

Trans-Eurasian Transportation Networks and the Opportunities and Challenges of Economic Integration within Wider Eurasia: Role of Kazakhstan

Richard Weitz*

One of Kazakhstan's primary goals has been to promote deeper economic, diplomatic, and social ties in Central Asia. Kazakh officials and analysts believe that regional economic integration will help Kazakhstan and its neighbors diversify their economies, enhance their competitiveness, and achieve deeper integration into the world economy. With its strong economic development and commitment to regional economic integration, Kazakh leaders seek to drive integration of regional transportation networks among Eurasian states. In turn, they anticipate that greater transport integration will enhance regional trade, investment, and prosperity. Access to multiple viable transportation routes would provide strategic benefits not only for Kazakhstan, enhancing its national autonomy, but also for other countries, by promoting geopolitical pluralism in the former Soviet space. However, transportation development in Eurasia has been impeded by unresolved disputes over borders, trade, visas, illegal migration, and natural resources such as water and gas, exacerbated by the current economic slowdown and proliferation of sanctions. In order for Kazakhstan to realize its goal, it must work with regional and global partners – especially those in Central Asia and the South Caucasus – to accelerate progress on critical transportation projects.



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Introduction

Kazakhs officials and analysts believe that regional economic integration will help Kazakhstan and its neighbors diversify their economies, enhance their competitiveness, and achieve deeper integration into the world economy.

A primary goal of Kazakhstan, the largest landlocked country in the world, has been to promote deeper economic, diplomatic, and social ties in Eurasia. Kazakhs officials and analysts believe that regional economic integration will help Kazakhstan and its neighbors diversify their economies, enhance their competitiveness, and achieve deeper integration into the world economy. They also argue that Eurasian countries will benefit from increased levels of mutual trade and investment. Notably, this will increase their appeal to foreign investors and enhance their collective bargaining leverage with external actors. Furthermore, greater regional integration would allow Kazakhstan and its neighbors to manage their natural resources more effectively, strengthen their comparative economic advantages, improve regional communications networks, entice more international tourism, and develop their pivotal location as a natural transit route for east-west and north-south commercial and energy links.

Since Kazakhstan gained independence in 1991, President Nursultan Nazarbayev and other Kazakh officials have been calling for a union of Central Asian states; this union could entail the sharing of water and energy resources, improvements to regional transportation infrastructure, the establishment of common customs and trading tariffs, mechanisms for collective responses to environmental threats and natural disasters, and support for region-wide tourist infrastructure. In February 2005, Nazarbayev argued that a failure of the Central Asian states to deepen their economic integration would invariably leave them too weak to resist falling under the control of yet another extra-regional power: “We have a choice between remaining an eternal supplier of raw materials for the world economy and waiting patiently for the arrival of the next imperial master or pursuing genuine economic integration of the Central Asian region. I propose the latter.”¹ According to Nazarbayev, his country must become a nexus of international commerce: “Kazakhstan needs to revive its historical role and become the largest transit hub in the Central Asian region and bring Europe and Asia closer.”² In 2007, he called for a Eurasian transport corridor that would eventually “connect the

1 Official website of the President of the Republic of Kazakhstan (2005) *Address of the President of the Republic of Kazakhstan, Nursultan Nazarbayev, to the People of Kazakhstan, February 18, 2005*. Available at: <http://www.kazakhembus.com/echo13.html> (Accessed: 27 May 2016).

2 Kazinform (2012) *Kazakh President OKs New Silk Road Project*. Available at: <http://www.inform.kz/eng/article/2465718> (Accessed: 27 May 2016).

Persian Gulf on one end and the Baltic Sea on the other” through “the creation of a high-tech system that includes railroads, highways, power transmission lines, gas, and oil pipelines.”³ More recently, Foreign Minister Erlan Idrissov observed that, “Central Asia is one of the least integrated regions in the world. And the region is the biggest land locked one. To be prosperous, we need to act as bridges and build bridges. Through connectivity, the region will be land-linked, rather than land-locked.”⁴

To achieve these integration goals, Kazakhstan has sought to leverage its strong economic development since 1998, its pivotal location between Europe and Asia, and the common economic interests of potential partners. In particular, Kazakhstan’s leading political and economic figures believe that if they can become a driver of the development of regional transportation networks among Eurasian nations on multiple levels, with priority given to improving regional networks, reducing customs and other bureaucratic barriers to trade, encouraging tourism and other nongovernmental exchanges, strengthening labor mobility regulations in Eurasia, and promoting Kazakhstan’s private investment in other Eurasian economies, especially through joint ventures. Kazakhstan’s transportation system consists of roads, railways, aviation, and water transport. Since the country is land-locked, cars, trucks, and especially trains are utilized most extensively. Western experts concur that, “[As a] potential gateway to the Caspian Sea and on to Europe, Kazakhstan’s future economic growth depends heavily on transport infrastructure and regional trade.”⁵ For this reason, Kazakhstan has proposed transportation development projects to foreign donors, including individual countries as well as international financial institutions like the Asian Development Bank, the International Monetary Fund, the Islamic Development Bank, the World Bank, and now China’s new Asian Infrastructure Investment Bank.⁶ Kazakhstan joined the World Trade Organization (WTO) in late 2015, after some

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3 Radio Free Europe/Radio Liberty (2007) *Central Asia: Kazakh, Russian Leaders Discuss Transport Corridor*; Available at: <http://www.rferl.org/featuresarticle/2007/10/4482ab28-5ab9-4756-8386-48471d684d3f.html> (Accessed: 27 May 2016).

4 Idrissov, Erlan (2014) ‘Expanding Economic Connectivity in Central Asia.’ *Greater Remarks, Asia Society, New York, September 23, 2014*. Available at: <http://www.kazakhstanunsc.com/wp-content/uploads/2014/02/Remarks-by-H.E.-Mr.-Erlan-Idrissov-Foreign-Minister-of-Kazakhstan.pdf> (Accessed: 27 May 2016).

5 Rund, Daniel (2015) *Kazakhstan: The Buckle In One Belt One Road*. Available at: <http://www.forbes.com/sites/danielrunde/2015/06/29/kazakhstan-buckle-one-belt-one-road/> (Accessed: 27 May 2016).

6 Sputnik (2016) *Kazakhstan Ratifies Asian Infrastructure Investment Bank Deal*. Available at: <http://sputniknews.com/business/20160114/1033101963/kazakhstan-aiib.html#ixzz49oIDh3mf> (Accessed: 27 May 2016).

20 years of negotiations, in order to promote regional integration and strengthen its global economic competitiveness. However, for Kazakhstan to achieve many of the potential gains associated with WTO accession, it must strengthen both its transportation connections with world markets and its Eurasian integration.

While working with the Russian Federation and Western countries to promote integration and build transportation networks, Kazakhstan's transportation aspirations over the past decade

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have been focused on the People's Republic of China (PRC). A beneficial dynamic has arisen whereby increasing Chinese-Kazakh economic ties have provided an incentive for the construction of better transportation infrastructure. This, in turn, has helped expand mutual trade and investment. The two countries have developed border posts, energy pipelines, roads, railways and even a shared port complex on China's Pacific coast. These achievements have converted the informal shuttle trade that emerged in the 1980s between China and its new Central Asian neighbor into a robust east-west transportation node that rivals the north-south networks Kazakhstan inherited following the breakup of the Soviet Union.

The Chinese government has provided much of the financing for these arteries, since PRC planners want to increase China's economic engagement with these regions, especially in regard to importing Central Asian oil and gas.

The challenge

In order to become more reliable and efficient, Kazakhstan's transportation system needs repairs, new infrastructure, and updated technology. While China is improving its transportation links with Central Asia, significantly more progress is needed in this area to achieve the levels of bilateral commerce sought in both Astana and Beijing. China's existing and proposed near-term foreign land connections between China and Eurasia still involve only a small share of China's foreign commerce, which will likely remain dominated by containerized maritime cargo through the Pacific. In addition to the underdeveloped economic infrastructure connecting the two countries, other impediments to expanded commercial exchanges include visa policies, special regulations on Chinese consumer products, certain corrupt commercial practices in both countries, the Chinese economic slowdown, and the continuing fighting in Afghanistan, which could cause instability to spread to neighboring regions.

Meanwhile, transportation cooperation among the former Soviet republics has been impeded by unresolved disputes over borders, trade, visas, illegal migration, and natural resources such as water and gas. As a result of its Soviet legacy, many of Kazakhstan's imports and exports travel via Russia's roads, railroads, and highways. Consequently, the former Soviet states regularly enjoy closer economic ties with external actors (through bilateral and multilateral mechanisms) than with each other. Extra-regional powers like Russia, China, and the EU are often still the leading drivers of trans-Eurasian transportation networks, but they often work at cross purposes since their projects are not well integrated. For example, European countries are eager to import more gas from the Caspian Basin. According to the US Energy Information Administration, the proven reserves in the region (Azerbaijan, Iran, Kazakhstan, Russia's Caspian Triangle, Turkmenistan and Uzbekistan) stand at more than 8 trillion cubic meters. While gas agreements have already been signed with Azerbaijan, the highest hopes for gas imports rest with Turkmenistan and, given the right political circumstances, Iran. The prospects for imports from Kazakhstan are more distant. The country has large natural gas resources, but poor infrastructure facilities and Russian opposition has made it difficult for Kazakhstan to become an important gas supplier for Europe.

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Kazakhstan's lack of direct access to the world's oceans makes it dependent on foreign export routes – and vulnerable to adverse regional geopolitical developments. In addition to the Caspian Basin rivalries discussed in previous issues of this journal, the recent tensions between Russia and the West have negatively affected Kazakhstan's access to international transportation. On January 1 of this year, the Russian government instituted a new requirement that all Ukrainian cargo shipments to Kazakhstan - a top trading partner of Kiev - must travel through Belarus before entering Russia. The move was Moscow's response to the entry into force of Ukraine's free-trade and political Association Agreement with the European Union. Russian officials worried that Ukraine would become a re-export platform for European goods that Moscow has banned as retaliation for the EU sanctions on Russia (implemented following its annexation of Crimea and other encroachments against Ukrainian sovereignty). Russian officials also extended the food import ban to cover Ukraine and suspended the free trade agreement between Ukraine and the Commonwealth of Independent States (CIS), arguing that Ukraine could not have preferential access to both the CIS and

the EU.⁷

For Astana, the Russian decision poses a threat to Kazakhstan's ties with one of its top trading partners. Kazakhstan buys enough vehicles, food, and other goods to position Ukraine as one of its five highest sources of imports in recent years, after Russia, China, and a few other states. In response, Ukraine and Kazakhstan are working to expand deliveries by rail, road, and ferry through Azerbaijan and Georgia.⁸ The Trans-Caspian International Transport Route connects major ports on the Black and Caspian seas: Ilyichevsk (Ukraine), Batumi (Georgia), Alyat (Azerbaijan) and Aktau (Kazakhstan). On January 14, Kazakhstan, Ukraine, Georgia and Azerbaijan signed a protocol establishing competitive preferential tariffs for container traffic.⁹ That same month, a test cargo train followed the Ukraine-Georgia-Azerbaijan-Kazakhstan-China route and crossed from the Aktau port via the new Zhezkazgan-Beineu-Saksaulskaya-Dostyk railway line. The

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same pattern seems to be replicating itself in relations with Turkey. Due to Ankara's tensions and mutual sanctions with Russia, the development of the Trans-Caspian International Transport Route (TCITR) China-Kazakhstan-Turkey-Europe has been accelerated. The volume of Turkish goods entering Kazakhstan's Aktau port has soared, with the quantity passing through the port in the first two months of 2016 close to the overall volume of goods that had entered Aktau over the whole of 2015.¹⁰

These developments demonstrate the ways in which having multiple viable transportation routes provides strategic benefits not only for Kazakhstan, by enhancing its national autonomy, but also for other countries, by promoting geopolitical pluralism in the former Soviet space.¹¹ However, the southern routes that bypass Russia are challenging and expensive. Transporters must move goods across multiple borders and ferry them to cross the

7 Putz, Catherine (2016) *Trade between Kazakhstan and Ukraine just got more difficult*. Available at: <http://thediplomat.com/2016/01/trade-between-kazakhstan-and-ukraine-just-got-more-difficult/> *Kazakh President OKs New Silk Road Project*. Available at: <http://www.inform.kz/eng/article/2465718> (Accessed: 27 May 2016).

8 'RFE/RL (2016) *Ukraine To Ship Good To Kazakhstan, Bypassing Russia*. Available at: <http://www.rferl.org/content/ukraine-goods-kazakhstan-bypassing-russia/27486101.html> (Accessed: 27 May 2016).

9 Rutz, Julia (2016) *First Test Train Passes the Trans-Caspian International Transport Route*. Available at: <http://astanatimes.com/2016/02/first-test-train-passes-the-trans-caspian-international-transport-route/> (Accessed: 27 May 2016).

10 Turebekova, Aiman (2016) *Transport Officials Discuss Trans-Caspian Int'l Route at Eurasia Rail 2016 Conference*. Available at: <http://astanatimes.com/2016/03/transport-officials-discuss-trans-caspian-intl-route-at-eurasia-rail-2016-conference/> (Accessed: 27 May 2016).

11 *Ibid*.

Caspian Sea.¹² For this reason, Kazakhstan also remains open to developing transportation routes through Russian territory.¹³ At the May 2016 Astana Economic Forum, Vice Economic Minister Timur Zhaksylykov supported efforts to harmonize China's 'One Belt One Road' initiative with the policies of the Moscow-led Eurasian Economic Union, of which Kazakhstan is a member.¹⁴

Within Eurasia, most economists believe interstate commerce remains considerably below optimal levels, with bilateral and multilateral relationships characterized by widespread 'under trading' due to poor policy choices, excessive customs duties, weak regional economic infrastructure, and the absence of a comprehensive free trade zone or common membership in the WTO. The lack of uniform trade and tariff conditions results in wasted time and resources when goods and people move across national borders, making transit times and import and export times much higher than those along other routes or in more developed countries. In fact, transportation costs make up 8 percent of the price of goods in Kazakhstan that are transported by land and railway, and 11 percent for goods transported by automobile, compared to 4 to 4.5 percent in industrialized countries.¹⁵ Moreover, poor infrastructure and storage capacity impedes even simple agricultural trade in fresh fruits and vegetables. Much of the existing infrastructure is oriented in a north-south direction due to the legacy of the integrated but autarchic Soviet economic model. Furthermore, Central Asian countries are concerned that economic integration could weaken their newly found political independence, national identity, and economic autonomy, opening the way to foreign domination. If Central Asia can overcome its obstacles to greater integration, the region could collectively offer outside investors a potential market of 80 million people, the size of Germany's population. Before making major investments, however, foreign stakeholders would like to see Central Asian countries develop their specific areas of comparative advantage, rather than compete to sell the same products.

12 Zuenko, I. (2016), *Is Russia Losing Its Logistics Edge?* Available at: <http://carnegie.ru/commentary/2016/05/10/is-russia-losing-its-logistics-edge/iy5b> (Accessed: 27 May 2016)

13 Shirinov, Rashid (2016) *Azerbaijan, Kazakhstan, Georgia seeks to boost Trans-Caspian Int'l Route*. Available at: <http://www.azernews.az/business/96716.html> (Accessed: 27 May 2016).

14 Xinhua (2016) *One Belt One Road' to bring new opportunities to silk road countries*. Available at: http://news.xinhuanet.com/english/2016-05/26/c_135388409.htm (Accessed: 27 May 2016).

15 Rana, K. (2016) 'Transportation in Kazakhstan and its Economic Implications,' *International Journal of Business and Applied Social Science*, 2(1), pp. 11-20. Available at: <http://ijbassnet.com/storage/app/publications/56bc0d6dd902a11455164781.pdf> (Accessed: 27 May 2016)

The opportunity

The government has embarked on an ambitious program to embed Kazakhstan within a network of integrated infrastructure, transit, logistics, and harmonized customs and cross-border procedures.

The government has embarked on an ambitious program to embed Kazakhstan within a network of integrated infrastructure, transit, logistics, and harmonized customs and cross-border procedures. Kazakhstan's 'Strategy-2050,' launched in late 2014, envisages acquiring the transportation and other critical infrastructure necessary to double freight and passenger transit from Europe to Asia through Kazakhstan by 2020, and multiply it tenfold by 2050.¹⁶ In addition, the government is striving to attract advanced technologies and modern management practices into priority economic sectors, which include transportation. For example, the Kazakhstan-New Silk Road project and other government initiatives are aimed at encouraging investment in the programs needed to make Kazakhstan a key transportation and business hub in Central Asia, as well as a pivotal transit link to attract a portion of the \$600 billion worth of cargo transit between Europe and Asia.¹⁷ Transport infrastructure is a critical element of economic growth and, subsequently, for attracting foreign investments.¹⁸ In a message to the November 2013 'Kazakhstan–New Silk Road' Forum, Nazarbayev stated that "the transport sector is key in the leverage of economic prosperity, not only for our country, but for Central Asia as a whole."¹⁹ At the same forum, Kazakhstan's Prime Minister argued that Eurasian countries must collaborate to enhance their mutual transportation capabilities and prosperity: "We believe it is important to employ multilateral principles in order to consolidate all stakeholders in the Eurasian transport and logistics system and to develop effective solutions while building highly competitive transcontinental transport corridors."²⁰

The Kazakh government has supported various regional and extra-regional integration initiatives, many aimed at developing east-west transportation routes to supplement the north-south

16 Kazakhstan 2015: Our Power (2014) *Text of state-of-the-nation address delivered by President of the Republic of Kazakhstan on Nov 30, 2015*. Available at: http://strategy2050.kz/en/page/message_text20142/ (Accessed: 27 May 2016).

17 *Ibid.*

18 Pradhan, R., Norman, N., Badir, Y., Samadhan, B. (2013) 'Transport Infrastructure, Foreign Direct Investment and Economic Growth Interactions in India: The ARDL Bounds Testing Approach' *Social and Behavioral Sciences* 104, pp. 914 – 921 Available at: <http://www.sciencedirect.com/science/article/pii/S1877042813045771>

19 Rutz, J. (2013). *Kazakhstan New Silk Road Forum brings together leading transport and logistics companies*. Available at: <http://www.astanatimes.com/2013/11/kazakhstan-new-silk-road-forum-brings-together-leading-transport-logistics-companies/>. (Accessed: 27 May 2016).

20 *Ibid.*

linkages inherited from the Soviet period. The goal here is to avoid relying on any single client or transit route (such as those through Russia). For example, Afghanistan, Azerbaijan, China, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, and Uzbekistan, as well as the Asian Development Bank, the European Bank for Reconstruction and Development, the International Monetary Fund, the Islamic Development Bank, the United Nations Development Program, and the World Bank, have pooled their resources through the Central Asia Regional Economic Cooperation (CAREC) Program. This informal grouping of ten countries and six multilateral institutions has funded more than 100 projects worth more than \$21 billion focused on promoting energy, transportation, and trade facilitation in Central Asia. CAREC's Transport and Trade Facilitation Strategy expects significant infrastructure investments to improve the flow of goods along six main transnational corridors – including both road and rail links – that connect all of Eurasia. Current government priorities for building regional transportation capacity include the East Gate program supporting the Khorgos International Cross-border Cooperation Center bordering China, the Khorgos Free Economic Zone, and the Western Gate expansion of the Aktau seaport. The priority road projects are: China-Western Europe; Astana-Almaty; Astana- Ust-Kamenogorsk; Stana-Atone-Atyrau; Almay- Ust-Kamenogorsk; Karaganda-Jezkazgan-Kysylorda; and Atyrau-Astrakhan.²¹ For these reasons, the World Bank has supported Kazakhstan's efforts to improve the road networks within the country during the last few years. In 2009, the organization lent Kazakhstan \$2.125 billion for the Kazakhstan South-West Roads Project to help upgrade the trade routes linking Kazakhstan with China, Russia, and Western Europe.²²

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These projects could provide a boon for Kazakhstan's economy by making the country the indispensable linchpin in transcontinental Eurasian trade. According to the government, there has been a surge of containers moving from China through Kazakhstan to Europe: 6,000 in 2013, 48,000 in 2015, and a forecast of 95,000 for 2016.²³ In addition, a study of economic impact of the

21 Embassy of the Republic of Kazakhstan (2014) *Nurly Zhol - The Path To The Future*, 11 November 2014. Available at: <http://www.kazakhembus.com/content/nurly-zhol-path-future>. (Accessed: 27 May 2016).

22 The World Bank (2009) *World Bank Supports Improved Transport Efficiency and Safety in Kazakhstan*. Available at: <http://www.worldbank.org/en/news/press-release/2009/04/27/world-bank-supports-improved-transport-efficiency-safety-kazakhstan> (Accessed: 27 May 2016).

23 Radio Free Europe/Radio Liberty (2016) *Kazakh Leader Says Economy Hit By Russian, Chinese*

road building projects connecting Khorgos with other parts of Kazakhstan calculated a 68 percent higher real GDP for Kazakhstan by 2020. By 2030, the project benefits will generate a real GDP almost three times higher than it is today. Transportation and trading sectors real output could grow between 77 and 79 percent by 2020, and more than triple by 2030. Plus, trade would be stimulated, increasing exports and imports by 32 percent and 33 percent, respectively, by 2020, and 63 percent and 64 percent by 2030. These benefits would have a dramatic spill-over effect for other countries in the region. Completing the road corridor alone would raise the combined GDP of the Central Asian countries by 43 percent in 2020, and 153 percent by 2030. Nearby transportation players Russia and China would also see considerable gains.²⁴

In the South Caucasus, Kazakhstan has joined Azerbaijan, Georgia, and Turkey to implement the joint Silk Wind Project, which aims to construct a high-speed multimodal container transportation system for freight shipments between Europe, the Caucasus, and Asia.

In the South Caucasus, Kazakhstan has joined Azerbaijan, Georgia, and Turkey to implement the joint Silk Wind Project, which aims to construct a high-speed multimodal container transportation system for freight shipments between Europe, the Caucasus, and Asia. According to the Ministry of Transport and Communications, the participating countries plan to introduce a single tariff for the transportation of goods within the project as well as share more preliminary information between their customs authorities and rail operators.²⁵ The Kazakh government plans to significantly increase the amount of oil shipped through Azerbaijan, especially after further development of sea ports and sea route transportation. During the first meeting of the heads of the customs services of Turkic states in Azerbaijan in October 2012, participants discussed ways to simplify customs procedures.²⁶ In November 2012, a Kazakh government delegation met with Georgia's Finance Minister Nodar Khaduri and Energy Minister Kakha Kaladze to discuss energy, transportation, and other economic issues.²⁷ In late

Woes. Available at: <http://www.rferl.org/content/kazakh-leader-says-economy-hit-by-russian-recession-chinese-slowdown/27586490.html> (Accessed: 27 May 2016).

24 Norojono, O., Roland-Holst, D., and Sugiyarto, G. (2014) 'Macroeconomic Effects of Road Corridor Investment in Kazakhstan: General Equilibrium Perspective', *Transportation Research Record*, 2162, p. 90-97. Available at: <http://bearecon.com/portfolio-data/kaz-corridor/kaz-corridor-report.pdf> (Accessed: 27 May 2016).

25 Kosolapova, E. (2012) *Azerbaijan, Georgia, Kazakhstan, Turkey sign memorandum on transport project*, November 28, 2012. Available at: <http://en.trend.az/capital/business/2093259.html> (Accessed: 27 May 2016).

26 Georgia Times (2012) *Azerbaijan, Kazakhstan, Georgia and Turkey introduce a single tariff for railway transportation* Available at: <http://www.georgiatimes.info/en/news/83388.html> (Accessed: 27 May 2016).

27 Kirtzhalia, N. (2012) *Georgia, Kazakhstan to discuss energy and transport cooperation.* Available at: <http://en.trend.az/regions/scaucasus/georgia/2089091.html> (Accessed: 27 May 2016).

November 2013, Kazakhstan, Azerbaijan, Georgia, and Turkey signed a memorandum to introduce a single tariff and simplify customs clearance procedures by sharing data between rail and customs bodies.²⁸ The main task for the Silk Wind project so far has been to complete the construction and modernization of the Baku-Tbilisi-Kars (BTK) railway line. The BTK will be the first Caucasian railway not under Russian domination since Russian rail construction began there in the late 1800s. The BTK will not lack customers, as China has expressed interest in shipping consignments along it. Azerbaijan, Georgia, and Turkey stand to benefit greatly from the railway.

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Though long-term proposals to construct pipelines under the Caspian Sea remain under consideration, the legal and environmental impediments have led Kazakh policy makers to focus on developing the Kazakhstan Caspian Transport System (KCTS). Through this system, vessels load crude both on ferries and tankers at Aktau to transport the oil across the Caspian to Azerbaijan, where the crude is transferred into the BTC pipeline. The long-term objective remains the construction of undersea pipelines that would send Kazakh oil and gas directly to Europe. However, the realization of this goal requires an agreement among the five littoral states over the rules for such projects, along with other favorable developments, such as enhanced Iranian integration into global markets.

Kazakhstan would like to export more goods southward through Iran to Persian Gulf ports. With the nuclear deal and the end of many of the international sanctions, Kazakhstan has launched a number of new commercial transport ventures, rail and maritime, with Iran that include other Eurasian partners.²⁹ For example, on 1 March 2016, Kazakhstan, Iran, Azerbaijan, Georgia and Turkmenistan considered proposals to establish a single logistics firm and unify their tariffs and customs procedures to accelerate mutual trade.³⁰ In May 2016, Kazakhstan and Iran agreed to establish a joint shipping company.³¹ The Vice

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28 Kosolapova, E. (2012) *Azerbaijan, Kazakhstan, Georgia and Turkey to introduce single tariff for transportation of good by rail*. Available at: <http://en.trend.az/regions/scaucasus/georgia/2089091.html> (Accessed: 27 May 2016).

29 ABC (2016) *Azerbaijan, Kazakhstan, Iran, Georgia and Turkmenistan agree on direct talks on cargo transit optimization*. Available at: http://abc.az/eng/news_01_03_2016_94559.html (Accessed: 27 May 2016).

30 Hasanov, Huseyn (2016), *Details of Caspian region's transport corridors mullied in Turkmenistan*. Available at: <http://en.trend.az/casia/turkmenistan/2501194.html> (Accessed: 27 May 2016).

31 PressTV (2016) *Iran, Kazakhstan to build joint shipping company* Available at: <http://www.prestv.com>

President of Kazakhstan's main national railway corporation, Kanat Alpysbayev, believes that, with unimpeded passage, favorable tariffs, and faster trains, the China-Kazakhstan-Turkmenistan-Iran transnational railway could transport 700,000 containers each year by 2020.³² However, Iran remains something of a wild card due to uncertainty about the durability of its political leadership and residual tensions with many states. Whereas more than 1200 cargo trains annually now use the 'northern route' from China to Europe through Kazakhstan, Russia and Belarus, only about 50 trains are expected to go from China to Iran each year.³³

Another wild card that could derail Kazakhstan's transport agenda is the war in Afghanistan and other Eurasian conflicts. Kazakhs worry that the Afghan War could bring civil strife, organized crime, and additional problems to Kazakhstan and other Central Asian countries. Kazakhstan is implementing multiple aid projects in Afghanistan, of which several are aimed at improving Afghanistan's transportation, to enhance its integration into regional economic processes. For example, Kazakhstan has been promoting Afghanistan's inclusion in regional trade, investment, and infrastructure projects. Afghanistan is well-positioned to benefit from increased commerce between Europe and Asia, but only if rail, road, and pipeline construction extends throughout its territory as well as those of its neighbors. Kazakhstan stands to benefit from the integration of Afghanistan in several ways: its neighborhood would be significantly more stable; the flow of insurgents and illegal goods from Afghanistan might be impeded; and Kazakhstan would gain a new market for export of energy and other goods. To date, five of the Central Asian states have participated in development programs in Afghanistan, but only Kazakhstan has supplied some of its own funds.

At home, the Kazakh authorities in 2016 allocated \$4.2 billion to develop domestic transportation nodes that could improve its international competitiveness. In addition to funding rail and road improvements, the new funds will be used to expand the Aktau International Sea Port on the Caspian, and to build another Caspian ferry complex at the Kuryk sea port.³⁴ Kazakhstan is also

com/Detail/2016/04/12/460344/Iran-Kazakhstan-shipping-firm/ (Accessed: 27 May 2016).

32 Zhumabayeva, K (2016). Over 700,000 Containers per Year to Travel China-Kazakhstan-Turkmenistan-Iran Railway by 2020. Available at: <http://astanatimes.com/2016/05/over-700000-containers-per-year-to-travel-china-kazakhstan-turkmenistan-iran-railway-by-2020/> (Accessed: 27 May 2016).

33 Farchy, J. (2016) *New Silk Road will transport laptops and frozen chicken*. Available at: <http://www.ft.com/intl/cms/s/2/e9d35df0-0bd8-11e6-9456-444ab5211a2f.html#axzz49j3QGS3T> (Accessed: 27 May 2016)

34 Syzdykbayev, A. (2016) *Kazakhstan Allocates Additional \$4.2 Billion to Develop Transport Infrastructure*. Available at: <http://astanatimes.com/2016/03/kazakhstan-allocates-additional-4-2-billion->

constructing two ‘shortcut’ railways connections between Aktau and the Chinese border.³⁵ They have also been seeking to make better use of their private sector to pursue national development goals such as regional transportation. In order to promote public-private partnership (PPP) projects, the government has been refining the PPP Law since 2013, when it was first enacted. The law introduced the concept of the government partnering with private business in financing, construction, and maintenance of infrastructure.³⁶ US private investors and business owners have benefited from the Business Connection Program, organized by USAID, and which has worked to connect private business owners in the United States with those in Kazakhstan to develop small enterprises in this country.³⁷ The program has already seen \$13 million in business transactions, and this number is projected to increase over the next few years.³⁸

Recommendations

Kazakhstan must continue to implement its declared reform program. As stated above, this program aims to render the country more attractive to foreign investment by raising the quality of its human capital, reducing corruption and red tape, and making it easier for domestic as well as foreign entrepreneurs to do business in Kazakhstan. As Nazarbayev acknowledged on March 2, the economic slowdowns in China and Russia as well as low world commodity prices will make it hard for Kazakhstan to secure much foreign trade and investment capital.³⁹ During her May 24 speech at Nazarbayev University in Astana, Christine Lagarde, Managing Director of the IMF, wisely told her audience that they should consider these problems as an

As Nazarbayev acknowledged on March 2, the economic slowdowns in China and Russia as well as low world commodity prices will make it hard for Kazakhstan to secure much foreign trade and investment capital.

to-develop-transport-infrastructure/ (Accessed: 27 May 2016).

35 Zuenko, I. (2016), *Is Russia Losing Its Logistics Edge?* Available at: <http://carnegie.ru/commentary/2016/05/10/is-russia-losing-its-logistics-edge/iy5b> (Accessed: 27 May 2016).

36 American Chamber of Commerce in Kazakhstan (2014) Shaimerden Chikanayev, ‘Attracting Private Investment To Develop Kazakhstan’s Infrastructure: A Lawyer’s Perspective,’ Available at: http://www.gratanet.com/up_files/investors%20voice.pdf?utm_source=Mondaq&utm_medium=syndication&utm_campaign=inter-article-link (Accessed: 27 May 2016).

37 Volunteers for Economic Growth Alliance, *Kazakhstan Business Connection Program* Available at: <http://vegaalliance.org/our-programs/business-connections-project/> (Accessed: 27 May 2016).

38 John Harris and Nils Bergeson (2015) ‘In Kazakhstan, Business Partnerships with U.S. Firms Prove Profitable,’ *US AID From the People*, March/April 2015. <https://www.usaid.gov/news-information/frontlines/foreign-aid-impact/kazakhstan-business-partnerships-us> (Accessed: 27 May 2016).

39 RFERL (2016) *Kazakh Leader Says Economy Hit By Russian, Chinese Woes*. Available at: <http://www.rferl.org/content/kazakh-leader-says-economy-hit-by-russian-recession-chinese-slowdown/27586490.html> (Accessed: 27 May 2016).

opportunity to move Kazakhstan and its neighbors onto a better development path:

... the economies in your region would benefit from opening up. Intra-regional trade in Central Asia stands at less than 6 percent of total trade, the lowest share in Asia. At the same time, Kazakhstan is a very large country with a relatively small domestic market and high costs of doing business.

Some would say that Central Asia faces a predicament because it is landlocked. I would say it is blessed with systemic and dynamic neighbors on all sides: China and Russia on one side, Europe, India and South Asia on the other.

So, if the region is to become the main artery of the “One Road, One Belt” initiative, it needs to deepen integration both internally and globally. ...

This means modern, efficient and low cost transportation and logistics services. It also means an environment where new investment can thrive and that is open for everyone – entrepreneurs, foreign investors, and women.⁴⁰

The US government and private US corporations are more averse than their Chinese and Russian counterparts to funding large-scale, high-profile transportation infrastructure projects. It was precisely due to the lack of US financing that the US-promoted New Silk Road failed to make much progress beyond the roads built in Kazakhstan itself.⁴¹ But US firms will invest in a country where they can operate profitably and without much corruption or harassment by the local authorities.

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However, Kazakhstan cannot achieve its goals without a more favorable regional environment, so Astana will need to work with its Eurasian partners on a number of issues. The decline in energy export revenue flowing into many of these states makes it even more important to develop transportation and integration strategies that have pragmatic goals, realistic timelines, and adequate funding. International donors to such projects should establish improved coordination mechanisms that include more regular

40 Lagarde, C. (2016) *Kazakhstan – Embracing the Next Transformation*. Available at: <http://www.imf.org/external/np/speeches/2016/052416.htm> (Accessed: 27 May 2016).

41 Mankoff, J. (2016), *How Washington Learned to Stop Worrying and Love Eurasian Integration*. Available at: www.ponarseurasia.org/memo/us-views-moscow-and-beijings-eurasian-ambitions (Accessed: 27 May 2016).

consultations, expanded information exchanges, and common criteria and conditionalities based on international best practices designed to improve collective management and monitoring. In addition, they should work with national authorities and regional institutions to promote ‘open government’ initiatives to expand access to public sector information (statistics, planning documents, draft regulations, etc.) for local experts, media, and the general public and provide independent technical experts with access to data and decision makers to monitor sectoral reforms. They could also encourage widespread adoption of the ‘single window’ principle for exporters and importers, promote greater use of electronic declarations for automated clearance of goods, further integrate customs and tax procedures, and accelerate procedures for processing construction permits, and stimulate use of innovative construction technologies and materials. There are estimates that various government subsidies cover half the cost of the land rail transport of goods from China to Europe.⁴² While these subsidies have stimulated the use of these routes, at some point the nations involved should think about how to secure greater private financing for transcontinental commercial transit. Finally, in addition to pursuing the opportunities made available through China’s new Asian Infrastructure Investment Bank, Kazakhstan needs to work with China and other members of the Shanghai Cooperation Organization to engage that institution, which still lacks a clear economic mission or robust economic resources, in order to mobilize multinational support behind Eurasian transportation and other infrastructure projects.

⁴² Farchy, *New Silk Road will transport laptops and frozen chicken*.