of industry and construction was only 16 percent and 7 percent, respectively, and transport and communication made up only 8.5 percent of the total. The majority of Uzbekistan's GDP consists of the service sector (34.5 percent) and agriculture (34.0 percent).

In Kyrgyzstan, average GDP growth reached 4.03 percent (5.4 percent in 2000 and 0.6 percent in 2005). The significant decrease in growth at the end of the period resulted from the political events of 2005 and the absence of a coordinated governmental action program for destabilizing the economy. Kyrgyzstan's GDP structure is as follows: the industrial sector: 25 percent; the construction sector: 4 percent; with transport and communication making up only 1.3 percent. The dominant agricultural and service sectors make up 37 percent and 32.7 percent, respectively.

Down to 2005 there was no significant change in the geographical structure of Central Asia's external trade. Kazakh main trading partners (i.e., China, Italy, and Switzerland,) remained unchanged. The case is similar for Kyrgyzstan, whose trading partners included China, Switzerland, and the United Arab Emirates; for Tajikistan, whose partners include the Netherlands and Turkey; and for Turkmenistan, whose partners include Iran, Italy, Turkey, and the United Arab Emirates.<sup>3</sup>

### **Restrictions on International Trade between Kazakhstan and Other Countries of Central Asia**

Trade between Central Asian states assumes the existence of generally cooperative relations among them, especially in such critical areas as the use of hydroelectric and hydrocarbon resources. However a number of problems specific to the transport sector impede trade and cooperation. Experts point out that inadequate transport and support infrastructure characterize even the most capital-intensive components of Central Asian production. High railroad tariffs especially have limited trade and economic relations. Over the last decade the countries of Central Asia sought to address such obstacles, but the implementation of agreements among them has been slow. For example, an International Transport Consortium that should lead to the creation of a common transport policy for Central Asian states has yet to become operational. Yet programs of individual countries to achieve self-sufficiency in such areas as food have been ineffective. Conditions for growing grain in Uzbekistan are far from ideal and the goal of self-sufficiency in food has not been achieved. The only way to do so would be on a regional basis, which would utilize Kazakhstan's excellent conditions for growing grain.

These trends testify to the complex problems facing increased cooperation among Central Asian states. Other obstacles to cooperation and trade include the different structures of their economies and their very diverse progress towards market systems. This latter difference is most clearly illustrated in GDP per capita, which in Kazakhstan in 2005 reached \$3,620. Other Central Asian states have achieved far lower rates of growth. In some states geographical isolation has had a significant impact on GDP per capita.

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<sup>3</sup>The data of Interstate Statistical Committee of the CIS, 2005.

Tajikistan, for example, where more than 90 percent of the country is mountainous and transport and communications poor, GDP is only \$236 per capita, a regional low.

Kazakhstan's transition to a market economy has succeeded because it adopted reforms that increased the country's competitiveness. By contrast strict controls over internal market in Uzbekistan and administrative and legal pressure on businesses there, have significantly constrained industrial production in that country. The absence of transparency in political and economic decisions making and the closed nature of commerce hamper governmental measures aimed at improving the situation.

The low level of economic cooperation within Central Asia decreases significantly the development of trade. The withdrawal of specific items from free trade (as both Kazakhstan and Uzbekistan have done) has inhibited trade turnover. States have set high customs duties and excise taxes and blocked the export of some goods. As a result, their mutual economic relations are limited mainly to energy supplies and the transit of goods. Both the export and import of industrial goods and food items are insignificant throughout the region. Central Asian nations have considerable potential to lift their mutual commodity turnover to higher levels but have failed to do so.

The level of intra-regional investment is also low. This is particularly evident in Uzbekistan, where some fifty enterprises with Kazakh capital make up only 1.5 percent of the economy. The number of Kazakh enterprises owned in Kyrgyzstan (which fell as a result of the political events in that country in the first half of 2005) and Tajikistan is low. Thus, the potential for trade and economic cooperation among Central Asian countries has yet to be realized, despite a number of intergovernmental agreements in the area

In summary, the following factors are impeding the development of international and transit trade among Central Asian countries:

- Infrastructure needed to support efficient transport has yet to be created. The further expansion of transport routes is necessary, both within national borders and within the region, as are better systems of

telecommunication and information management for interacting with international commodity markets.

- The differential rates at which Central Asian countries are transforming themselves into market economies create serious impediment to trade. Macroeconomic policies are not harmonized, nor have the governments adopted coordinated actions for carrying out economic reforms. Kazakhstan, for example, has made efforts to reform its economy and increase competitiveness; as a result, it became the first CIS state recognized by the European Union and the United States as a market economy. Yet because no other state has followed this path, few of the potential benefits for the region have been realized.
- Uzbekistan's economy is increasingly closed to international trade and foreign investments. International financial institutions have pressed the Uzbek leadership to carry out market reforms and liberalize foreign trade but the government has responded with half-measures that have left the situation no better than before.

Balancing these are such positive factors as the following: the stable growth of the world economy at 3.3 percent per annum; high global demand for Central Asian energy; favorable oil prices that promise to remain above \$45 per barrel; and China's accelerated economic growth and its influence as an international center of development.

In view of these specific factors, the overall prospects for development in the region are positive. Indeed, as early as 2010, it should be possible for all the countries of the region to be considered developed nations (Table 6).

*Table 6: Forecast of Some Parameters of Economic Development of the Central Asian Republics by 2010*

Economic Parameters	GDP Growth, percent within year	GDP, per capita, in U.S. dollars	Population, in millions	Poverty Rate as a percent of Total Population	Export of Manufacturing, per capita, in U.S. dollars
Central Asia as a whole	up to 7	up to 2,000	up to 75	21-23	141

Source: "Overcoming of Crisis: Economic Revival of Central Asia," Policy Studies, Center of Analysis of Public Problems, June, 2005.

Of course, the associated risks must also be assessed before reaching definitive conclusions on the future. Possible risks include the following:

a collapse in oil prices during the period before 2010; a decrease in demand for such key Central Asian exports as cotton, aluminum, and gold; an increase in the number of externally generated issues that could affect the security of the region; destabilization of the internal political situation in one or more of the Central Asian countries; and a failure by one or more regional governments to observe international agreements on economic cooperation.

Central Asian countries have taken some important steps towards creating a free trade regime, including the harmonization of customs, tariff and non-tariff regulations on inter-regional trade, and measures to promote of advancing the free transit of exports and imports.

We recommend that further concrete measures be taken to increase the tempo of market reforms that will create essential commodity markets. In addition, we recommend that the free flow of capital be encouraged, that favorable coordination be created for the development of enterprises, and that the creation of financial-industrial groups receive the highest priority. Further efforts should be made to solidify Kyrgyzstan's membership in the World Trade Organization (WTO) and to hasten the membership of Kazakhstan and Uzbekistan. Customs duties must be further reduced. Finally, normal environmental and ecological standards should be rigorously and equitably applied across the region.

### **The North-South Meridian Transport Corridor**

A core issue at the heart of relations among Central Asian countries and between them all, China, India, and Russia, is the further development of transport routes in Eurasia. In August, 2000, the governments of Russia, India, and Iran decided to develop a strategic transport corridor connecting the countries of the Persian Gulf, India, and Pakistan to Iranian and Russian ports on the Caspian Sea. The proposed corridor would also stretch through Russian water routes, railways, and highways to east and central Europe and to Scandinavia. In total, the corridor would encompass areas of Northern Europe, the Russian Federation, Central Asia, the Caucasus, and the Persian Gulf.

On 12 September, 2000 at the second Eurasian Transport Conference in St. Petersburg, transport authorities of the three countries signed an agreement to proceed with the project.<sup>4</sup> That same month delegations from Russia, India, Iran, and Oman signed corresponding documents. In April 2001 India ratified the agreement on the Transport Corridor; in October 2001 Iran and Oman ratified it; and the Russian Federation followed in February, 2002. Russian Deputy Minister of Transport Smirnov claims that Russia stands to gain between \$8 and \$9 billion annually through freight traffic between Asia and Europe. He asserted that up to \$2 billion could be made from transport along the "North-South" corridor alone.<sup>5</sup>

In April 2003 Kazakhstan joined this North-South corridor agreement, which should increase considerably the amount of transit in and out of the country. Special attention along this route is given to the Kazakh ports of Aktau, Bautino, and Khuryk. Use of the ice-free port of Aktau during winter reduces considerably both the time and transport expenses, increases the capacity of the northern Caspian sections of the route, and enables further development

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<sup>4</sup> Karibzhanov, Khayrat; Tuleugaliev, Gaziz, *Economic and legal basis of the transit*. – Petropavlovsk (Kazakhstan), 2002, p. 322-329.

<sup>5</sup> Interview of deputy minister of foreign affairs of Russia, N. Smirnov, *www.strana.ru*, August 14, 2001.

of transportation in the region.<sup>6</sup> However, if new export-import and freight traffic is to be attracted, these ports must be modernized.

The Kazakh portion of the route will include railways and highways, as well as a sea route through Aktau that will provide an outlet through the Caspian Sea to international sea routes. The volume of cargo traffic through Aktau has increased steadily from 1999 to the present. In 2001-2002 alone the growth was 19 percent. The benefits to Kazakhstan from the development of this route are obvious. Estimates suggest that transportation costs will fall by 15–20 percent. It is expected this East-West route could be up to twice as fast as the existing route, which passes through the Suez Canal.

Kazakhstan has carefully examined all potential merits and demerits of each route before entering into international commitments.<sup>7</sup> The importance of appropriate trade routes to Kazakhstan's overall development cannot be overstated. The scale of these economic and geopolitical benefits to the country was highlighted at a 2003 session of Kazakhstan's Security Council, when it was affirmed that the development of transport is a major component of any strategy to promote Kazakhstan's security and overall national interests.<sup>8</sup> Azerbaijan also hopes that the "North-South" corridor will strengthen its involvement in world trade by targeting a significant part of the freight traffic between the countries of the European Union and Southern Asia.

On 28 August, 2003, a conference organized by the United Nations convened in Almaty, with ministers from landlocked developing countries, emerging transit countries, donors, and representatives from international financial and development institutions. Experts from 75 countries agreed on the so-called "Almaty Action Program," which underscores five basic priorities: (i) policy, (ii) infrastructure, (iii) international trade and measures for its

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<sup>6</sup> Ratification was proposed (official chronicle), *Kazakhstanskaya pravda* (Kazakhstan), June 26, 2003.

<sup>7</sup> Kasenov, Farkhad. The prospects of interaction are widening, *Kazakhstanskaya pravda* (Kazakhstan), June 14, 2003.

<sup>8</sup> Security Council session (official chronicle), *Kazakhstanskaya pravda* (Kazakhstan), October 17, 2003.

simplification, (iv) international technical assistance, and (v) monitoring of the program's implementation.

In Kazakhstan, the share of transport costs for cargo now reaches 50 percent. Marine transport remains the most profitable and effective method of transport, which gives the North-South corridors to the Persian Gulf and Arabian Sea particular importance.<sup>9</sup> Thus Iran requires between 3 and 5 million tons of grain per year which it imports from Australia rather than from nearby Kazakhstan. The reason for this is simple: marine transportation from Australia is cheaper than overland transport from Kazakhstan, which is as high as \$7–10 per ton. Indeed, 15–20 percent of the final price comes from the cost of transportation. The most important transit countries for Kazakhstan at present are Azerbaijan, China, Georgia, Russia, and Ukraine. Kazakh experts believe that it is impossible to achieve improved trade through bilateral agreements alone.<sup>10</sup> According to Mr. Mamin, Kazakhstan's Minister of transport, transport's share in the final cost of production reaches 20 percent, which greatly reduces the competitiveness of the economy.<sup>11</sup>

The North-South corridor in Kazakhstan is already outfitted with the necessary infrastructure. The following railway lines will be part this corridor:

1. Shengeldy (Uzbek border)-Arys-Kyzylorda-Aktobe- Uralsk-(Russian border with an outlet to Samara);
2. Arys-Lugovaya (Kyrgyzstan border)-Chui-Karaganda-Astana-Petropavlovsk-(Russian border with the outlet to Ural and Western Siberian regions); and
3. Chu-Almaty-Aktogai-Semipalatinsk (Russian border with outlet to Altai and central Siberia).

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<sup>9</sup> *Donskikh, Alevtina*. Seven feet under keel, *Kazakhstanskaya pravda* (Kazakhstan), August 28, 2003.

<sup>10</sup> *Ibid.*

<sup>11</sup> Speech of minister of transport and communication of Kazakhstan A. Mamin, *Panorama* (Kazakhstan), October 7, 2005.

In the south there are two junctions with Uzbek railways (Shengeldy station) and Kyrgyzstan (Lugovaya station). In the north, there are eleven junctions with the Russian railway system, some of which do not currently operate. Railway transport coming out of Kazakhstan makes up 85 percent of regional transit (in 2001 this was 5.6 million tons).

The main regional automobile transit routes coincide with the railway routes and are supplemented in western Kazakhstan by the following: from Karakalpakstan (Uzbekistan) through Bozoi-Karabutak with an outlet to the Russian borders (Urals and western Siberia regions); from Turkmenistan through Bekdash, Jana-Uzen-Beineu-Jety-bai with an outlet to European Russia and the Urals. Motor transit across these routes is carried out mostly by Kyrgyz, Russian, and Uzbek operators.<sup>12</sup>

Due to inconsistent economic policies and political disagreements among the countries of Central Asia, many international transport agreements have yet to be implemented there. Due to cooling of intra-regional relations and periodic boundary disputes, the Kazakh Parliament has gone so far as to consider canceling two of its agreements with Uzbekistan.<sup>13</sup>

Experts from the region agree that the large-scale development of transport corridors running from north to south should occur along the following routes:

1. a route through Kyrgyzstan and Tajikistan, assuming that a multi-purpose transport and economic corridor can be developed along the Surkhob Valley through Kyzyl-Su (i.e. the Alay Valley in Kyrgyzstan) with an outlet to Sary-Tash (Tajikistan) and proceeding then to the Chinese city of Kashgar, which in turns provides a route to the Karakorum highway, i.e., an outlet to Pakistan, northern India, and the western regions of China (the Karategin-Alai Transport Corridor).

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<sup>12</sup> Karibzhanov, Khayrat; Tulegaliev, Gaziz, *Economic and legal basis of the transit.* – Petropavlovsk (Kazakhstan), 2002, p. 16-17.

<sup>13</sup> Report by “Khabar” agency (Kazakhstan), October 9, 2003.

2. a route through Uzbekistan, Turkmenistan, and Iran to the Persian Gulf, using the Tedzhen-Serax-Meshkhed (Turkmenistan-Iran) railway line.
3. a route across the territories via Uzbekistan (Tashkent), Tajikistan (Dushanbe), Afghanistan (Barogil pass, at the Afghani and Pakistani border), and Pakistan (to the port of Karachi, or alternatively to the newer port of Gwadar).
4. a route through the territories of Kyrgyzstan (Osh), Uzbekistan (Tashkent), Irkeshtam pass (Chinese and Kyrgyzstani border) to the Karakorum highway in Pakistan.<sup>14</sup>

China, India, Iran, Pakistan, and Russia have also shown interest in developing continental transport routes. However, these countries face some of the same challenges as the Central Asian states. There is a limited number of commodities they might trade; their customs regulations are incompatible with one another; serious political differences prevent cooperation; and security problems are in some cases prohibitively grave, notable on Pakistan's eastern border with India and along its western border with Afghanistan.

Countries to the southeast of Central Asia have repeatedly declared their strategic interest in opening transport links among the states. Yashvang Singh, India's Minister of Foreign Affairs, stated on 17 October 2005 that one of the main components of Indian foreign policy is its intention "to construct a new "Silk Road" which will open a direct connection with the states of the Central Asia." In his view, a new stage of cooperation with the states of Central Asia has already begun for India, providing huge opportunities for trade and economic relations.<sup>15</sup>

China's interests are focused on the Karakorum Highway, one of the largest transport projects in Asia. China has been the financial backer and designer of the project, which began in 1967. The route traverses very complicated

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<sup>14</sup> Grigoriev, Sergey; Zabello, Jakov; Chakeeva Marina, *Motorway of Tashkent - Karachi: New Routes for the Russian exporters // New markets* (Russia), № 4 (August), 2002, p. 14-15.

<sup>15</sup> Report by "Kabar" agency (Kyrgyzstan), October 17, 2003.

terrain, including a narrow mountain corridor. The highway, opened in 1986, connects the Chinese road network directly with Islamabad and the port of Karachi, passing through the disputed territories of Jammu and Kashmir. The Karakorum Highway provides easy access to South Asia. For political reasons neither Kazakh, Russian nor Uzbek transport firms use the alternative route through Dushanbe. Instead they route traffic along a land detour through the Kyrgyz city of Osh and thence to the customs port at Irkeshtan. The Karakorum Highway marks an important step in the restoration of the Silk Road and is a symbol of unity among Central Asian states that is of great strategic importance. The route enables China to engage in effective cooperation with its neighbors, while also providing an alternate to the sea in the case of renewed conflict in Afghanistan.<sup>16</sup> The system of which it is a part runs in two directions: a North–South corridor, that includes western China, Kazakhstan, Pakistan, Russia, and Uzbekistan; and an East–West corridor that includes all of China, Central Asia, and Russia to Europe.

Pakistan has also shown great interest in making the Karakorum Highway fully operational. Though the highway today carries only 20 percent of that country's export-import trade, it is valuable as the only major land link between Pakistan and the external world, affecting Pakistani transit to the north and northeast. Pakistan's new port at Gwadar will greatly enhance the value of the Karakorum Highway and also of all emerging trade routes from Central Asia via Afghanistan.

### **East – West Arteries**

Several east-west corridors connect Europe, the Caucasus, the Middle East, Central Asia, and the Asian Pacific region by networks of roads, railways, pipelines, and sea and air freight. The Euro-Asian Transport and Communication Corridor (EATCC) embraces several such transport routes, including the Eurasian Highway and the Eurasian Land Bridge. The Eurasian Land Bridge includes all transport modes, including pipelines, which are

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<sup>16</sup> Grigoriev, Sergey; Zabello, Jakov; Chakeeva Marina, *Motorway of Tashkent*, p. 16.

lucrative instruments for export both for Central Asian and South Caucasus countries.<sup>17</sup>

The EATCC, based on an agreement signed in Turkmenistan in 1996, coordinates railway activity between Azerbaijan, Georgia, Turkmenistan, and Uzbekistan. The agreement also provides for interrelationships with the Eurasian Highway, the Pan-European Transport Area (PETA), and the transport systems of Southeast and East Asia.

At the third Pan-European transport conference held in Helsinki in 1998, the TRACECA (the Eurasian transport corridor) was adopted as Europe's priority transport system to the East.<sup>18</sup> The TRACECA Program was created in 1993 in an effort to develop a transport corridor between Europe and Asia via the countries of the South Caucasus and Central Asia. Since then, the geography of the TRACECA program has broadened to include Bulgaria, Moldova, Mongolia, Romania, Turkey, and Ukraine.<sup>19</sup>

Kazakhstan has a strategic interest in the TRACECA program, which includes railways, highways, and ports of the Black Sea and Caspian Sea.<sup>20</sup> The European Union, within the framework of the TACIS program, has proposed another regional program, the Interstate Oil and Gas Transport to Europe (INOGATE), which focuses on the rehabilitation of existing oil and gas transport corridors and the construction of new ones. According to Ukrainian experts, TRACECA can compete with traditional sea routes in providing safe, inexpensive and flexible continental transport.

Meanwhile, Russia has responded to this potential competition by increasing the competitiveness of the Tran-Siberian Highway. Efforts have been made to improve train schedules, simplify the declaration of goods, and accelerate the registration of freight ships at borders. In April 1998 a trial container train

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<sup>17</sup> Gegeshidze, Archil, "Once again about the Great Silk Way", *Central Asia and Caucasus*, № 3, 1999, p. 172.

<sup>18</sup> Ibid., p. 174.

<sup>19</sup> Ibid., p. 173.

<sup>20</sup> Tokaev, Kasimzhomart, *Kazakhstan's foreign policy in terms of globalization*, Almaty, 2000, p 292.

using the route between port Vostochny and Brest took 8.5 days, twice as fast as cargo delivered to Europe by sea.<sup>21</sup>

Some experts relate TRACECA with the GUAM, the organization of Georgia, Ukraine, Azerbaijan and Moldova. Supported by the United States, GUAM calls for the expansion of ties with NATO's "Partnership for Peace" and for the development of a Europe-Caucasus transport corridor.

Despite strong support from Washington, however, GUAM does not have the capacity or even the strong intention to support large projects. Hence, GUAM should not be considered as part of the EU's TRACECA project, a position the United States is in agreement.<sup>22</sup>

Since the GUAM summit in July, 2003, in Yalta, there has been a decline in interest in the organization.<sup>23</sup> Ukraine has strengthened cooperation with its Eurasian neighbors Belarus, Kazakhstan, and Russia. In September, 2003, during the summit in Ukraine, the leaders of the Commonwealth for Independent States signed an agreement to create yet another new organization for regional integration. Since 2001, Uzbekistan has been a member of SOC and, in January, 2006, joined the EAEC, an organization actively supported by Russia.

The development of new transport corridors began in 1990 with the restructuring of the railroad line across the Kazakh-Chinese border and has been expanded thereafter.<sup>24</sup> During this same period, the Tedzhen-Serakhs-Meshed railroad was constructed between Turkmenistan and Iran with freight traffic beginning after 1996. According to Iranian experts, this rail link is expected to increase capacity by up to 8 million tons of cargo and one million passengers annually.<sup>25</sup>

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<sup>21</sup> Preiger, David; Malyarchuk Irina; Novikova, Alla, "Economic interests of GUUAM in labyrinths of the Great Silk way", *Central Asia and Caucasus*, № 3, 2001, p. 18-20.

<sup>22</sup> Gorovoi, Valeriy; Omelyanchik, Natalya, "GUUAM: Problems and Perspectives"// *Central Asia and Caucasus*, № 3, 2001, p. 82-83.

<sup>23</sup> Gamova, Svetlana. Not all flags are guests of GUUAM, *Nezavisimaya gazeta*, July 4, 2003.

<sup>24</sup> Isingarín, Nigmatzhan, *Problem of integration into the CIS*, Almaty, 1998, p. 57.

<sup>25</sup> Abdullayeva, Tamila, "State and prospects for development of transport highways in Central Asia", *Central Asia and Caucasus*, № 3, 2001, p. 173-174.

With the opening of these new railway lines the development of two trans-continental highways will have been completed. In addition to the Trans-Siberian Highway, the following routes have been launched:

- The Eurasian trunk railroad connecting Belarus, China, Kazakhstan, Southeast Asia, Russia, Ukraine, and Western Europe, and the northern corridor Trans-Asian railroad line; and
- The Trans-Asian Highway connecting Beijing, Almaty, Chardzhou, Istanbul, Tashkent, and Tehran, and the southern corridor Trans-Asian railroad line.<sup>26</sup>

Routes going south are as yet in a primitive state but represent potential for Russian and Chinese cargo, and for the export of goods from the Central Asian countries. The outlet to the Persian Gulf through the southern corridor via the Trans-Asian railway, under the coordinated policy of Central Asian states, could become highly profitable, as could the outlet to the Arabian Sea at Gwadar in Pakistan.

At the same time there are some serious drawbacks to the routes headed in both directions. Due to topographical and climatic conditions, transport costs along them will always remain high. Other possible routes might also be considered, but these will have to fit the political as well as the geographical landscape.

### **New Pipeline Projects**

The expansion of pipelines is a key element in transport infrastructure in Central Eurasia. Kazakhstan, as well as others Caspian countries, has deftly tested the political conditions for such an expansion. At the annual KIOGE-2003 exhibition (Oil and Gas, 2003), Kaigeldy Kabyldin, Executive Director of the Kazakh oil and gas company KazMunaiGaz called a proposed pipeline to China a number one priority, and called also for a plan to connect Kazakhstan to the Baku-Tbilisi-Ceyhan (BTC) project.<sup>27</sup> Washington has

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<sup>26</sup> Tokaev, Kasimzhomart, *Kazakhstan's foreign policy in terms of globalization*, Almaty, 2000, p. 139.

<sup>27</sup> Donskih, Alevtina. Extraction curve that peaks, *Kazakhstanskaya Pravda* (Kazakhstan), October, 10, 2003.

also insisted on this. During a 2006 visit, A. S. Bodman, the U.S. Secretary of Energy, expressed strong interest in the export of Kazakh oil through BTC.<sup>28</sup>

Not all Kazakh experts share this point of view. Some believe that the link to BTC has too many economic drawbacks that other projects lack. Some object to a Caspian pipeline on environmental grounds.<sup>29</sup> Meanwhile Russia is keen to prevent “outside players” from becoming involved in Caspian affairs. Victor Kalyuzhny, Special Representative to the Russian president regarding the status of the Caspian Sea, has stated that Russia opposes a Kazakhstan-Azerbaijan pipeline that does not involve third parties, and also opposes Ukraine’s proposed Odessa-Brody project as an oil “pipeline to nowhere.”<sup>30</sup>

Russia sees such pipeline projects of others as important to its own security. Hence its participation is needed to assume stable relations among countries in the region. Moscow would not only interfere with the pipeline projects coming through its territory, but would also actively engage in its own alternative pipeline projects near the Caspian Sea.

Another important project is the completion of the Western Kazakhstan-China pipeline. The pipeline will serve the growing needs of China, which now uses over 70 million tons of oil per year and by 2010 will need to buy 130 million tons annually. The first section of this pipeline, Atyrau-Kenkiyak in the northwest of Kazakhstan, is already operational. Financing for the construction of the second section, Atasu-Alashankou (China), which covers a distance of about 1,300 km, was undertaken by China. Construction of the pipeline on the Atasu-Alashankou segment was completed in December 2005. The initial capacity of the project is 20 million tons of oil per year but the designed capacity is up to 50 million tons.<sup>31</sup> The first barrels of oil are expected to be transported over this pipeline during 2006.

Between 2000 and 2003 China and Russia negotiated a pipeline that will run from the Siberian city of Angarsk to the Chinese city of Datsin. Delays on a

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<sup>28</sup> Report by “Kazakhstan-today” Agency, March 15, 2006.

<sup>29</sup> See *Perspective routes for transportation of Kazakh oil*, Oil-and-gas resources of Kazakhstan in the system of global and regional relations, Almaty, 2002, p. 134-137.

<sup>30</sup> Donskikh, Alevtina. Not united by oil. *Kazakhstanskaya Pravda*, October 10, 2003.

<sup>31</sup> *Ibid.*

decision from the Russian side pushed Beijing to begin construction of the pipeline in Kazakhstan. Meanwhile, trade in power resources between China on the one hand and Kazakhstan and Russia on the other hand has increased annually through the use of the railway network.

According to the managing director of KazMunaiGas, the new pipeline will be used by CNPC to transport 8 million tons of oil a year from western Kazakhstan. Added to this will be oil deposits from the south of the country developed by the Russian firm LUKOIL and PetroKazakhstan (10–12 million tons one year). In 2005 these assets were bought by the Chinese CNPC. Such tonnage will be sufficient to make the pipeline profitable. In the long term, production can grow to 50 million tons per year.<sup>32</sup>

It is important to state that Kazakhstan sees all the single-buyer markets as entailing high risk. It is, therefore, attempting to work out conditions that will insure stable pricing.

The third potentially important direction for Kazakh oil exports is to the south via the Caspian Sea. The majority of Kazakh experts consider this direction to be very promising both from the economic and geopolitical standpoints. At meetings held in Tehran in 2003, the ministers of transport for Kazakhstan and Iran addressed the issue of increasing Kazakh oil exports through Iran. In view of the potential growth of hydrocarbon production in Kazakhstan, Tehran has declared its readiness to allow up to 120 thousand barrels of oil per day to be exported through its borders. Iranians argue that the potential of Iran as an export route will become evident as soon as Kazakhstan begins the commercial development of hydrocarbons from the shelf of the Caspian Sea. By the end of 2006 it will be possible to pump up to 40 million tons of oil annually to world markets via Iran, and a significant part of this could be delivered from Kazakhstan.

Based on this forecast, officials in Tehran have developed a staged scheme for receiving and exporting "big" Kazakh oil. Iran began modernizing and expanding its processing capacities in Tehran and Tabriz oil refineries, which in 2000 could already handle 400 thousand barrels per day. The

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<sup>32</sup> Skorniakova, Anna, "Nazarbayev is pushing Moscow out of Chinese pipeline", *Nezavisimaya gazeta*, October 14, 2003.

National Iranian Oil Company (NIOC), the State Oil Company of China (CNPC), Hong Kong Sinopec Group, and Swiss Vitol have started construction of a new bulk-oil terminal and bulk-oil ramp in the Neka port. Additional pumping stations have been created in order to increase the capacity of the oil pipeline Neka-Tehran-Tabriz to up to 370 thousand barrels per day. By 2006, production is expected to grow to 540 thousand barrels per day.

By creating the necessary transport infrastructure, Tehran will be in the position to increase oil processing at its refineries. Tehran plans to increase oil imports from Kazakhstan and Russia from four to five-fold. Currently, Kazakhstan delivers up to 20 thousand barrels per day to northern Iran but a swapping process will greatly increase this figure.<sup>33</sup>

Iran's influence on the transport of energy resources vividly attests to the geopolitical basis of the problem. The main constraint on the further development of trade in energy resources between the Central Asian countries and Iran is the position of Washington vis-à-vis Iran.

## Conclusion

The development and implementation of international projects such as TRACECA, EATKK, the North-South route, ASEM, and country associations such as GUAM, EAEC, the Organization of Economic Cooperation (OEC), are all dependent on the successful implementation of transport agreements that, strengthen cooperation in trade.

In many respects, these diverse organizations reflect the wide spectrum of economic and geopolitical interests affecting the newly independent states of the region. An important factor is the geo-economical attractiveness of the region to the highly industrialized countries, with their large markets and vast export-import potential. For North-South transport, the centers of attraction are India, Iran, Pakistan, Russia, and the countries of Northern Europe. For East-West transport arteries, these centers include the European Union, Eastern Europe, Turkey, Southeast Asia, China, Japan, and South

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<sup>33</sup> Lukyanchikov, Victor, "Expectation of a lot of oil", *Novoe pokolenie* (Kazakhstan), September 26, 2003.

Korea. The development of North-South and East-West corridors are not mutually exclusive and are in many ways complimentary. The combination and crossing of the two will benefit all transit countries and improve regional economic prospects overall.

The expansion of trade and economic relations among the states of Central Asia must be continued. This should be accomplished by creating functioning free trade zones; facilitating cooperation in business and investment; implementing coordinated customs systems, tax and tariff policies; harmonizing monetary, credit, and currency relations; and coordinating relevant national legislation.

In order to move free trade area forward among the states of Central Asia, the following steps must be undertaken:

- remove customs taxes and duties, as well as other restrictions to mutual trade;
- harmonize customs legislation, and also tariff and non-tariff mechanisms for the regulation of trade; and
- generally, to accept and observe the core principles of free trade.

Central Asian countries need to pursue harmonized macroeconomic policies and work to coordinate their individual economic reforms. Kazakh experts believe concrete measures are needed in order to create conditions for common commodity and service markets. Priority should be given to strengthening cooperation in the financial sector, providing for the free movement of capital, creating favorable conditions for business development, co-production arrangements, and financial and industrial groups. The development of the main transport corridors will improve cooperation among Central Asian states and create common markets for power, transport services and agricultural products.

The International Transport Consortium should help define measures for developing railway and road routes, the transit potential of the Central Asian states, and civil engineering principles for transport. Coordinated principles for customs, tax, and tariff policies are needed. In particular, countries must adhere to signed contracts and agreements (including those within the framework of EAEC) that will simplify customs registration and control

over internal borders, enable the free transport of cargo between these countries and transit through their territories, and implement the principle of “two borders-one stop.” In the field of tax policy, a system of flexible taxation for transport enterprises among Central Asian countries is badly needed.

Special attention should be given to measures to align internal and international railroad tariffs. Differences in tariffs complicate the development of interstate transportation and raise the cost of transport. In the long term, the Central Asian States must develop a united tariff policy and take measures to unify and harmonize transport legislation and laws.

The implementation of a Transport Consortium would facilitate the expansion of transport and trade, and economic relations among Central Asian states and between them and their major trading partners. It will promote the modernization of transport infrastructures and the development of related industries, a rise in employment rate in the regions along transport corridors, and, in the long term, help create a joint transport space.

Thus, the creation of a functioning free trade zone is a critical step toward the long-term goal of a common commodity and services market. Such a market would promote the stable development of the Central Asian states and their successful integration into the world community, as well as increase standards of living and promote stability and security in the region. As Asia and the Pacific region assume the role of the world’s main economic center, strong relations between the countries of Europe and East Asia will become increasingly important, and Central Asia can serve as the geographical and transport link between them.

Achieving the 2025 targets of “creating a global zone and joint development that will facilitate the free movement of goods and services” should be a main focus of policy across the region. A Seoul Asia-Europe summit in 2000 called for liberalization of trade through the expansion of water, railway, highway, and air transport between Asia and Europe. The post-Soviet countries should play a big role in the creation of connecting bridges between the economically influential regions of Eurasia. Some of the countries of Central Asia are expected to join the CIS as well as the WTO. This will affect development of transport infrastructure in a positive way, as these

countries adopt world standards for the passage of goods and services across borders.