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Silk Road Economic Belt: Together towards Better Future

SUN LI

The initiative of the *Silk Road Economic Belt* made by President Xi Jinping in September 2013 has gained a lot of attention and interest from the governments, business community and academics both in China and beyond due to its scope and content, targets and perspective. This is, in fact, a novel concept of development when China has entered a new phase and the world is experiencing the next wave of regionalization.

For the three decades of its development, China has passed the primary stage when the growth has been stimulated through the accumulation of foreign currency and attraction of foreign investment. Now, as a fully open economy, China needs its business to enter the global markets and participate more actively in the global competition.

However, this new wave of regionalization is, in fact, contrary to the global trend of globalization. China's neighbors are excellent examples of this. The countries of Southeast Asia are united in a close economic union. China's participation is limited to the free trade area in the formats of ASEAN+China and ASEAN+China +Japan+Korea. New Zealand, Brunei and Singapore initiateda a strategic partnership that, due to the membership of the United States, was transformed into the Trans-Pacific Partnership (TPP). The TPP membership, since then, has been expanding considerably. In Eurasia, Moscow initiated the Customs Union of Russia, Belarus, and Kazakhstan that, after the election of Vladimir Putin in 2012, has grown rapidly into the Eurasian Economic Union. The European integration, namely the EU, which after joining of Croatia in 2013, constitutes of the twenty-eight members, is the most apparent example of this trend.

This is the context, China started to adjust its policy towards more openness in order to strengthen the mechanisms for multilateral regional cooperation. In the Asia-Pacific, the focus is on the free trade zone of China, Korea and Japan. In Eurasia, the major direction is the *Silk Road Economic Belt* aimed at considerable increase of regional economic cooperation.

The *Silk Road Economic Belt* stipulates not only for the joint participation and mutual benefit but for the action plan to achieve this benefit. The major elements of the action plan are infrastructure development, expansion of trade, industrial cooperation, closer economic ties; all these are based on agreement on regional economic cooperation. This is the logic of the purely economic component of the *Economic Belt* project.

Moreover, mutual understanding is also needed in many other areas such as culture, religion, history, etc. Apparently, these were the grounds for China to articulate the need for cooperation in the field of politics, and to stress the interconnectedness, liberalization of trade, use of national currencies and mutual understanding among the peoples as significant areas for consideration.

The *Silk Road Economic Belt* opens more opportunities for cooperation for the parties concerned. China and Russia, as the two key powers in the Asia-European region, shall play the crucial role. First of all, the comprehensive strategic partnership between China and Russia is a fundamental factor for the success of the *Silk Road Economic Belt.* The both states are interested in closer economic ties. Chinese *Silk Road Economic Belt* initiative opens up new opportunities for cooperation as it is aimed at the development of infrastructure, trade and industrial cooperation.

In fact, the project suggests a new model for regional cooperation that is about the combination of *Silk Road and Economic Belt*. This model is very adequate for the contradictory global tendencies of simultaneous globalization and regionalization when economic relations among countries are growing and their interdependence is increasing significantly.

The crisis, on the other hand, impacted all countries making the issues of protection against economic risks even more relevant and forcing the governments to take protectionist measures in international trade.

The *Silk Road Economic Belt* connects the fast-growing economy of Asia-Pacific and the technologically advanced Europe through the resources-abundant countries of Central and West Asia. The latter is the region of rapidly growing trade and investment. The *Silk Road Economic Belt* shall be able to remove the existing barriers, create more favorable conditions for multilateral cooperation that ultimately will be beneficial for all participants. China and Russia, as major powers in the region, may be able to make joint efforts to contribute to development of the region.

Moreover, China and Russia are implementing a number of infrastructure projects, namely the Transcontinental Railway connecting directly Asia with Europe. Russia is interested in the railway project. The Silk Road should proceed from China to Moscow through Kazakhstan and then go towards Minsk and St. Petersburg. Theoretically, it may go through the other Russian cities such as Kazan and Orenburg. These, obviously, stimulate Russia's willingness to participate into the project. Deputy Minister of Transport Nedosekov, speaking at the International Forum on Construction of the Western Europe-Western China Transport Cordor, noted that transcontinental transport projects are aimed at the revival of the Silk Road. Russia intends to allocate to the project up to 80 billion rubles.

Russia's participation could help to attract huge investments that would benefit other sectors and industries similar to the impact the Trans-Siberian and Chinese Eastern Railway made in their time. The Russian cities of Omsk, Novosibirsk, Krasnoyarsk, Irkutsk shall become the main beneficiaries from the project as the infrastructure in these cities will be improved as well as the other industries such as finance, logistics, trade, industrial production, even education and health care.

Finally, the implementation of the project may result into transformation of the cities, which are located along the route, into free trade areas.

The Sino-Russian cooperation in the *Silk Road Economic Belt* framework is very significant for the region of Central Asia. In particular, the parties would be able to find a common ground between the Silk Road and the Eurasian Economic Union. Currently, the EEU is being consolidated in Central Asia. To realize fully its potential, this multilateral structure needs time. In the meantime, there are some problematic issues: for example the exporters from Kazakhstan are experiencing some difficulties in accessing the Russian market. At the same time, Kazakhstan business faces serious competition from Russia. We believe, the *Silk Road Economic Belt* and the EEU could complement each other by providing assistance to the countries in the region in such areas as finance, project implementation and customs.

In the long-term perspective, it is clear that cooperation within the *Silk Road Economic Belt* is hugely beneficial for China, Russia and the Central Asian countries in terms of the positive economic impact that may be made via enhanced cooperation in infrastructure, commerce, and industry. The success, however, is dependent on the ability of the participants to reject the outdated geopolitical stereotypes.

As for Central Asia, the countries of the thei region are currently entering into a new stage of their development with new risks and challenges. It requires stimulating of the economic growth through attraction of foreign investment. At the same time, it is vital for the Central Asian countries to maintain a certain balance between the major powers. The Central Asian countries are set to maximize their gains from cooperation with China and Russia. The economic projects by China are not contrary to the national interests of the Central Asian states; therefore, they shall be welcomed.

Kazakhstan, as a major regional power, has an important geopolitical position in the economic zone of the Silk Road and is a key partner of Russia in Central Asia. Kazakhstan's membership in the Customs Union and the Eurasian Economic Union does not affect negatively the Sino-Kazakh economic cooperation. This is an example of the pragmatic approach of the countries of Central Asia that is certainly a big advantage for the *Silk Road Economic Belt.*

From the Chinese perspective, the institutionalization of cooperation would be premature. Once Vladimir Putin initiated the EEU, Belarus and Kazakhstan as well as Kyrgyzstan and Tajikistan responded positively. Therefore, it is reasonable to assume for Beijing that its neighbors in Central Asia are not likely to seek institutional formalization for their cooperation with China. Currently, the transport projects are the most realistic.

In 2014, Beijing established the special fund for the *Silk Road Economic Belt* and is planning to invest into the projects of transport infrastructure in Central Asia through the newly established Asian Development Bank. This means that the *Silk Road Economic Belt* is gradually coming into reality.

In conclusion, it is worth noting that there have been significant changes in the relations between China and Kazakhstan in terms of implementation of the transport corridor projects. A joint logistics base was launched in May 2014, which is the first of its kind in the region.

On November 11, 2014, President Nazarbayev of Kazakhstan addressed the nation with the new *Nurly Zhol – Towards the Future Program* that is aimed at increase of the transportation and transit capacities of the country and considerable investment into improvement of infrastructure and transportation services.

On December 14, 2014, Prime Minister Li Keqiang, speaking at the Forum of the Chinese-Kazakhstan Business Council, said that China is willing to support the projects within the *Nurly Zhol*. Thus, the implementation of both the *Silk Road Economic Belt* and *Nurly Zhol* is mutually beneficial for the peoples of China and Kazakhstan.

Transport Corridors of Iran as Factor in Regional Economic Integration

ERADZH ELAHI

The importance of transport in all its forms and of fast, inexpensive and reliable transportation of raw materials and manufactured goods has always been one of the pressing needs of life and the axiom of economy. In each historic period, people tackle this issue according to the circumstances. The historic Silk Road, which reflects the spirit of cooperation, rationality and courage of our ancestors, is a perfect example.

The main features of the contemporary world are the growth of the world economy and the emergence of new independent states. These newly independent states are dealing with the problems of establishment of state borders, application of national laws, and consolidation of sovereignty.

In this context, the issues of transportation and communication are the most relevant. The most advanced technologies enable states to choose the trade and economic partners around the world. Numerous bilateral, multilateral and international initiatives have been made in this respect. Many of them are relating to the development and implementation of large-scale transportation projects. The seriousness of the issue presupposes its joint consideration and joint actions. In other words, the current state shall not be thought as the only option particularly for Eurasia that is extensive and varied in terms of natural resources, rich from the economic point of view and substantial in terms of cash flow.

Undoubtedly, the Eurasian space is important in today's and tomorrow's world due to its reserves in energy and raw materials, large amounts of capital invested, vast territory and natural conditions that has made it a center of production of strategic products such as cereals and cotton. The other important factor is the proximity to the largest economies in Asia and Europe. The emergence of new greater economies in the region seems very likely; the most probable candidate is Kazakhstan. These factors precondition efficient and reliable corridors for the transportation of goods and energy.

The analysis of the current state of the transport and transit networks in Eurasia shows that they are underdeveloped and underused due to a number of internal and external factors. I would like to deal with some of these factors in more details.

First, political considerations often prevail over the economic logic when deciding about the best way to deliver or transit goods and energy. Under the economic logic, such features as low cost, lightweight, safety and reliability are the most important for a good transit corridor. Second, very stringent requirements on the national level are one of the reasons for slowing down the traffic. Third, the lack of financial resources impedes the implementation of major projects. Fourth, security issues in some areas bordering Eurasia, particularly in Afghanistan, the Caucasus and, these days, Ukraine.

Indeed, when calculated, the economic losses resulting from these factors make the issue of transportation corridors very problematic. One may even conclude that because of all these Eurasia may continue lagging behind the growth and prosperity of the other economically developed regions. In this context, the necessity for diversification of the routes of transportation of goods and energy is even more pressing.

In this regard, the construction of the Kazakhstan-Turkmenistan-Iran Railway is very timely. It will undoubtedly play a significant role in improving the economic social situation of the peoples of the three countries. The importance of this new corridor will increase as long as the role of Central Asia grows in terms of connection with the Middle East as the major importer of cereals.

The role of Iran for the future of the most significant corridor projects in the region is worth special mentioning. The biggest deference Iran can make arises from the two fundamentals features of transport economics: it is the shortest and safest route and its cost is low due to the geographic advantages.

Iran, because of its access to the international high seas in the south and its geographical location between Asia and Europe, has become a bridge between the two continents. The geographical location, long coastline, ports in the North and South of the country, safety of its rail and road networks, richness in terms of energy resources, all these promote the role of Iran within the system of the international transit corridors. Iran actively participates and plays a significant role in the North-South and TRACECA projects as well as in a number of international and regional organizations.

Iran has two dozens of roads and five railways crossing the border as well as a dozen large trading ports and a considerable number of smaller ports. All these serve as effective international transport links in the region, particularly for the landlocked countries.

The road network of Iran is more than 80,000-km long and more than 20,000 kilometers of these roads are incorporated into international transit network. In 2013, 1.5 million Iranian and foreign trucks crossed the border and more than 12 million tons of cargo was transported by transit by its railways and roads. Iran plans to increase transit of cargo up to 20 million tones in 2015.

However, despite all the progress made, there are numerous obstacles of objective and subjective nature that impede the development of the transit transport routes in Eurasia. According the UN Department of Transport and Economic Affairs, the delays on the border crossings in the countries along the ancient Silk Road is about 40% due the customs procedures.

It should be emphasized that Iran has decided to use its capabilities in the field of transit to facilitate the economic integration of the region with the global economy. Iran has adopted a number of programs in the transport sector aimed at the development of international transit and transport infrastructure. These programs stipulate for the following measures: further development and equipping the port of Chabahar in Southwestern Iran in the closest proxi-mity to the Indian Ocean. The port is vital for the transit of goods to Afghanistan, Central Asia, and the Caucasus; enhanced cooperation in the field of transit transport, including rail and road transport; time and cost reduction of cargo transit through the territory of Iran; attraction of foreign investment in transport infrastructure; expansion of the rail network in the North and East-West directions.

The transportation of energy resources is another significant issue. Iran is considered a key player in the energy market. The regional and global strategic importance of the routes of transportation results from geographical location of Iran, its richness in oil and gas, large population and vast territory. All these enable Iran to provide resources for the domestic consumption using swap transactions, to transport the energy resources from the regional countries to the consumers, and to supply its own oil and gas to the world markets.

Unfortunately, the external factors and political reasons prevent Iran from full realization of its potential in terms of energy transportation through its territory to the South and the West. Yet, there are some grounds for cautious optimism provided the talks on the Iranian nuclear issue are successful. Iran is willing to continue its cooperation with the states of Central Asia despite the above factors.

To conclude, I would like to emphasize the need for a serious approach in order to eliminate the obstacles for the regional transit that impede the economic progress in Eurasia.

Transport Corridors through Central Asia: How to Create Integrated Network amidst Geopolitical Tensions?

ANDREI KAZANTSEV

In the era of globalization with increasing economic interdependency as its main feature, the transport communication routes are busier than ever.

Moreover, as the states of the East Asia and South Asia such as Japan, South Korea, China and India and others lift their significance as global economic actors, the trade between the East and the West, the North and the South ends of the Eurasian continent intensifies. In this respect, the states of Central Asia are facing some new prospects opening before them in terms of new routes for transportation and transit. The development of these routes is dependent on the intermingled political and economic factors that are discussed below in this paper.

East-West Route Alternative to Southern Sea Route as Collective Interest of Central Eurasia

The trade between Europe and Asia is conducted via four transportation routes including one traditional marine route and three alternatives. These alternatives are the following: one replicates basically the ancient Great Silk Road through Central Asia, the second one is the Trans-Siberian Railway through Russia, and the third is the Russian Northern Sea Route running along the Russian shores. Two of these routes are by sea and two of them are by land.

Unfortunately, only one route has been used since the 17^{th} century, this is the longest route by sea through the Indian Ocean. The Suez Canal has shorted it considerably but it is still longer than any of the alternative routes enumerated above. This has been the global trend since the Great Geographical Discoveries. The route has its advantages. For example is enables the shipping companies to avoid the additional costs associated with crossing of the state borders.

The main prospects for resuming the transit through Central Eurasia are due to the fact that some considerable volume of cargo flow will be diverted from the Southern Sea Route to the land transportation, first of all, via the Silk Road. The companies may chose this option because of two main reasons: a) this land route is much shorter; b) the sea route has been much impacted by non-traditional security threats and geopolitical tension between a number of states.

These threats to security are worth special attention. After the end of the Cold War, both traditional and non-traditional threats intensified and the role of the non-state actors increased considerably. In this context, the most relevant threats are pirates and terrorists as well as so-called "failed states". Paradoxically as it may seem, all the military might of the navies of the developed powers are unable to prevent piracy.

The situation is even more complicated when the legal status of those individuals is not clear because of their origin, which are the failed and disintegrated states as it is in the case of Somalia. The similar complications arise when there is the need to deal with the terrorist including those cases when they are confronted at sea. Thus, the control maintained by the state actors – or, to be more precise, the lack of it – is the major factor that used to facilitate the sea routes but impedes them nowadays.

Intensification of the geopolitical tension between the major powers is even a more serious challenge. It is especially apparent due to the rise of the Asian states such as China and India and the oil producing Iran, Saudi Arabia. There is confrontation between the navies of the USA and its allies, namely Japan, South Korea, Australia and China in the Pacific Ocean and the navies of China and Pakistan against India in the Indian Ocean. In the Persian Gulf, the confrontation of Iran with the Arab monarchies, namely Saudi Arabia and Qatar intensified as well as that of Iran and Israel, Iran and the United States. Syrian civil war, according to many experts, is, in a sense, indirect collision between the special forces of Iran and the Arab monarchies. In general, the situation in the Middle East is often described as the "Great Shiite-Sunni War" that includes the conflict in Syria, Iraq, Lebanon, Yemen and others. In the Middle East, the probability of navy strikes on the merchant ships of the neutral states is high. For instance, Iran threatened to cut off the Persian Gulf if its relations with the United States deteriorated. Finally, the Arab-Israeli conflict is in close proximity to the Suez Canal; in the 20th century it led to several cases of closure of the Suez Canal.

Thus, the South Sea Route from Europe to Asia is not only the longest but the most problematic due to the number of increasing political risks. It is important to note, in this context, that the Central Asian states may decide to build a sustainable coalition on the basis of their interests in further development of the land transportation routes that would compete with the Sea Route. In this respect, the expert communities shall, in my view, concentrate their efforts to convince the governments of the Central Asian states to reconsider their positions over the transportation routes that are to be built: there should not be a competition among a number of corridor projects but a consolidated position on a single project that would be able to compete with the sea one. In other words, the Central Asian states should grasp the chance to shift from the zero-sum game logic to the positive-sum game played collectively. This is, maybe, not very probable scenario due to the geopolitical implications and other factors, but it is not impossible.

Alternative Land Transportation Routes and Political Interests. Great Silk Road

The Great Silk Road was the main trade route between Asian and Europe for more than fifteen centuries. However, it has been barely used for the last five hundred years as the Great Geographical Discoveries diverted the trade. The dissolution of the USSR revived the interest to the route as it is much shorter the South Sea Route.

There are a series of the geopolitical projects sponsored by the major international actors that are aimed at the revival of the Great Silk Road.

The EU sponsored TRACECA and TACIS. Since the beginning of the 1990s, the US and the EU have seen the development of the Silk Road as a way to support the newly independent states of Central Asia and the Caucasus. The additional consideration was to bypass Iran and Russia. The idea was realized in the form of the international TRACECA project supported by the EU within the TACIS. This project was endorsed by the major Asian players such as the Asian Bank, Japan and South Korea.

The Silk Road Economic Belt of China. Since the early 1990s, China has actively contributed into the efforts aimed at the revival of the Silk Road made within TACIS and TRACECA. Then, as the Chinese influence grew, its priority in Central Asia changed, the major format was various programs of the bilateral cooperation with individual Central Asian countries that would be realized within the SCO and beyond. China's initiative of the Silk Road Economic Belt further enhances the weight of non-western participants in the Great Silk Road revival endeavor.

The prospects for the successful implementation of the Silk Road idea, which, if realized, would go through Central Asia, faces a number of challenges related to the geopolitical competition of the major powers, high political risks and underdevelopment of infrastructure.

Russia's Alternative

Given the factors above, Russia has two main options: it may either develop unilaterally the alternative land route (Trans-Siberian Railway) and sea route (Northern Sea Route in the case of global warming) or try to integrate the Trans-Siberian Railway and the Silk Road into one system. The first option is consistent with the logic of the geopolitical confrontation with all, even with the neighboring countries including China and post-Soviet states. The second option is reflecting the principle of the collective interest that I am insisting on. This interest shall unite the Central Asian states so that they were able to compete successfully with the South Sea Route. In fact, the integrated transport network of the Trans-Siberian Railway and Silk Road may give additional advantages over the Southern Sea Route and these advantages may be even amplified provided the East-West and the North-South routes are also included.

North-South Routes

These routes are the branches of the Silk Road practically forgotten for the last five hundred years.

The first North-South route along the Caspian Sea attracts the interests of Russia, Iran, China and Central Asian countries. The Kazakhstan-Turkmenistan-Iran Railway opens huge trade opportunities for Russia, Eastern Europe and the Middle East. It also may boost trade relations between China and the Middle East via additional land transportation network. In this respect, it is a good alternative to the high-mountain Karakoram Highway. If the project to launch the route through the South Caucasus to Iran is successful, there will be even greater opportunities. JSC Russian Railways is actively promoting such a project. However, there are a number of obstacles of political nature, i.e. the Armenian-Azerbaijan, Russian-Georgian and Iranian-Azerbaijan relations. Moreover, the project, understandingly, concerns the West as it strengthens the influence of Russia, Iran and China.

The second North-South route basically replicates the NATO's Northern Distribution Network. Latvia, being supported by the EU, promotes the idea of commercialization of the existing network used to provide military supply to NATO troops in Afghanistan. This route starts in the Latvian port of Riga, goes through Russia, Central Asia, Afghanistan and then to Pakistan and India.

The project, if successful to overcome the obstacles associated with problematic relations of Russia and the West, could serve as a good supplement to the route that goes along the Caspian Sea as well as to the Karakorum Highway between China and Pakistan. The similar routes are stipulated in the projects of the CASA-1000 energy transportation corridor and TAPI gas pipeline.

In conclusion, I would like to stress that the success is dependant on the will and ability of the parties concerned to overcome the political and economic disagreements. In this case, the states of Central Asia will have to recognize the collective interest in the development of an alternative to the South Sea Route, and, therefore, will be able to establish an effective integrated system that would unite all the routes discussed above in this paper. Unfortunately, due to the existing geopolitical contradictions, political risks, and poor infrastructure, the construction of such a network is a matter of not years but, perhaps, of decades.

Eurasia Transport Corridors: New Ways for Cooperation, Geopolitics or Economic Opportunities

ALI RESUL USUL

After China's president Mr Xi Jinping announced the Chinese version of New Silk Project in September 2013 in Kazakhstan, and referred to a strategic link from the Pacific Ocean to the Baltic States, all Eurasian countries, including Turkey, started to discuss the nature of the New Silk Road project and new Eurasian transport corridors or networks in this regard. The New Silk Road and the new concept of One Belt - One Road (OBOR) has sparked the debate where American, European and Chinese versions of the projects are competing.

Principally speaking, all economic and societal efforts or tools to boost the regional cooperation, integration, collaboration, partnership, or synergy are welcomed by Turkey. Turkish policy makers basically believe that further cooperation, integration and interdependence in terms of regional economy, trade, and transportation will boost the chances for regional and international peace, security and prosperity.

In addition to the European initiative TRACECA, the American New Silk Road meant to integrate Afghanistan into the region. The project includes resuming traditional trading routes and reconstruction of infrastructure, creating new North-South transit and trade routes connecting Central Asian states, Afghanistan, Pakistan, India and others. The projects need not only reliable and good quality roads, bridges and borders, but also the harmonized national customs systems and reduction of the legal, formal and informal barriers in this regard.

The Chinese Silk Road initiative refers to a trade route stretching by land from China, through Central Asia, Iran, Iraq and Turkey before crossing the Bosphorus into Northwest Europe. The project is beyond the New Eurasian Land Bridge. The New Eurasian Land Bridge originally referred to the rail links from the coastal city of Lianyungang through China to Kazakhstan and Iran, finally crossing under the Marmara Sea in Turkey. It provides uninterrupted rail link from China to Europe. The route would supplement the Trans-Siberian Railway that already operates the two regular freight connections from China to Germany. This one also includes maritime link stretching by sea from China though the Indian Ocean.

Turkey welcomes all initiatives in Eurasia and underlines the significance of the Middle/Central Corridor, in addition to the North and South corridors. The Middle or Central Corridor that would include the Baku-Tblisi-Kars Railway, which will provide uninterrupted rail connection from London to China via Kazakstan and Turkmenistan, links with the train-ferry lines crossing the Caspian Sea. The project has become more important when the deepest Marmaray rail tunnel was opened in 2013. Thus, the Marmaray tunnel connects Asia to Europe across the Bosphorus under the Marmara Sea.

Turkey is working now on the new projects which will provide additional rail and motorways connection of the East with the West. The Eurasia Tunnel crossing the Istanbul Strait will be completed 2016 and the third bridge over the Istanbul Straits will be completed at the end of 2015. Furthermore, Turkish Prime Minister recently announced the project of the three-layered tunnel under the Istanbul Strait that will include separate rails and motorways.

All these and other projects are to increase Turkey's contribution to the revival of the Great Silk Road. It is clear these Silk Road initiatives will serve a more prosper, secure and modern Eurasia. They will expand national and regional markets and the scales of national economies, boots the regional cooperation among the Eurasian nations. All of them provide for extensive movements of goods and services that will create a sort of economic interdependency among the Eurasian nations that, in turn, means more trust and less conflict.

The international relations discipline recognizes the concept of doux commerce, i.e. soothing effect of bilateral or multilateral trade. All these projects shall also facilitate transnational movements and exchange of ideas and people across the borders. The increasing transnational mobility may cause some security concerns in certain states. However, I believe, in the long run, it will be beneficial to the regional cooperation, prosperity and security.

The geopolitical future of Eurasia will depend on four basic global variables: the American re-evaluation of the New Silk Road initiative after shifting its strategic orientation towards Asia; Chinese political, economic, and social policies toward the region; the tensions between Russia and the West after the Ukraine/Crimea crisis; and the Sino-Russia relations.

There is a real danger that all these initiatives may be jeopardized as the Eurasian region will remain the arena for the political and economic competition by the global powers that may evolve into proxy conflicts. The Eurasian nations should benefit from all these initiatives as they would lead to more regional integration, cooperation and interdependency. Their successful realization should help to avoid the dangers of the aggravated geopolitical competition that risks jeopardizing the entire Eurasian peace and security.

Transport Corridors in Eurasia: Economy or Geopolitics

KONSTANTIN SYROEZHKIN

The grammatical conjunction "or" in the title of this paper shall not be taken seriously. I would argue that any major transportation corridor is, first of all, a matter of geopolitics. The economic considerations are very often the secondary ones in such projects. If it is possible to achieve simultaneously both political and economic goals, a project is considered to be particularly successful.

This is especially relevant for the regions where the major world powers compete with each other. The Eurasian continent is exactly such a region. Therefore, there are a number of competing projects here: *the Eurasian Integration* sponsored by Russia; *the New Pan Turkism* promoted by Turkey, *the New Silk Road* by the USA, and finally *the Silk Road Economic Belt* by China.

Each of the projects has its advantages and drawbacks. Each of them means new risks and opportunities for the Eurasian states. Each of them means building new transport infrastructure and logistical networks. More importantly, however, each of the projects has its particular geopolitical implications although, very often, the latter is not at all adequately articulated by the sponsor party.

This paper does not deal with the all projects mentioned above. It is focused on the one that is relatively recent, and, therefore, less studied. Despite the fact that ***the Silk Road Economic Belt*** of China is being vigorously debated in the expert community and the media, there are numerous aspects that are still unclear. The paper discusses these aspects in more details.

The first initiative of *t*he Silk Road Economic Belt was made by President Xi Jinping in September 2013. In October, he also articulated the idea of the 21st Century Marine Silk Road. Prior to that, Li Keqiang, Premier of the State Council, proposed to build the China-Pakistan and the China-Bangladesh-India–Myanmar economic corridors. Later, all these projects were united by one concept the One Belt - One Road (OBOR). The Chinese Ministry of Foreign Affairs and the entire propaganda apparatus prefer this term to the others.

The project has been under expert examination for more than six moths and on May 28, 2015 the first document concerning the One Belt – One Road project was finally published: the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs (MFA) and the Ministry of Commerce (MC) issued a joint document with the promising title *The Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road* (2015). Although this document lacks any conceptual take on the OBOR, it clarifies the matter to a certain extend. According to the document, the One Belt - One Road is a comprehensive project of systematic importance based of the principle of the common advantage in terms of trade, construction and use that shall be mutually beneficial and perspective because of its positive impact on the development of the contracting parties*.

The extract above seems to signify the pure economic nature of the project. The text below, however, reads as following: the One Belt - One Road is to become a stimulus for joint maintenance and improvement of mutually beneficial cooperation that would lead to prosperity for all, this is the road towards enhanced relations of mutual trust and responsibility, towards strengthened interaction, peace, and friendship. This makes much more geopolitical implications, especially given that one of the tasks during the implementation of the project is to “harmonize the development strategies” of the states concerned and to conduct “political consultation on the top official level”.

Speaking in March 2015 at the Boao Asia Development Forum for Asia, Xi Jinping once again emphasized that the One Belt - One Road meets the needs of China and other neighboring countries of the region in terms of their development, is in their common interests and fits very well into the overall regional and international cooperation architecture. The OBOR shall be built together and used together, it is an inclusive initiative that is not aimed at China’s dominance but provides for the equal participation for all. According to Xi Jinping, the One Belt - One Road does not mean replacement or undermining of the existing mechanisms or other initiatives of regional cooperation. It is a strategy that presupposes development of the neighboring countries in accordance with the principles of mutuality and complementarity on the basis that has already been established**.

In other words, China’s President made the emphasis on economic matters. Some years earlier, however, his position was much more comprehensive and beyond economics***. The fact that all corridor projects have been incorporated into the One Belt – One Road concept that has been mostly promoted by the Foreign Ministry of China implies that it is more than just an economic initiative. The Foreign Ministry of China has been promoting the idea making an emphasis on a new policy towards the neighboring countries and this signifies an apparent geopolitical content of the initiative. At the same time, the geopolitical content is not clearly articulated and this lead to a number of questions.

First, it is still unclear what the OBOR is about conceptually, what its ultimate goal is. Is it an economic initiative or a new geopolitical course of China?

Second, is the project aimed at integration of Asia under the auspices of China or the major goal is to maintain the conditions that are the most favorable tor China’s goods and services on the international markets?

Third, how to understand the principle of the “common advantage” articulated by Beijing in the trade and economic relations where the intense competition is the major feature?

Fourth, is the cultural and humanitarian cooperation within the OBOR a "two-way street" or it means that only the Chinese culture and values would be spread under the concept of "soft power"?

Finally, although the benefits for China are absolutely apparent, it is still unclear whether the Silk Road Economic Belt and the 21st Century Maritime Silk Road would bring any good for the other countries concerned.

So far, the arguments proposed in favor of the OBOR make it clear that it is a sort of “rebranded” SCO Free Trade Zone, which was proposed by China and rejected by Russia and the Central

*National Development and Reform Commission. 2015. *The Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road,* [online] Available at: <http://en.ndrc.gov.cn/newsrelease> [Accessed 19 March 2015].

**Xi Jinping. 2015. Towards New Future of Asia; Xi Jinping Speech at Boao Forum for Asia. People's Daily, [online] March 29, 2015. Available at: <en.people.cn> [Accessed 29 May, 2015].

***Foreign Ministry of China. 2014. *President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries,* [online] Available at: <http://www.fmprc.gov> [Accessed 29 May 2025].

Asian states, with the major goal being to create the most favorable conditions for China's goods and services on the markets of Central Asia, Russia, the Middle East and further in Europe.

This may be the main reason why, in spite of the publically expressed endorsement of the OBOR and numerous assurances of the political willingness to participate into its practical realization, the experts, including those form China are rather cautious about its perspectives****.

The most important, however, is the problem of Russian and American relations with the Central Asian states and their impact on the practical implementation of the China's OBOR project.

Central Asia is a complicated case. This is the region where the interests of the USA, Europe, Russia, China, India, Iran and Turkey collide. The relations between these states are far from ideal. Thus, in order to realize its project, China will have to play the role of a moderator and do it in a very subtle manner. Whether China will succeed is an open question.

In this context, it seems reasonable to remember the difficulties faced by Russia and the USA in the region. The New Silk Road of the USA has virtually failed and Russia's integration project is skidding.

China, unlike Russia and the USA, has an undisputable advantage; it is able to allocate enough money in the shortest period of time. China is ready to invest a lot. For example, to realize its recent initiative the Asian Infrastructure Investment Bank (AIIB), Beijing allocated $100 billion. The investment package of the OBOR project may reach $40 billion. It is obvious that China is ready to pay generously when it wants its integration initiatives implemented. And this is a very serious factor that must be remembered.

****Ма Лили, Жэнь Баопин. Eds., 2014. *Сичжоу чжи лу цзинцзи дай фачжань баогао. (Доклад о развитии Экономического пояса на Шелковом пути).* Пекин: Чжунго цзинцзи чубаньшэ.

Silk Road: New Cooperation Opportunities

BAURZHAN URYNBASAROV

The paper is focused on the most pressing issues concerning the transportation corridors in Eurasia. Historically, the caravan trade route known as the Great Silk Road stretched through the territory of Kazakhstan. It had great impact on the development of Eurasia in the past. Today, the necessity for a transport network from Asia to Europe is increasingly apparent. Provided such a network is built and functions, what may be its impact on Kazakhstan?

Kazakhstan, being a landlocked country in the center of the Eurasian continent, is aware of the necessity to revive the historic routes through its territory that used to connect it with the world. Kazakhstan finds itself between the two major poles of the world trade. The country's leadership has emphasized numerously that the enhancement of its transit capacity is crucially important.

The Eurasian continent is becoming notably busier. According to expert estimates, the trade volume in the region will increase from $800 billion in 2014 to $1.2 trillion in 2020. At the same time, the trade between China and the EU members will grow from $615 billion to $800 billion. The volume of freight traffic will increase from 117 million to 170 million tones, 98% of which will be transported by sea.

Kazakhstan has set the goal to enhance the transit capacities; 10 million tones of the freight traffic between China and Europe shall go through Kazakhstan's territory by 2020. This requires construction of a well-developed transport and logistics infrastructure and its integration into the international transport system. President Nazarbayev of Kazakhstan articulated his strategy of how to enhance the transit potential of Kazakhstan in the *Nurly Zhol – Towards the Future National Program* in November 2014. The program stipulates for a fundamentally new approach that shall ensure successful development of the infrastructure in Kazakhstan.

The JSC National Company Kazakhstan Temir Zholy (JSC "NC" KTZ) is actively participating into the realization of the *Nurly Zhol* strategy. Currently, it is implementing the development program that shall allocate the $36.3 billion in total investment until 2020. A series of the projects realized within the framework of the program shall help to improve the infrastructure that is currently underdeveloped and enhance considerably the quality of the professionals employed there so that the competitiveness of Kazakhstan's service would grow as well as the volumes of the freight flow.

Some practical measures have already been taken in this direction. For example, in order to increase the transport and transit capacities of the land corridors, Kazakhstan and China have built the railway and logistics infrastructure on the two border crossings with the turnover over 40 million tones per year.

The existing configuration of the continental transport and infrastructure is evolving. The volume of trade among China, Russia, the Gulf States and the European Union is growing. Provided Kazakhstan is able to participate on the equal footing, the entire architecture of transcontinental transport corridors shall change as well.

The JSC "NC" KTZ contributes into the efforts to achieve the goal above. In 2014, it put into operation the following new railways: the 988 km-long Zhezkazgan-Beineu, the 214 kme-long Arkalyk-Shubarkol, and the Uzen-Bolasha-Bereket-Gorgan that stretches for 928 kilometers. The new railway network makes the freight routes in the North-South and the East-West directions 1,000 kilometers shorter. The apparent impact of these railways is that the transportation costs are to reduce from 10% to 30% and the delivery time is to decrease from one to three days. The transit capacity of Kazakhstan, therefore, is to enhance considerably.

The establishment of the Coordination Committee for the Trans-Caspian International Transport Route (TITR), with the participation of railway and shipping companies of Kazakhstan, Azerbaijan, Georgia, and Turkey in February 2014 was a significant move for the development of the international transport route. The goal is to increase the attractiveness of the route trough the elimination of physical and non-physical barriers and conducting coordinated policies to introduce the competitive tariffs.

Today, facing new challenges, JSC "NC" KTZ is pursuing a policy of the transformation of its business model aimed at adapting to the current conditions of the market. The Company's focus is moving from exclusively railway transportation to providing of the full range of transport and logistics services. The reform is aimed at integrating the sea, air and road transport pool as well as port, airport infrastructure and the network of terminals into a single system operating on the basis of the one-window principle. All these shall contribute into creating of the conditions favorable for realization of the export and transit potential of Kazakhstan. Our strategy provides for having a domestic and international transport and logistics network in the locations where consolidation and distribution of freight flows is the most intensive.

There have been a number of achievements in the filed. Kazakhstan has built the logistics terminal in the port of Lianyungang to service the freight flows from Southeast Asia towards the countries of Central Asia, Europe and the Gulf. During 2014, the volume of the export and transit of container traffic through the terminal in the Lianyungang port was about 70,000 t TEU and by the end of 2015 it is expected to exceed 250,000 and TEU with the further two-fold increase by 2020.

Additionally, the projects are being considered to build the logistics terminals in the Baltic Sea, namely the Lithuanian port of Klaipeda and in the Persian Gulf, namely the Iranian port Bandar Abbas. The network, provided the projects are successfully implemented, will link the hubs and provide Kazakhstan with the access to the World Ocean.

The ports of Lianyungang and Aktau together with the KTZE-Khorgos GateWay are the integral parts of a single supporting logistics system for transportation and distribution of the freight flows through Central Asia. The DP World - a major international port infrastructure operator – has been brought in to improve the effectiveness of the management of the KTZE-Khorgos GateWay and the port of Aktau.

The JSC National Company Kazakhstan Temir Zholy pays great attention to the Trans-Caspian direction. In 2013, a shipping company was opened that is currently carrying out all the transportation on the Caspian Sea. The sea brunch of the Kazakhstan's transport infrastructure is constantly growing: by 2020, the number of vessels shall exceed twenty. The Aktau port is important for the Caspian region: it provides 25% of all the transportation in the Caspian Sea. In 2014 the volume amounted to 10.3 million tons. In 2015, JSC "NC" KTZ will finish the expansion works in the Aktau port: a grain terminal with capacity of 1.5 million tones and two additional universal terminals with a total capacity of 1.5 million tons are being constructed. The estimated outcome is 21 million-ton increase of the port turnover per year. The launch of the ferry connection in the port of Kuryk is to increase the ferry cargo capacity of Kazakhstan by three times.

Dry Port KTZE-Khorgos GateWay is one of the major part of the logistic network of modern Kazakhstan. In December 2014, President Nazarbayev of Kazakhstan opened it via live link-up from Astana. The planned volume of the cargo handling is to reach 4.4 million tons in 2020. The entire Khorgos project is aimed at enhancement of the infrastructure to boost export and attract additional transit freight flows.

The strategic program also stipulates for construction of transport and logistic centers (TLC) in the major cities throughout Kazakhstan that will enable to meet the need for additional warehouses and to enhance consolidation and distribution of freight flows. The network will also include some regions of the neighboring countries. The construction of TLCs in Astana and Shymkent is to be completed this year.

One of the most apparent trends these days is the shift from sea to rail means of transportation of the export-import and cargo transit. The JSC National Company Kazakhstan Temir Zholy is actively cooperating with the major railway companies operating in such provinces of China as Lianyungang, Chongqing, Xi'an, Shenzhen with the main purpose to draw the bulk of cargo transit between China, Europe and the Central Asian to the territory of Kazakhstan. The result of this collaboration is the launch of the regular container trains between China and Europe that led to the more than three-fold increase of the volume of traffic through Kazakhstan. In 2014, the 226 trains carried the cargo that amounted to 21,192 TEU. This year, the trend continued: in the first quarter of 2015, 52 container trains transported 4,386 TEU. This is 2.5 times more than in the same period of 2014 when the figures were 1,716 TEU and 18 trains respectively.

The container train China-Kazakhstan-Azerbaijan-Georgia-Turkey is also to be launched in this year. The project is being implemented within TITR so that the participating countries would work out a single complex rate and a unified approach to the container trains operation in order to increase the competitiveness of this particular route of transportation.

To sum up, by 2020, the full implementation of the measures aimed at development of the transport and logistics capacities of Kazakhstan will enable to increase twice (from 18 to 36 million tons) the total volume of the transit through Kazakhstan via such routs as the China-Europe, China-Central- Asia-Southern Caucasus;-Turkey, and the Central Asia-Russia-Europe. As for the transit revenues, the estimated growth is three-fold from $1 to 3.1 billion. All these will make Kazakhstan an active participant into the global economic processes. Even now, Kazakhstan contributes a lot into development of the transport corridors in Eurasia. Provided its full inclusion into global infrastructure, the transit capacities of Kazakhstan must be considerably increased with the apparent positive impact on the entire economy of the country.

New Infrastructure for Kazakhstan's Regions

AIGUL KOSHERBAYEVA

Well-developed transport and communication infrastructure is crucial for boosting the competitiveness of any region. Such infrastructure provides high quality domestic transportation services as well as transit of goods and people through its territory.

The current conditions dictate such a model for development of the transport and communication infrastructure that would help to meet the present and future demand. The economic growth per se is very dependant on the quality of infrastructure as it means less inequality between the regions of a country in terms of their economic development and brings them closer to each other making the entire economy more cohesive. Good infrastructure helps modernization of economy, the newest and most advanced technologies are hard to introduce when the infrastructure is old and in poor condition. Thus, the quality of infrastructure is a crucial marker showing the overall development of the economy of entire regions.

Kazakhstan's achievements in this respect are apparent. The government has taken a series of measures in order to create the conditions for competition of the transportation services with the ultimate goal being to integrate them into the international system and to boost the transit capacity of the country.

The large-scale project of the transcontinental Western Europe-Western China road is being implemented. The length of the highway is more than 8,000 kilometers, more than 2,000 of which are through the territory of Kazakhstan. The transcontinental highway, provided the project is successful, will reduce the time of the transportation of goods from China to Europe from 10 up to 40 days, according to some expert estimates. Additionally, the Western Europe-Western China road will boost the development of the related industries.

The considerable efforts are taken in the railway industry. So far, 1,200 kilometers of new railway lines have been built. The implementation of the Zhetygen-Khorgos project increased transit traffic from China to European and Asian countries due to the 500 kilometer reduction of the transit route. In 2013, the direct railway was opened between Kazakhstan and Turkmenistan that has the following benefits: 600 kilometer reduction of the railway lines and future access to the Persian Gulf.

The broader social impact of the projects shall be specially emphasized. In 2013, the building the Zhezkazgan-Beineu and the Arkalyk-Shubarkol railway lines were launched to shorten the distance of transportation between China and Europe by 1,200 kilometers. The construction works within the project shall employ up to 80% of the local labor.

It is very important to note, however, that most of the projects being implemented are external by nature. At the same time, there is apparent need for better infrastructure between the regions of Kazakhstan. Over the past ten years there have been considerable investments (about 100 billion KZT) in reconstruction and modernization of the take-off runways, passenger terminals and more than 300 other facilities in the dozens airports throughout the country. However, more than 80% of all the current air traffic requires operation of the modern aircraft types and further modernization of the airport infrastructure as well as construction of new airports in Kostanai, Taldykorgan, Taraz, Semei, Petropavlovsk, Ust-Kamenogorsk and Uralsk.

On November 11, 2014, Kazakhstan adopted the *National Program Nurly Zhol* that stipulates precisely for the development in the transportation and logistic infrastructure. Such a modernization requires construction of the transportation and distribution hubs that would improve terminal infrastructure, attract the bulk of the cargo flow, and boost the quality of management. The hubs shall be built in the "spots of development" in each region. The most likely locations for such hubs are Astana, Almaty, Shymkent, Aktobe and Ust-Kamenogorsk.

The decision to locate the hubs in the major cities was primarily motivated by the fact that they are the centers for concentration of capital, resources, and the most advanced technologies. All these presuppose the development of the services that would meet the international standards of quality in these hub-cities. These, in turn, will boost the quality of human resources and human capital making these hub-cities more capable to compete with the other megacities throughout the Eurasian continent. The ultimate goal is to increase the general level of development in Kazakhstan so that the country would be ranked among the 30 most developed countries in the world. This goal is to be achieved via rapid urbanization and enhanced competitiveness.

These future hub-cities would connect the existing regional and sub-regional territorial-economic complexes and those that are only to be built. The competitiveness of the regions shall increase as each of them will have a well-developed transportation network comprising of an airport and land transportation infrastructure. The mobility of people and business shall rise considerably.

In order to implement the *Nurly Zhol Program*, it is planned to link the major hub-cities of Almaty and Ust-Kamenogorsk with the center in Astana. Therefore, the three integrated projects have to be implemented, namely the Center-South, Center-East and Center-West.

The Center-East Road will connect Pavlodar, Semei, Kalbatau, and Ust-Kamenogorsk with Astana to attract transit cargoes and domestic exports. The development of tourism cluster is also one of the expected outcomes; these would include the cities of Pavlodar with the population of more than 356,000 people and Semei with the population of 339,000 people.

The Center-South Road shall connect Astana with Karaganda, Balkhash, Kapshagay, and Almaty with the similar goal to boost the transit along the routes from the inland ports of the border areas, increase the exports, and improve the quality of the transport and logistic services. The zone covered by the project will include Karaganda, Balkhash and Kapshagay with the population of over 492,000, 59,000, and 78,000 people respectively.

The Center-West Road will connect Astana with Arkalyk, Yrgyz, Shalkar, Beineu, Aktau. Thus, the conditions will be created to increase the cargo flows between the Central and the Western regions and their better cooperation. Additionally, the implementation of the project will enable to build an integrated system of road, sea and rail transport. It is to make the new markets more accessible due to the better functioning of Kazakhstan seaports. The project will have an impact on the development the cities of Arkalyk and Aktau (with the population is nearly 50,000 and 185,000 people respectively) as well as on a number of smaller towns.

The hub-city of Almaty is inhabited by 1.5 million of people. It is the largest in Kazakhstan. Almaty already is a major transportation and logistical center within the network connecting it with Shymkent and Taras. The dynamics of the second-tier cities around the hub-city of Almaty will be determined by the pace of development of the Almaty agglomeration itself and its transit capacity.

The other project that is worth special mentioning is the Zhetygen-Khorgos. Its major goal is to increase the volume of the cargo transit from China to Europe and some Asian countries; it shall reduce the length of the Asia-Europe route by 500 kilometers. The SEZ Khorgos GateWay united with the Zhetygen-Khorgos railway and the Western Europe-Western China corridor into one transportation network will serve as the basis for a very large industrial and logistical hub that will provide the shortest access to Europe and Asia.

The hub-city of Aktobe with the population of over 439,000 shall connect the East and the West via the northern axis of Ust-Kamenogorsk, Semei, Pavlodar, Astana, Kostanay, Kokshetau, Petropavlovsk, Aktobe, and Oral the with access to the Caspian Sea through the ports of Atyrau Aktau. Additionally, a new road of Aktobe-Aktau is being constructed and the roads connecting Aktobe, Atyrau and Oral are being reconstructed.

Completion of the Western Europe-Western China international transport corridor will help to realize the transit potential of the city-hub of Aktobe and will give a powerful impetus to the full development of the other smaller cities and towns in the Western region of Kazakhstan.

Hub-city Shymkent with the population of nearly 712,000 people will be the center of the network connecting such routes as the South-West: the Dostyk Khorgos (on the Chinese border), Almaty, Taraz, Shymkent, Kyzylorda, Aktobe, and Oral, the South and North: Petropavlovsk, Yesil, Arkalyk, Zhezkazgan, and Shymkent, and the South and East: Almaty, Taldykorgan, Ust-Kamenogorsk, Semei, and Pavlodar.

The enhanced infrastructure of the Shymkent hub and whole Southern region will increase the mobility of people and resources. This is very important given that the Northern and Central-Eastern regions experience labor shortages.

All in all, the *Nurly Zhol Program* is to make considerable impact on numerous aspects of social life. Thus, the increase in investment in transport by 1% would raise the GVA of transport by 0.7% and the number of jobs by 0.14%.

In other words, $1 billion investment in transport means 20,000 additional jobs in the transport enterprises and 11,000 more jobs in the related industries. Given the significance and mere scale of the present and future tasks in terms of infrastructural development of Kazakhstan, the issue of investment is very important.

The next major objective is to develop the infrastructure in such a manner that would encourage the cooperation among the regions. In order to achieve such goals, the modernization of transportation and logistical system is necessary as well as those of the energy sector. All these will help considerably the realization of the national industrial policy.

Modern advanced infrastructure will connect the regional markets within Kazakhstan and boost Kazakhstan's exports to the external markets that have been inaccessible so far. The study conducted by the Asian Development Bank showed that the improvement of transport infrastructure in Kazakhstan could reduce by 35% the time when traveling between the regional centers on highways and by 71% when travelling by train. Moreover, the cost of intermodal rail and road container traffic will be reduced by 24 %*.

Apart from the *Nurly Zhol*, Kazakhstan adopted the *Program of Rapid Industrial and Innovative Development* (PRIID). The second stage of the five-year PRIID started in 2015. The Program shall be completed by 2019. The Program stipulates for the implementation of the series of projects in the manufacturing sectors of the national economy. Along with the PRIID, the *Nurly Zhol* aims to promote the entrepreneurial activity by increasing the access to finance for small and medium-sized businesses as well as larger companies in the manufacturing sector.

It is vital for the regions of Kazakhstan to build a modern, ramous and convenient infrastructure that would be capable to provide the services of the highest quality; reduce the time of travelling and delivery from one region to

*Asian Development Bank. 2012. *Technical Assistance Report: Preparation of Se tor Road Maps for Central and West Asia, Project Data Sheet* (PDS): Details. TA No. 7708. Manila.

another; impact positively the economy in general and interregional cooperation in particular.

The high-quality infrastructure is to become the basis for the modernization of the economy of Kazakhstan's regions that should be oriented at improvoment in terms of their accessibility in both geographical and business sense The quality of the services shall be enhanced considerably as well as the transit capacity of the infrastructure while the cost of transportation shall be reduced. The outcomes may be assessed by the following indicators: international transit transportation and investment in the transport infrastructure including those in the public-private and others formats.

In order to succeed, Kazakhstan should build a very particular system where various means of transport would complement each other providing for high efficiency of the entire transport sector. The transport and logistics centers (TLC) at the intersection of the most important routes will link the major cities of Kazakhstan and ensure the access to the foreign markets.

The transport and logistics centers are to be build as sort of hubs in the following locations:

- Astana hub will be also comprising the cities of Petropavlovsk, Kostanai, and Pavlodar. The project involves building of the "dry ports" within the international border cooperation framework with the centers in the Russian city of Kurgan and Petropavlovsk in Kazakhstan;
- Ust-Kamenogorsk hub together with the airport in Semei;
- Aktobe hub would also include Uralsk and Aktau. The project stipulates for reconstruction of the airports in the cities of Aktau and Atyrau, the port of Aktau, construction of new port infrastructure in Kuryk and Bautino;
- Shymkent-Almaty hub will solve the problem of the shortage of the terminal park in those cities by building a TLC in accordance with the international of information systems and other technologies standards. The hub infrastructure will be complemented by the Dostyk station and the Khorgos GateWay.

These hubs are supposed to become some sort of development spots and to even the regions of Kazakhstan in terms of their economic development, to boost interregional cooperation, and to enhance interregional infrastructure. All in all, the positive outcomes are expected in the following spheres:

- more companies will be attracted by the improved quality of the transportation and logistical infrastructure in Kazakhstan given that it is the third most important factor for companies when choosing their localization;
- new jobs through increased mobility of the labor forcel will be created;
- less time and lower costs of the transport services, increased versatility of the short-distance railways, more energy efficiency of the long-distance rail transport will be achieved;
- favorable business climate will be provided;
- international and domestic freight handling capacity increase;
- better access to the intraregional and international markets will be reached.

Eurasian Infrastructural Corridors: Opportunities, Challenges and Practical Steps for Better Cooperation

TALANT SULTANOV

The Central Asian countries, being landlocked, are facing the challenge of the cost of import and export that impede considerably their chances for successful international competition. The land transportation routes are vitally important for the countries of the region, especially for the smaller ones as they increase the transit capability and open the access to the markets of the neighboring states that are, in turn, interconnected with the larger markets beyond the region, namely India, Pakistan and Iran to the South as well as Russia to the North.

Trade and transport are inextricably interdependent. There have been considerable efforts made in Central Asia to develop the transport and energy infrastructure to increase the volume and change the structure of the foreign trade.

There is an extensive infrastructure network in Central Asia that is located at the crossroads of several international highways and railways. There are six corridors functioning within the Central Asia Regional Economic Cooperation (CAREC), with the total length of 80,000 kilometers, that contribute to the further development of the transport network of roads and railways. The other projects aimed at development of the transport corridors in Central Asia are the New Silk Road and Silk Road Economic Belt.

Historical Background

Kazakhstan, China, Kyrgyzstan, Russia, and Tajikistan held the summit on August 25, 1999 in Bishkek. The Heads of State supported the concept of the Silk Road Diplomacy proposed of President of Kyrgyzstan. The Silk Road Diplomacy was based on the following principles: shared past and present of the Great Silk Road; equal partnership, friendship, and cooperation of all countries of the Great Silk Road; interdependence; mutual benefit; long-term perspective; multi-vector international cooperation.

I believe that these principles were incorporated in the Silk Road Economic Belt project articulated by President Xi Jinping of China in 2013. On March 28, 2015 the *Vision of the joint Silk Road Economic Belt and the 21st Century Marine Silk Road* was published setting the tasks to stimulate the efficient distribution of the resources and market integration by strengthening the communication and interaction between Asia, Europe and Africa. The document calls for coordination of policies, development of infrastructure, free trade, financial integration and human exchanges in order to use the unique resource advantages of the participating countries for the greatest mutual benefit through the multilateral and multilevel mechanisms.

One of the concrete tasks was the construction of the new Continental Bridge. The other most relevant projects for the countries of Central Asia are those of building the China-Mongolia-Russia and China-Central Asia-West Asia international corridors.

Practical Measures

International Legal Framework. The effectiveness of any economic cooperation depends on a strong legal framework. The exchange of experience in the lawmaking including that on economic crimes related to corruption and other irregularities is very important. Another area of cooperation could be in conducting the multilateral agreements regulating the movement of goods and capital.

Public-Private Partnership. States shall be responsible for taking the measures to create favorable business environment so that the government policies would be able to rely on the support of business community and civil society.

Security of Container Trains. The cargo transit through the territories of many countries is one of the key elements of the Silk Road Economic Belt promoted by China as well as in the project about the construction of the Russia-Kazakhstan-Kyrgyzstan-Tajikistan Railway proposed by Kyrgyzstan and the project of building the number of the hub-cities connected by the railway network with the center in Astana that is to be implemented in Kazakhstan. The efforts of the relevant services of Central Asian countries to maintain the security of the transportation corridors are supported by the specialized agencies and organizations such as the World Customs Organization (WCO). The Framework of Standards to Secure and Facilitate Global Trade (SAFE) is the key international instrument.

Passports and Other Travel Documents. The Silk Road Economic Belt and the Eurasian Economic Union as well as a number of other initiatives require a high mobility of people, namely businessmen, scientists and cultural workers, students, tourists, etc. In this regard, the cooperation in promotion of the safety standards by the International Civil Aviation Organization (ICAO) is important. Several countries in Central Asia have already introduced biometric passports or are planning to do so in the nearest future. For example, biometric passports will be used in Kyrgyzstan from 2016. The other field of cooperation may be the joint commitment of the states parties to their OSCE obligations to use the Interpol database ASF-SLTD to identify illegal use of travel documents.

Multilateral Structures. The Central Asian countries are cooperating with more than twenty UN agencies, international, regional, and subregional organizations as well as specialized agencies to support their economic activities, share experiences, and strengthen the contacts between the countries' leaders and international experts. This cooperation shall be extended further to the other partners that could provide the assistance in such fields as lawmaking and law enforcement as well as technology.

Logistics. Effective transport infrastructure is vitally important as well as the improved transport service. The other crucial tasks is the cost efficiency. The transportation within and through Central Asia shall be less expensive.

The transport and transit potential of Central Asia shall be fully realized. The development of the transport facilities shall not lagg behind the economic growth. It is necessary to create a sustainable management system for the transport corridors. In this regard, the multilateral format of cooperation can make the greatest difference.

Challenges and Risks

Slowdown of the world economic growth is one of the major future risks facing the countries of Central Asia. The others are the discrepancies between the deficit of aggregate demand form the one hand and the oversupply from the other as well as; rising cost of manufacturing enterprises; and lack of innovative capacity. All in all, there are certain contradictory relations between the development of economy, resources shortages and environment.

It is important to be aware of the fact that large-scale economy does not always mean strong economy: growth can be fast but not optimal. Extensive development when economic growth and its extent depend on the resources and other factors of production cannot be sustainable. The most developed countries and China, being well aware of such a global trend, are to undergo the transition from the model of development based on the factors of production and large-scale investments to the model that is based on innovation.

To make such a transition possible, it is necessary to increase the innovative capacities. The most urgent task is to eliminate institutional and systemic obstacles, to identify and exempt the potential of science and technology making them a new production engine.

As for Central Asia, one of the major obstacles to the development of trade is infrastructure. According to the World Bank Logistics Quality Index in 2014, Kazakhstan is ranked the 88th among the 160 countries, at the same time Tajikistan is on the 114th place, Uzbekistan is on the 129th, Turkmenistan and Kyrgyzstan are ranked 140th and 149th respectively.

Projects in Kyrgyzstan

Central Asia has a considerable transit transport potential and Kyrgyzstan is a transit site between Europe and China. The most important task for Kyrgyzstan is to fully realize its advantageous geographical position. A number of infrastructure projects are implemented in Kyrgyzstan. One of the most significant is the project of the Regional Transport Corridor (RTC). It is about the construction of the overland multimodal regional transport corridor through Kyrgyzstan that will connect China, Uzbekistan, Tajikistan, Kazakhstan and Afghanistan. In other words, containerized cargo will be transported by rail from the seaports of China to the Kashgar railway station where it will be reloaded into the road containerships. Regional transport corridor will have two branches: the Northern Branch will begin in Kashgar, cross Torugart, and terminate in Bishkek and the Southern Branch will connect Kashgar to Osh thorough Irkeshtam.

The Regional Transport Corridor has the following advantages: it will stimulate business activity in the Xinjiang Uighur Autonomous Region (XUAR) of China and the trade with other regions of China; it will reduce the distance and time of transportation; it will provide the access to the sea ports in China and Europe that will increase cargo transit between East and Central China, Europe and the Middle East.

There is a fairly steady flow of containerized cargo from South Korea, Japan, China, and the USA to Kyrgyzstan, the Fergana Valley of Uzbekistan, Tajikistan, Turkmenistan and Afghanistan. This route is crossing Dostyk-Alashankou and Khorgos-Altynkol in Kazakhstan as well as the Lokot station of the Trans-Siberian Railway of Russia. The Kashgar-Torugart-Naryn-Bishkek and Kashgar-Irkeshtam-Sary-Tash-Osh Highways are important parts of the RTC. These roads are functioning within the TRACECA, CAREC international transport corridors.

Currently, to reach Kyrgyzstan, the container cargo from South Korea, Japan, the USA, and the UAE is transported from the seaports of China by rail through Kazakhstan to Bishkek or through Kazakhstan, Uzbekistan, and Tajikistan to Osh.

President Xi Jinping said that China's development is beneficial for the entire world and, above all, for the neighboring countries. These words may be considered as the invitation to the Central Asian countries. In order to fully realize the Silk Road Economic Belt and gain the benefits of the mutual cooperation, these countries need to mobilize the activity of all parties, to learn how to use both the "visible" and "invisible" hands of market.

Main Aspects to Enhance Competitiveness of Land Transportation in Eurasia

KANAT ALMAGAMBETOV

There are a number of transportation routes crossing the territory of Kazakhstan. The paper provides the brief overview of the most important ones. It then proceeds to discussion of the relative advantages and drawbacks of the land transportation in general and, given the challenges identified, proposes the solution for the land transportations in particular that would enhance considerably the transit capacity of Kazakhstan.

The main internationally recognized corridor passing through the territory of Kazakhstan is TRACECA. Today TRACECA includes a transport system of thirteen countries that are signatories to the *Basic Multilateral Agreement on the International Transport Corridor* (ITC) of Europe-the Caucasus-Asia (TRACECA MLA) signed in September 1998 in Baku by Azerbaijan, Armenia, Bulgaria, Georgia, Iran, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkey, Ukraine, and Uzbekistan.

The Trans-Caspian international transport route established in November 2013 by the Coordination Committee for the Trans-Caspian International Transport Route (TITR) that includes CJSC Azerbaijan Railways, JSC Georgian Railway, JSC "NC" Kazakhstan Temir Zholy, CJSC Azerbaijan Caspian Shipping Company, JSC "NC" Aktau International Sea Trading Port, Baku International Sea Trade Port, Batumi Sea Port Ltd.

On May 22, 2012, in his closing remarks at the 25th meeting of the Foreign Investors Council, President Nazarbayev of Kazakhstan announced the launch of a large-scale New Silk Road project that would include rail, road and sea transport. However, the Coordinating Council of the New Silk Road has not been established; the contracting parties have not agreed on the precise route of the New Silk Road.

Currently, the other major project the Silk Road Economic Belt is being vigorously discussed, yet none joint working group has been formed to promote this project.

Sea vs Land Transportation

The relative advantages of the transportation by sea and by land are often discussed in the expert community and beyond. Historically the sea transportation was considered as the most preferable. Not surprisingly though, given that every year 14,000 vessels cross the Panama Canal carrying 280 million tons of cargo. The figures for the Suez Canal are even more impressive: these were about 18, 000 vessels in 2011 and the total annual revenues amounted to $5.2 billion. More recently there are the arguments in favor of the railway routes, but there are also a number of the following challenges:

- busy container traffic: the back loading issues and cargo consolidation issues;
- difficulties with maintenance of the regularity of the container trains, constant pressure to keep the schedule;
- paperwork, coordination of the operation of the customs and other control agencies;
- service and repair (mostly vehicles);

- information exchange between the traffic participants.

The transportation by land, however, has its advantages. These are, first of all, steadiness, shorter delivery time and regularity.

Enhancing Land Transportation

Kazakhstan faces a major challenge to enhance considerably the efficiently of its infrastructure of the land transportation and, therefore, increase the competitiveness of its services. This is actually the major challenge for all Eurasia.

The problem of organization of competitive land corridor is very apparent. The construction of a new railway line is the fundamental solution to this problems. Provided the project of construction of such a railway line is successfully implemented, it will connect China to Europe. Most importantly, such a railway will be the shortest delivery route by land in this particular direction that, by majority of the expert estimates, is to remain among the world busiest.

The railway, if constructed, shall cross the territories of Kazakhstan, Russia, Belarus, and Poland. The launch of such a project and its implementation will mean the introduction of new technologies, namely high-speed container trains that are able to cover 1,600 -1,800 kilometers per day. The transportation by the container trains will be even more efficient when they are placed in two tiers.

While realization of the project, it is very important to consider the possible need for transfer arrangements from the narrow to the wide rail gage within Kazakhstan. This will ensure minimal delay at the border and reduce the delivery time twice (6-8 days). The realization of the project on the construction of the transcontinental railway will help to avoid the delays on the borders and shorten twice the time of delivery, which will take only from six to eight days.

TRACECA Corridor: Geostrategic and Economic Potential

MARAT SAUDOV

The work of the Intergovernmental Commission (IGC) TRACECA is aimed at creating the favorable conditions for all the participants: robust and efficient transport policy of the parties, open access to the market that would take into account the transport security in the countries within and bordering the regions covered by the TRACECA, joint efforts in order to realize their geo-strategic and economic opportunities.

President Nazarbayev of Kazakhstan, within the framework of the *Kazakhstan – 2050 Strategy* and *the Nurly Zhol – Towards the Future National Program,* articulated clearly the importance of building and maintenance of the transportation hubs in both the East and West region of Kazakhstan as well as in Asia, the Middle East and Europe.

The challenge Kazakhstan faces shall be addressed on the background of the globalization process. Today, the consequences of economic globalization are:

- increased global division of labor;

- constant movement of a number industries from the developed countries to the developing ones and then from the developing countries to even less developed ones.

Globalization inevitably leads to increased importance of transit and boosts the role of the coastal TRACECA states that are aware of the social and economic benefits they can expect. However, the sea transportation, however, faces a number of challenges. The existing ports are on the edge of their capacities due to the constantly increasing volume of container shipping. As a result, many of them, including the major ports in Asia and Europe, are expected to limit to exclusively feeder services.

These factors influence the storage costs and force to look for the routes and means of transport that would provide the alternative to the established ones. The recent advances in the high-speed technologies make the sea transportation less obvious choice.

Moreover, excessive capacity of the container carriers exacerbates the tariff wars between the shipping companies and routes. Thus, the number of outports decreases.

Apart from that, maritime safety has become alarmingly problematic due to the widespread piracy. This issue is the most pressing in the narrowest locations with the busiest traffic. The revival of piracy in Southeast Asia and the Indian Ocean force shipping lines to choose longer routes. The anti-piracy measures are often costly and inefficient. Therefore, the investment into this sphere is not sufficient. The political instability aggravates the threat each day especially in the Aden and Suez canals.

The other significant factor is the changing balances of production, consumption and trade. The active development of the market of China means that its share in the world trade will inevitably increase despite the general slowdown in the key economies.

Apart from China, it seems sensible to bear in mind that the Asia-Pacific region is one of the fastest growing. According to expert estimates, in the next few decades, the major markets will shift from Europe to Asia where the consumer demand is higher.

These major shifts in the global trade shall impact TRACECA. To date, however, the bulk of the TRACECA international freight is focused on the traditional markets of the Black and Caspian Seas. Strategic decision taken, given that reorientation towards China, would be both timely and cost-effective. The expert estimates foresee the volume of transit from China trough the TRACECA countries to increase from 1.5 to 5 million tones in the medium and long terms.

Kazakhstan is very well aware of these trends and is willing to use them for its good. President Nazarbayev of Kazakhstan initiated the New Silk Road project with the active participation of foreign investors. Kazakhstan's aim is two-fold: to enhance its transport and logistics infrastructure, and, most importantly, to attract European and Asian countries to use its territory as a transit one for the purpose of the more efficient trade.

Thus, Kazakhstan, while developing its Aktau, Dostyk and Khorgos terminals, is planning the acquisition of some more terminals in the Black and Baltic Seas. Kazakhstan already has quite an extensive network that unites all types of transport and includes the terminal at the port of Lianyungang in China. Additionally, Astana takes all measures to realize its proactive stance on further integration in the TRACECA corridor.

A series of the strategically important railway lines such as the Zhetygen-Khorgos, Uzen-Turkmenistan and Zhezkazgan-Beineu significantly reduce the length and time of delivery. The railway network includes the TRACECA part that stretches for 1,200 kilometers from the Dostyk-Altynkol station to the Aktau port. This will also reduce transportation costs by 25-35%.

Kazakhstan also initiated the Silk Wind project in order to reduce the time of transportation from 16 to 12 days on the Altynkol - Kars route via the ports of Aktau and Baku. The project stipulates for the information exchange and overall coordination of the work of the customs of the participating countries. The ultimate goal of the project is the establishment of an integrated transportation and logistics infrastructure.

In 2013, the expert commission, which included the representatives of the all contracting parties, prepared the draft agreement that is to be signed in the nearest future. The conditions for regulation of the train flow between China and Turkey is being negotiated.

There are a series of additional measures planned to facilitate the international traffic: to build multi-lane border crossing points in order to eliminate the "bottleneck" effect and to modernize of the border crossing infrastructure to increase its capacity.

The tonnage of the vessels on the Caspian Sea enables to meet fully the current and expected demand for the rail-ferry and Ro-Ro traffic. However, despite the relatively high frequency, the existing services cannot be operated with sufficient regularity due to the poor condition of the ports infrastructure and too complicated border procedures. The other problematic issue is the delays on the railway stations and the rail lines due to their apparent deterioration.

The border crossing problem is rather complex. Firstly, the customs procedures on the border crossings and in the ports have to be considerably simplified and modernized so that they would meet the international standards stipulated in the documents signed by the TRASECA member states. Moreover, a procedure of prior declaration shall be established. Obviously, this is easier to achieve in the countries that operate the TIR-EPD, PAIES, or NCTS systems.

The second problematic issue is the port processing that includes berthing, loading and unloading; obtaining entry and exit permits; storage; maintenance of the port information systems; launching of user-friendly internet portals.

The additional task is to gradually introduce electronic booking systems and advance payments for the Ro-Ro and Ro-Pax vessels similar to those used in other seas. These will improve the shipping services in the Caspian Sea considerably.

Unification of the paperwork such as CIM SMGS will facilitate uninterrupted international transportation via container trains across the Caspian Sea. Introduction of integrated multimodal platforms would enable the customers to access easily the information on the door-to-door delivery tariffs.

To sum up, given increasing political instability in the world, the multi-vector foreign policy of Kazakhstan proved to be a wise chose. It helps to maintain the favorable conditions for further development of the transport infrastructure in Kazakhstan. A state that is politically stable is safe and, therefore, posses less risk. This is a very important factor for good functioning of the transport sector.

International cooperation based on the principles of openness, equality and mutual benefit pursued for the purposes of the revival of the Silk Road would enable the participating countries to become genuinely integrated into the global economic processes. The joint efforts are the preconditions necessary to achieve effective implementation of the new Silk Road project. The measures taken by Kazakhstan aimed at boosting its transport infrastructure and promoting the growth of the transit traffic are especially important given the overall intensification of transportation along the TRACECA corridor.

Energy Strategy of Azerbaijan amidst Global Instability

FARHAD MAMMADOV

The energy transportation corridors have been the priority on the agenda of Azerbaijan since its independence. The Aliyev's *National Oil Strategy* set a number of priority tasks: the first was to attract investments and introduce modern technologies, the second to build the pipelines that would be the property of Azerbaijan. That was a very pressing issue as due to the Nagorno-Karabakh dispute about the territory that comprises 20% of what is considered by Baku as occupied, the pipelines used by Azerbaijan to transport its oil were either in Georgia, Turkey or Russia.

Oil and Gas Pipelines in Azerbaijan

Azerbaijan oil is transported westward by three pipelines: Baku-Tbilisi-Ceyhan (BTC), Baku-Supsa and Baku-Novorossiysk.

The BTC pipeline has been transporting the Caspian oil from the Azeri-Chirag-Guneshli fields to the Turkish port of Ceyhan on the Mediterranean coast since its official opening on July 13, 2006. The BTC is 1,773 km long and passes through the territory of three countries: Azerbaijan (449 km), Georgia (235 km) and Turkey (1,059 km). So far, the annual volume of oil transported via the BTC is 1.2 million barrels or 50 million tons. The pipeline is designed for 40 years of uninterrupted operation with the capacity of 1 million barrels of oil per day at normal load.

The oil produced in the Azeri oil fields is not enough to ensure the profitability of the pipeline. For example, during 2014, more than 5 million tons the oil transported via the BTC belonged to the third parties. Therefore, it is extremely important to attract some oil from Kazakhstan. Kazakhstan is currently exporting its oil to the West via the Caspian Pipeline Consortium (CPC) and the Russian port of Novorossiysk as well as the Transneft system. On June 16, 2006, President Nazarbayev signed the agreement on Kazakhstan's joining the BTC. Under the agreement, Kazakhstan oil from Aktau is delivered by tankers to Baku via the Caspian Sea and is transported further by the BTC.

The Baku-Supsa pipeline was put into operation on April 17, 1999. The pipeline was built within the Azeri-Chirag-Guneshli project framework. Its length is 837 kilometers and the diameter is 530 mm. The pipeline begins in the Sangachal terminal and extends to the Georgian terminal of Supsa. The pipeline is operated by BP. The Baku-Supsa pipeline's capacity is 145,000 barrels per day with a possible increase to a maximum 600,000 barrels per a day.

The Baku-Novorossiysk pipeline transports the Caspian oil to the Russian port of Novorossiysk on the Black Sea. Since 2008, the controlling block of stock belongs to the Russian Transneft selling the oil under the Novorossiysk Urals brand. In January 1997, Russia and Azerbaijan signed the agreement that determines the amount and timing of the oil pumping and Azerbaijan undertook the obligation to transport 2.5-2.7 million tons of oil per year. The pipeline is 1,330 kilometer long, 231 of which pass the territory of

Azerbaijan. In Russia, the pipeline goes through Dagestan and Chechnya. The pipeline capacity is 2.55 million tons of oil per year.

Gas Pipelines in Operation

Currently, there are three active pipelines: the South Caucasus, Gazi-Magomed-Astara-Abadan and Mazdok-Makhachkala-Gazimagomed.

The South Caucasus gas pipeline or the Baku-Tbilisi-Erzurum was opened on Martch 25, 2007. The diameter of the pipeline is 42 inches and the length is 970 kilometers. In South Caucasus gas pipeline transports the gas produced in Shah Deniz.

Pipelines Projects

Azerbaijan is the only country able to launch the exploitation of the Southern Energy Corridor that includes three projects: the expansion of the South Caucasus gas pipeline, the Trans Adriatic Pipeline (TAP) and the Trans-Anatolian gas pipeline (TANAP).

The project aimed at the expansion of *the South Caucasus* gas pipeline started officially on December 17, 2013. The project's estimated outcome by 2018 is 16 billion cubic meters of gas per year, 6 billion of which will be delivered to Turkey and 10 billion will be exported to Southern Europe. The total cost is $735 million. The aim of the project is to build 428 kilometers of pipes in Azerbaijan and Georgia as well as to reconstruct 59 kilometers of pipes in Georgia. The construction works began in January 2015 and are to be completed by the end of 2016 in Georgia and year later in Azerbaijan.

Azerbaijan and Turkey signed the memorandum of understanding to establish the consortium to build a new pipeline to supply Azeri gas to Europe in December 2011. The pipeline, known as the *Trans-Anatolia Gas Pipeline (TANAP)* has the length of about 2,000 kilometers and will transit gas through Turkey from the Georgian to the Bulgarian border. The exact route has not been determined but the cost is estimated at $6.5 billion. The pipeline capacity on the first stage of exploitation is expected at 16 billion cubic meters per year, 6 billion of which will be delivered to the Turkish consumers and the remaining volume will be exported to the European countries. The second phase of the project is to be completed in 2023. The estimated increase in capacity is up to 24 billion cubic meters per year. The third stage, which ends in 2026, means even higher increase up to 31 billion cubic meters per year. The first gas transfer is scheduled for 2018. 58% stake in the TANAP project belongs to the SOCAR, the Turkish BOTAS holds 30% and BP has 12%.

The Trans Adriatic Pipeline (TAP) is to transport gas from the Caspian region to Southern Europe. The 520 kilometers of the pipes will go through Greece, Albania, Adriatic Sea, and Italy. The estimated capacity of the pipeline is 10 billion cubic meters per year with maximum possible increase up to 20 billion. The total cost of the project is estimated at 4-5 billion Euros.

It is very important to remember that the projects above are very geopolitically loaded. As for Azerbaijan, all projects in the energy sector have exclusively economic viability. The major interest of Baku is to avoid oversupply on the European market that may lead to price drop. Europe is moving away from nuclear energy and relies on environmentally friendly fuel, which is natural gas. Due to increasing demand for gas in Europe there is a room for Azerbaijan that is not going to compete with other traditional suppliers.

The crisis over Ukraine has made Russia divert the routes of gas supplies. The talks about the Turkish Stream through the Black Sea resumed. It should be noted that this change is only in the supply routes and will not affect the volume of the gas that has been prepaid and will be delivered to the same consumers. In these new realities, Turkey could become a major energy hub. That is in the interests of Azerbaijan because Turkey is its strategic partner and big investor ($ 20 billion until 2019). The Turkish Stream will not affect the price of gas supplied from Azerbaijan to Turkey either. The demand in Turkey is only to increase; currently it imports gas from Azerbaijan, Russia and Iran. Azerbaijani gas is the cheapest, while Russia and Iran are not planning to reduce the price.

Azerbaijan is closely following the negotiations on the Iranian nuclear issue. The sanctions against Iran are very likely to be lifted. It means a completely new situation on the world energy market. Azerbaijan considers transporting Iranian gas to Europe and, in the context, the Southern Energy Corridor is the only supply route available to Iran. However, it may take five or six years. Just in time for the scheduled start-up of the Southern Energy Corridor. Turkmenistan is also likely to join the Southern Energy Corridor across the Caspian Sea.

Given the variety and scale of the present and future projects, it is important to consider the following challenges:

- *shale gas:* there are plenty of speculations about the shale gas revolution. In the meantime, the USA is not willing to share the technology. The shale gas revolution in the United States changed its energy policy. The discourse shifted from the "energy security" to the "energy independence";

- *arctic oil and gas:* the vividly increasing tensions among the Nordic countries imply the competition for the huge energy reserves of the Arctic that may be exploited in two or three decades.

In conclusion, it is important to emphasize that the situation evolves very rapidly and each state must be ready for the challenges. Thus, it is vital to have the infrastructure and to develop the non-oil sectors of the economy to provide for the favorable conditions for sustainable and stable development.

Role of the Caspian Region for Development of Energy Corridors

LIDIYA PARHOMCHIK

The Caspian Region, being rather affluent in terms of the hydrocarbon resources, is one of the major centers in the system of the energy fuel extraction that is integrated into the world oil and gas markets. Additionally, the region of the Caspian Sea is also a very important component in the process of formation of the energy transportation infrastructure in the Eurasian continent.

To date, there are three priority areas of the oil and gas supplies to world markets:

- the European with the main consumers being the EU countries;

- the East Asian with China as a major consumer;

- the Middle East that connects the traditional production regions with the marine oil transportation routes.

In the medium term, the European route will remain the busiest for the Caspian energy resources transportation. All the Caspian Five expressed their interest in redirecting of the additional volumes of the hydrocarbons through the pipelines (present and future) that transport the raw materials towards the EU.

Although the East Asian destination has been gaining its significance recently, whether the volumes of the hydrocarbons extracted from the eastern Caspian coast (and the proximate areas) are going to increase will depend largely on the success of the mega-projects of Kashagan and Galkinish.

Progress in the negotiations on the Iranian nuclear issue conducted within the P5+1 Group, which comprises six international mediators and Iran, makes it possible for the Caspian countries are not only to restore the previous volumes of oil swap operations but even to increase them significantly.

While speaking about the three main corridors of the Caspian hydrocarbons supply, one should also take into account the existence of the sub-corridors that compete with each other for the access to the raw materials deposits and for the markets.

The European direction has the most extensive network of such sub-corridors. The following routes are worth special mentioning: Pro-Russian pipelines; Pro-European pipelines; and the Trans-Caspian routes.

It is important to note that the most intense competition is between Pro-European and Pro-Russian routes. As for the economic feasibility, both Pro-Russian and Pro-European pipelines are on equal footing. However, from the strategic standpoint, Pro-Russian arguments are clearly losing to its rivals. It is particularly apparent when analyzing the progress made in terms of the implementation of the South Energy Corridor project.

All in all, it is important to remember that one of the major features of the energy corridors passing through the Caspian Region is their dependence on the geopolitical situation.

Significant changes in the Caspian Energy Corridors configuration may only occur if the coastal states begin full-scale development of the largest oil and gas fields on the Caspian shelf.

Transport Strategy of China for Eurasia

ADIL KAUKENOV

After the dissolution of the USSR, China has been developing its transport and energy strategy for the Eurasian region. The process intensified in the early 2000s when the relations of China with its Central Asian counterparts were finally institutionalized and the geopolitical competition in the region aggravated after the US military bases were deployed on the territory of Eurasia to provide for the NATO troops in Afghanistan.

When the fifth generation of the Chinese leaders came to power headed by Chairman Xi Jinping, the strategic policy of Beijing in regards to transport and energy issues entered its new stage. The initiative of the Silk Road Economic Belt signified the shift to a more systemic approach that focused primarily on transportation and logistics. I presume that China's main goals in this respect are the following:

- to build the modern infrastructure to transport the energy resources from Eurasia to China;
- to build the transport corridor to export Chinese goods to the European markets;
- to build the land transport route conncted with Iran that is one of the major partner of China in terms of the energy cooperation in order to diversify the energy supply routes;
- to consolidate its positions in Eurasia;
- to diversify the land transport routes to Europe.

It is very important to understand the external and internal reasons why China is willing to invest so much into the infrastructure of Eurasia:

- to create the belt of friendly nations along its borders;
- to solve the problem of economic development of the Xinjiang Uyghur Autonomous Region (XUAR) that is lagging behind the mainland and specially the costal provinces of China. The economic and social underdevelopment of XUAR is considered as encouraging extremism and terrorism in the region;
- to win the geopolitical competition and prevent the other major powers from pursuing anti-China policies;
- to ensure uninterrupted energy supply given increasing destabilization in the Asia-Pacific.

Given the factors above, it would be sensible to argue that geopolitical considerations are the main reason for intensified economic policies of China. Beijing is obviously interested in yield from its investments. Yet, the question arises about the extend of its interest. Here are a number of cases.

According to Chinese experts, the containers have been loaded to be delivered from Jiangsu Province. Interestingly, the shipping by sea costs about $4,000 while the cost of the land transportation may reach $10,000. The losses of $5,000 are covered by central government. The only possible conclusion that can be made here is that China's interest in the transportation across Eurasia is so high that it is even willing to subsidize. The estimated cost reduction after the comprehensive program of modernization of the land transport infrastructure is $1.5-2,000. It is still more expensive than the sea routes. Therefore, the question about the feasibility of the land transportation remains.

Thus, projects on the transportation of energy resources are of particular importance as they the only option for the land routes to achieve profitability. The routes for energy supply are vital for China because of instability in the Malay Strait, tensions with Japan and Taiwan, geopolitical rivalry of the United States and instability in the straits of the Middle East. For example, the current situation in Yemen jeopardizes the safety of the Bab el-Mandeb Strait.

Then again, from China's point of view, the land routs may become the real competition to the maritime routes only if they reach Iran. Without Iran, these routes may only help to meet the demand in the western provinces of China. This is already something given the situation in Xinjiang. Therefore, there are a number of projects of particular importance within the New Silk Road. Some of them are discussed below

The High-speed Railway Moscow-Beijing is being negotiated. The estimated time is only two days. The route is to pass through Kazakhstan and to link a number of cities. For example, the travel from Astana to Almaty will take 3.5-4 hours and it will take less than a day to travel from Almaty to Moscow. The Chinese party has almost bult the Beijing-Urumqi railway. It is interesting that the Chinese have agreed to invest the Russian segment stretching from Moscow to Kazan, the constructing of which was suspended due to the financial problems.

The Kazakhstan segment of the railway shall connect Almaty with Astana. The construction of the independent branch was shelved after it had been considered extremely costly and unprofitable by JSC Kazakhstan Temir Zholy since the passenger traffic between the two cities is not intensive enough. The international framework, however, have resumed the interests in the project that, if successful, will enable passengers to get from Almaty to Moscow and to Beijing by train in less than a day and to Astana and Urumqi just in few hours.

The Transcontinental Corridor Western Europe–Western China is vitally important for the landlocked Kazakhstan. Moreover, there is a need for building the branch in some regions, particularly to Uralsk. That would solve many transportation issues in West Kazakhstan. Most importantly, it would mean the access to Samara agglomeration.

The railway have been launched from Chongqing in Southwest China to the Alashankou station in Xinjiang then through the territory of Kazakhstan, Russia, Belarus, and Poland to terminate in the German city of Duisburg. The total travel time is estimated at about 16 days, which suggests that this route is more competitive compared to the historically known Chinese Eastern Railway (CER) as it is 1,000 km shorter.

The Railway Beijing–London shall begin in Beijing, run through China to Khorgos then via the newly constructed Zhetygen branch in Kazakhstan to the Zhezkazgan-Beineu*, which is under construction, and from there to the port of Aktau. The Chinese segment has already been built and the Kazakhstan segment is to be completed in the nearest future due to the special attention to the project paid by Kazakhstan's leadership.

The next branch shall connect Baku to Tbilisi and then to the Turkish city of Kars. However, the troubles in August 2008 interrupted the realization of the project. In addition, the Georgian press and some parts of elite are openly against the new road that is beneficial first and foremost for Azerbaijan because it enables them to bypass Armenia. At the same time, the Georgian government, being interested in the project, provides its territory and has borrowed a very large sum to ensure its successful realization.

Next, the railway goes through Turkey mostly due to China's investment amounting to $30 billion. The high-speed railway will connect the western and the eastern ends of Turkey. The agreement was reached during the visit of Prime Minister Erdogan to China. The launch of the railway is scheduled in 2023. The entire travel though Turkey will take eight hours instead of the current month. The Marmaray railway tunnel provides the access to the European railway network.

The Railroad China-Kyrgyzstan–Uzbekistan will connect the Chinese railways with Uzbeki-

* Apart from the Beijin-London Railway, the Beineu is an important point for numerous prospective routes.

stan and beyond through Afghanistan. Then one branch shall to go Iran and the Middle East. The other shall be joined with the Turkey-Europe railway network mentioned earlier.

Xi Jinping, being in Tashkent and Bishkek, reminded of the long history of the railways projects that have not been realized. Despite the years of negotiations, the willingness of the Chinese side remains. The planned route will reduce the time of transportation considerably. Importantly, the gauge will meet the European standard of 1,435 mm, as China insisted, while the common standard in Central Asia since the Soviet times is1,520 mm.

The project, however, is facing some obstacles. Last year, President Atambayev made a statement that Kyrgyzstan did not consider the railway to be in the interest of his country in economic terms as it was only beneficial for China and Uzbekistan. President Atambayev sent a clear signal to China. As the major issue for the project was its funding, Kyrgyzstan considerered foreign loans including those from the Chinese Eximbank. However, Kyrgyzstan's substantial external debt and the cost of the Kyrgyz section that exceeds $ 2 billion may encourage China to build the railway in exchange for a mineral deposit in Kyrguzstan. The reaction of the public to the speculation about the future deal in Kyrgyzstan was very negative. The government was quick to deny any allegations.

The political tensions of Uzbekistan and Kyrgyzstan impact the prospects of the Chinese-Kyrgyz-Uzbek railway. It took years to agree about the exact route of the railway. Tashkent insisted on the Irkeshtam crossing point on the Sino-Kyrgyz border. The choice was made in favor of the Torugart on the border between China and Kyrgyzstan. The estimated length of the railway line is about 268 kilometers. It will connect the Chinese city of Kashgar with Torugart, the Fergana Valley, Uzgen and Kara-Suu in Osh region to terminate in Andijan.

Tashkent is interested in Kashgar-Andijan route as the Uz-Daewoo auto plant, located in Andijan, receives about 80% of the components for from South Korea.

The Railroad China-Kyrgyzstan-Tajikistan-Afghanistan Iran was proposed by Dushanbe to overcome its isolation and the issues arising from the difficult relations and frequent transport and energy disputes with Uzbekistan. Iran was interested in the project and willing to invest in the Kyrgyz section of the railway. The Trans-Afghan railway, to which China could join, may be also included into the network.

On March 20, 2013, in Ashgabat, Presidents Berdimuhamedov, Rakhmon and Karzai signed the memorandum of understanding between Turkmenistan, Afghanistan and Tajikistan on the construction of the Trans-Afghan Railway. However, the difficult military and political situation in Afghanistan makes the success of transport projects across Afghanistan and Pakistan quite questionable.

The project of *Silk Road* proposed by China was responded quite enthusiastically in the Caspian Region. For example, Kazakhstan signed the agreement with the authorities of the city of Lianyungang in Jiangsu Province of East China on construction of the Kazakhstan terminal to access the markets in Japan, South Korea and Southeast Asian. Therefore, Astana considers the project to be of strategic importance within the comprehensive mearures that are being taken to realize the transport potential of the country.

The Transport and Logistics Hub is another important element of the New Silk Road for Kazakhstan. The project is implemented by the JSC "NC" Kazakhstan Temir Zholy in Western Kazakhstan with the ultimate goal being to expand the seaport of Aktau and build a logistics center in Aktobe to make them the western gate to Kazakhstan from the Caspian Region and Europe. Iran and China have expressed interest in establishing a regional transport corridor that would link the commercial and industrial area of the Anzali port in Iran to Aktau in Kazakhstan and to the Chinese Xinjiang.

Finally, the Railroad *China-Kazakhstan-Turkmenistan-Iran* is being constructed to connect China with the Persian Gulf through Kazakhstan. The Turkmen-Iran segment is due in 2014.

China's comprehensive transport strategy in Eurasia is successfully pursued via bilateral and multilateral formats, for example the Shanghai Cooperation Organization. The SCO adopted the agreement stipulating for creation of the favorable conditions for international road transport. Additionally, the transport ministers of SCO members, meeting on November 15, 2013 in Tashkent, agreed to pay special attention to development of transport infrastructure, in particular, the implementation of the railway projects.

To conclude, successful implementation of the transport strategy of China in the post-Soviet space will make the impact of geopolitical scale on the entire Eurasian continent. Development of new routes will change significantly the economic structure of the region and the continent beyond. On the one hand, it will create a new system of economic relations between Asia and Europe, in which the Eurasian region could take the key role of a transcontinental bridge. On the other hand, the regional balance may change as well and that would increase the competition among the major global powers for the influence in the region.

Kazakhstan's Logistical Network in Strategic Locations: Prospects and Possible Benefits

YEVGENY HON

The diversification of the transportation routs and having a comprehensive network of the terminals in all strategically significant locations is increasingly important given the intensity of the economic development of Kazakhstan and necessity to enter the international markets. While articulating his *Nurly Zhol – Towards the Future National Program,* President Nazarbayev of Kazakhstan laid on the government the responsibility to consider the issue of building or leasing a number of terminals in the sea and inland ports of China, Iran, Russia and the other CIS countries in order to increase the cargo turnover through the territory of Kazakhstan to meet a strategic target to transform the country into the main transit hub between Europe and Asia.

The decision of Kazakhstan to have the terminals in the seaboard regions of China is prompted by the fact that a number of the world largest sea ports are located in this country. According the Russian's TIS Logistics, five of ten world largest ports are now in China (TIS Logistics, 2015). Moreover, the largest industrial centers are also located in these seaboard regions of China: more than half of the capital stock of the state industry in China are located in the major cities of the eastern coastal provinces of Jiangsu, Shanghai, Liaoning, Shandong, Guangdong, Zhejiang provinces: these are 13.1% of all enterprises, 9.6% of the food and mechanical engineering industries, 4.7% of the textiles, 2.4% of the oil and gas industries (UGL, 2015).

In April 2014, Kazakhstan began to build the first terminal in the eastern Chinese port of Lianyungang. The Lianyungang Port, located in the province of Jiangsu of East China, has an advantageous geographical position being connected by rail with other major Chinese ports, namely Qingdao, Tyantszyan, Dalian and Shanghai, and by sea with the Korean and Japanese ports of Busan and Osaka respectively.

Additionally, Kazakhstan shall consider building a number of terminals in the southern regions of China that would be situated either within or near the major commercial centers. Given the data provided by the Eurasia Logistics (2015) the following locations appear to be the most promising:

The Shenzhen Sea Port - with the TEU capacity of 23 million as estimated in 2013 – is situated near Hong Kong in the southern China's province of Guangdong. The port is divided into two by a peninsula with the western part for larger vessels as it has the deeper waterway.

Guangzhou on the Zhu Jiang (Pearl River) in the province of Huanan has the TEU capacity of 16 million as estimated in 2013. It is a major sea port and the city of international importance playing a leading role in the foreign trade of China. The port links China with 170 countries.

Fuzhou - with 2 million of TEU capacity as estimated in 2013 - is located in the southern part of the mainland China on the western coast of the

Taiwan Strait. It is the main sea port of the mainland China and the largest foreign trade center of Fujian province (Eurasia Logistics, 2015).

The implementation of the abovementioned projects will enable to maintain a steady transit via the railways towards Kazakhstan and felicitate its access to the markets of Japan, South Korea and Southeast Asia.

Expansion of the Kazakhstan's logistical network to Iran is also worth thorough consideration. For example, Kazakhstan may take measures in order to reach the Gulf of Oman via the Iranian city of Chabahar, which has the status of a Special Economic Zone (SEZ). Investing in the Chabahar SEZ and having own terminals and "dry" ports there will not only enable Kazakhstan to increase the freight traffic but also to avoid the potential losses caused by the delays due to the instability in the Strait of Hormuz.

To date, Iran carries out 85% of the sea trade via the southern port of Bandar Abbas. However, it takes only the cargo vessels with the 100,000 ton deadweight. Since the bulk of cargo is transported on the 250,000 ton deadweight ships, they first have to be unloaded in the United Arab Emirates, and then the cargo is transported on the smaller ships (Neftgas, 2014). This situation leads to substantial cost increases. Moreover, a possibility of a conflict between Iran and the United Arab Emirates shall also be considered. In such a case, the transportation of goods will be interrupted. The Chabahar port, on the other hand, has the deeper waterway and lacks the abovementioned shortcomings. It is, therefore, more attractive for Kazakhstan in terms of investments.

The Iranian government has been actively promoting the Chabahar SEZ among both the domestic and foreign investors. The Iranian-Indian cooperation is the most visible in this context. The Indian logistics companies have expressed great interest in investing into the Chabahar port's infrastructure as they expect significant reduce in the transport costs of the Indian exports to the countries of Central Asia. Currently, the bulk of the container cargo is delivered to Iran through Dubai.

The oil and gas industry is to play an important role in the future of the Chabahar SEZ. Iran is planning to build a petrochemical plant in Nagin-Mekran. The leadership of the Islamic Republic expects the implementation of this project in the Chabahar SEZ to accelerate the economic development in Southeastern Iran, to create new jobs and to make the Chabahar port an important commercial and industrial center of the country.

Currently, the Chabahar SEZ attracts the investments from such countries such as India and China as well as numerous Iranian companies. Their interest in the Chabahar projects is also promoted by the benefits of its petrochemical industry outside the narrow Strait of Hormuz. The other reasons are the SEZ legislation and the proximity to the export markets of India, China and Central Asian countries. In addition to the two seaports and the international airport, there has been a railway built in the Chabahar SEZ and a modern hospital and an university as well as recreation facilities.

For Kazakhstan, the most attractive are the projects of the Chabahar SEZ to expand considerably the container transport routes. Back in 2012, the news agencies in Iran (2014) reported the plans to launch a number of shipping lines, namely Chabahar-Singapore-China, Chabahar-Dubai, and Chabahar-Oman. Participating in these projects will enable Kazakhstan to enter the markets of Southeast Asia and the Middle East in the future (Iran.ru, 2014).

Alongside with China and Iran, Russia is a very promising direction of further development of the Kazakhstan's logistical network. The access to the Black Sea has strategic importance for diversification of the export routes for Kazakhstan. In total, the cargo turnover in the Azov-Black Sea ports is the second largest after the Baltic Sea.

A significant volume of maritime traffic through the Black Sea is the tankers exporting oil and oil products from the ports of Russia (primarily Novorossiysk and Tuapse) and the ports of Georgia (Batumi). In addition to the existing Kazakhstan terminal in Batumi, it appears sensible to consider the possibility of building a terminal in Novorossiysk.

Novorossiysk Commercial Sea Port (NCSP) is one of the largest transport hubs in Southern Russia. In 2013, its turnover reached 141 million tons (NCSP, 2013). According to the Russian Sea Ports Association, in terms of the cargo turnover, the NCSP is the largest in Russia and the fifth largest in Europe. The port is located on the northeast coast of the Tsemess Bay and is open for navigation all year round.

Being the largest in Russia, according to Steinweg Handelsveem (2015) the NCSP provides a full range of stevedoring services for transhipment of the liquid, bulk and container cargoes. The NCSP has 45 wharfs (with total length of over 8.5 km); 32 of these are the cargo ones, 10 are auxiliary, and 3 are the passenger quays. 22 cargo berths are used by dry cargo vessels, 8 by for oil tankers, and 2 are used for handling wine and vegetable oil in bulk. The one of the auxiliary berths is used for the fuel bunkering and in the other one the vessels are supplied with water. The rest are the harbor craft parking (SH, 2015).

The port of Novorossiysk is a very important in terms of the providing a steady transit of cargo to Europe with its wide underground railway network. The NCSP is the final destination for the Russian section of the North-South International Transport Corridor and a part of the TRACECA. The Novorossiysk railway station and the NCSP are the single hub for transshipment functioning on the basis of the constant information exchange as well as joint daily planning. Having the terminal there will reduce the costs of Kazakhstan's exports making the domestically produced goods more competitive.

To sum up, building terminals abroad is of key importance for the economy of Kazakhstan as it may facilitate considerably the further development of its transport potential and, ultimately, increase its export. Moreover, a comprehensive network of terminals may enhance traffic through the territory of Kazakhstan and help transformation of the country into a major transit hub between Europe and Asia. In this regard, such a network, being a part of the transport and logistics infrastructure of Kazakhstan, will enable the country to resist the negative trends of the global economic development. More importantly, it will increase the capacities of Kazakhstan to benefit from being a genuine integral part of the global economy as it has been articulated as the first priority of the *Nurly Zhol – Towards the Future National Program.*

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Characterizing Integration within the Eurasian Space

BULAT MUKHAMEDIYEV
AZIMZHAN KHITAKHUNOV

Continuous globalization of the world economy is the background for the new regional integration entities, the number of which is constantly increasing.

Regionalization has become an integral feature of the contemporary international economic relations. Each of the major geographic regions is witnessing the emergence of the regional economic integrations that are being created with the geopolitical or economic goals that vary considerably from region to region.

The states of the former USSR have been engaged into numerous integration processes of the both regional and global scales. This paper presents the results of the analysis of Kazakhstan's involvement into these integration processes. The major focus is on their impact on the domestic developments in Kazakhstan. More specifically, the paper is aimed at understanding the reasons why the numerous efforts to push for further integration of the post-Soviet states of Central Asia failed while the attempts with the broader composition of the participants were successful. Structurally, the paper first deals with the issues of the Central Asian integration; it, then, proceeds to the analysis of the economic integration within the EurAsEC; finally, it discusses the case of the integration of the regional transport infrastructure.

Integration Initiatives in Central Asia

Since gaining their independence, the former Soviet Republics of Central Asia, namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan have differed much in terms of their economic and political development.

Kazakhstan is internationally recognized as the most successful of the other Central Asian states. The apparent achievements may be credited, among other things, to the fact that the leadership of the country worked out the coherent *Kazakhstan - 2030 Strategy* of its economic and social development. So far, Kazakhstan has gone a long way in terms of the economic growth, living standards, financial sector, healthcare and education. As for HDI, GDP and GDP per capita, Kazakhstan's performance is the best in Central Asia (Table 1) and the second best among the other post-Soviet countries after Russia.

Table 1. **Social and Economic Indicators of Central Asian Countries in 2013**

	Human Development Index (HDI)	Population, mln.	LIfe Expectancy	GDP, bln. $	GDP per capita, $ (PPP const. 2011 int.)
Kyrgyzstan	125	5,7	67,5	7,226	3109
Tajikistan	133	8,2	67,2	8,508	2431
Turkmenistan	103	5,2	65,5	41,85	13554
Uzbekistan	116	30,24	68,2	56,79	5002
Kazakhstan	70	17,03	66,5	224,414	22466

Sources: *Human Development Report* and the World Bank World Development Indicators*

* Available on http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf

Importantly, unlike some of the Central Asian states, Kazakhstan has been oriented to the maximum economic engagement in the world markets and has done better than the other CIS and Central Asian nations in terms of the world trade (Table 2).

Table 2. **Share of the CIS, Central Asia and Kazakhstan in World Trade in %**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CIS/World	2,21	2,37	2,65	2,99	3,25	3,40	3,98	3,32	3,56	3,94	4,01	3,86
CA/World	0,25	0,26	0,30	0,34	0,40	0,45	0,54	0,48	0,50	0,57	0,57	0,56
Kazakhstan/ World	0,14	0,16	0,20	0,24	0,28	0,30	0,38	0,30	0,35	0,40	0,40	0,38

Source: *authors' own calculations based on data from UNCTAD*

Apart from making considerable efforts to improve the economic and social performance domestically, Kazakhstan has been quite active internationally participating in or trying to promote a number of integration structures within both the CIS and Central Asia. These are the EurAsEC, EES, CAEC, SPECA, TRACECA, INOGATE, CAREC, EEU (Table 3).

Table 3. **Regional Organizations in Eurasia**

	EurAsEC	EES*	CAEC	SPECA	TRACECA**	INOGATE***	CAREC	EEU
Azerbaijan				×	×	×	×	
China							×	
Kazakhstan	×	×	×	×	×	×	×	×
Kyrgyzstan	×		×	×	×	×	×	*
Mongolia							×	
Tajikistan	×		×	×	×	×	×	
Turkmenistan				×		×	×	
Uzbekistan			×	×	×	×	×	
Russia	×	×	×					×
Iran					×			
Pakistan							×	
Turkey					×			
Afghanistan				×			×	
Armenia					×	×		×
Belarus	×	×				×		×
Georgia					×	×		
Moldova					×	×		
Ukraine		–			×	×		

Source: *[3, p.51], updated by the authors.*
Note: "-" means that the country is not involved in the merger, but was involved;
** Kyrgyzstan signed an agreement on joining the Eurasian Economic Union (EAEC), but membership is expected in May 2015*

One of the illustrative examples of the integration attempts in Central Asia is the Central Asia Regional Economic Cooperation (CAEC) between Kazakhstan, Kyrgyzstan and Uzbekistan. The respective treaty on the CAEC, signed in 1994, stipulated the formation of a common economic space. After the end of the civil war in Tajikistan, Ashkhabad joined the CAEC in 1998. However, the parties to the treaty did not take any practical moves aimed at its actual realization.

The geopolitical situation changed a decade later. In 2002, the CAEC member states resumed their integration efforts to create a common economic space and transformed it into the Central Asian Cooperation Organization (CACO) with the additional considerations to pursue a co-

[*] In February 2003, the leaders of Russia, Belarus, Ukraine and Kazakhstan announced an agreement on the formation of the Common Economic Space.

[**] Transport Corridor Europe Caucasus Asia

[***] Interstate Oil and Gas Transport to Europe

ordinated foreign policy in the relation to the situation in Afghanistan. However, this attempt was not a success either (Laruelle and Peurouse, 2012).

After the accession of Russia into the CACO in October 2004, the organization lost its capacity of an independent integration association of the states in the region. On October 6, 2005, the Central Asian Cooperation Organization merged with the Eurasian Economic Community. As Syroejkin put it (2010), it became apparent that the purposes of both the CACO and the EurAsEC coincided. In 2007, President Nazarbayev of Kazakhstan initiated the establishment of the Central Asian Union. Yet, according to Peyrouse (2012), the proposal was rejected by Uzbekistan and Turkmenistan.

There have been a number of integration structures initiated elsewhere where Kazakhstan has been a rather active and enthusiastic participant. The United Nations Special Program for the Economies of Central Asia is one of them. It was established under *the Tashkent Declaration* on March 26, 1998 and signed by Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan as well as the Executive Secretary of the UN Economic Commission and the Economic and Social Commission for Asia and the Pacific (ESCAP). Later Afghanistan, Turkmenistan and Azerbaijan joined the SPECA[*].

It has been reported (Laruelle and Peurouse, 2012) that by 2004, the SPECA had formed six working groups to tackle a number of problematic issues in the regions, namely the transport, water, energy resources, trade, statistics, education and economy. All in all, the SPECA facilitated the implementation of the 28 projects (Laruelle and Peurouse, 2012).

But, despite the fact that the SPECA was the institutional organization established to boost the trade cooperation among the Central Asian counties, its achievements were minimal mostly because of the lack of self-financing mechanisms.

The other reason was that some member states distanced themselves from the full-fledged participation. For example, Uzbekistan and Turkmenistan would ignore the meetings of the SPECA Council. Paradoxically, the SPECA resulted in dividing the countries of Central Asia rather than uniting them. Moreover, the SPECA failed to fill the vacuum left by the ineffectiveness of the CACO. Some experts believe that if the CACO had been a success there would not have been any need in establishing the SPECA in the first place (Pomfret, 2009).

Therefore, it would be sensible to maintain that the integration initiatives in Central Asia were impeded by the reluctance of some states to cooperate. The Central Asian states, being rather opportunistic, often used the agreements on the trade cooperation and other matters of economic nature as the instruments of political pressure in order to gain some short-term benefits.

The disputes among certain states in Central Asia, especially those about the water resources, impeded the chances for successful integration. The existing disagreements did not motivate the states concerned to negotiate in order to find the common solutions. The other reason for the integration initiatives not being a success is that some countries in the region made strategic choices in favor of self-isolation, namely Turkmenistan and Uzbekistan. The uneven socio-economic development of the countries of Central Asia may be considered as an additional factor that prevented the countries of the region form economic integration. Finally, the establishment of the Eurasian Economic Union (EEU) with the participation of Kazakhstan and Kyrgyzstan suggested that the Central Asia should no longer be considered as a single economic and political region. Indeed, it can be named a "region" only in geographical terms.

Integration within the EurAsEC

The Eurasian Economic Community (EurAsEC) was established in 2000 on the initiative of President Nazarbayev of Kazakhstan. According to Mukhamedzhanova (2012), the EurAsEC was an international economic organization created to effectively promote further moves towards the formation of the Eurasian Customs Union (ECU) and the Eurasian Economic Space (EES) as well as to facilitate the achievement of the other goals in further integration in the economic and humanitarian fields. The treaty establishing

[*]Available http://www.unece.org/fileadmin/DAM/SPECA/documents/gc/session8/ANNEX_VII_ToR_

the EurAsEC came into force on May 30, 2001 (Mukhamedzhanova, 2012).

The main objectives of the EurAsEC were to form the free trade area, to introduce the common customs tariff and non-tariff regulation system, to build the single financial energy and transport services markets with the eventual launching of the single transport system. The EurAsEC was also supposed to facilitate the work aimed at reaching an agreement on the principles for the transition to the common currency (Laruelle and Peurouse, 2012).

The fact that the *Treaty on Eurasian Economic Community* was signed signified the willingness of the states concerned to participate into deeper integration. It is apparent that the Eurasian Economic Community created the preconditions necessary for the establishment of the Eurasian Customs Union and the Eurasian Economic Space of Kazakhstan, Belarus and Russia that, otherwise, would have been impossible.

The question remains, however, why it took ten years for the ECU to start functioning. The reason for the delay is the economic history of the Eurasian Economic Community itself. In October 2000, the "Union of Five " was renamed the Eurasian Economic Community under the treaty signed in Astana, which entered into force in May 2001. The treaty stipulated the enhanced institutional interaction among the member states to deepen their integration. The emphasis was made on the free trade area, the single market of labor and capital as well as the harmonization of general economic policy.

An important idea within the EurAsEC was to coordinate the actions of the member states aimed at the joint entering the WTO. The idea was not realized as Kyrgyzstan had already become a member of the WTO. Some experts argue (Pomfret, 2005), that, unlike its predecessors, the Eurasian Economic Community began to function as a genuine economic integration association. In 2003, Kazakhstan initiated the discussion about necessity for further integration. That was responded quite unenthusiastically and the cooperation within the EurAsEC deadlocked (Pomfret, 2005).

The ECU states, namely Belarus, Kazakhstan and Russia, signed the *Agreement on the Common External Tariff* in February 2000. The approval and adoption of the list of the common tariffs was scheduled for 2005. In 2007 the further integration within the EurAsEC was drastically interrupted by the world crisis. However, despite numerous difficulties and obstacles, the EurAsEC was the first time when the member states were united within a genuine economic integrated structure and, therefore, may be considered as a successful move forward towards deeper integration that eventually resulted into the establishment of the EEU.

Integration of Regional Transport Infrastructure

Kazakhstan, as the other Central Asian states, is a landlocked country. There are considerable empirical evidence that this impedes the country's potential for foreign trade making its cost too high (Raballand, 2003). Therefore, having a developed transport infrastructure in the region of Central Asia is a vitally important.

In 1997, the Central Asian Economic Cooperation (CAREC) was launched to adress that issue*. Alongside with the TRACECA and INOGATE, the CAREC was an attempt to develop the transport infrastructure of the region. In 2010. Turkmenistan and Pakistan joined the CAREC. The project itself had a broader goal; the side effect of its functioning should be the additional stimuli for the economic development and decrease of poverty in the region. In 2006 - 2008, the states, participating in the project, signed a series of agreements on cooperation in the fields of transport, energy and trade. By 2011 CAREC had been worth $15,046**.

The CAREC Transport and Trade Facilitation Strategy (TTFS) and the *Action Plan* for its implementation were aimed at improving the competitiveness of the region and expanding of the mutual trade within the CAREC as well as increasing the foreign trade with the rest of the world. The Strategy contained the instruments for measuring and monitoring the effectiveness of the six CAREC corridors that connected the key economic centers of the region within each other and linked the CAREC countries with the broader Eurasian and global markets. The strategic location of the region covered by the CAREC project made

* CAREC, TRACECA and INOGATE projects are the development of transport infrastructure

it a land bridge connecting the Caucasus, Middle East, East Asia, Europe, Russia, and South Asia. It offered tremendous opportunities for transport and trade with the rapidly developing economies of these regions.

The Eurasian Customs Union of Belarus, Kazakhstan and Russia facilitated further expansion of the market of 168 million people. Within this configuration, Kazakhstan had become the access point to penetrate the markets of Russia and Belarus for the other participating states. At the same time, the ECU challenged CAREC because the adjustments Kazakhstan made in respect of the customs procedures, tariffs and other related measures created difficulties for the countries that were not members of the Customs Union (CAREC, 2012a).

The Eurasian Customs Union of Belarus, Kazakhstan and Russia, which entered into force on January 1, 2010, abolished the customs barriers by July 2011 and, therefore, the time heavy lorries needed to cross the border between Kazakhstan and Russia decreased from the average 7.7 hours in 2011 to 2.9 hours in 2012. Consequently, in 2011, the volume of the trade between the two countries increased by 66%. On the contrary, the time needed to cross the border of Kazakhstan on the countries that were not the members of the ECU increased from 8,6 hours in 2011 to 21,5 hours in 2012 (CAREC, 2012b).

Thus, the CAREC was especially relevant for Kazakhstan. It brought a number of positive changes in terms of the investment, facilitated the access of the Kazakhstan-made goods to the regional and world markets, pushed the development of the transport infrastructure and reduced the transportation costs. Thus, the competitiveness of Kazakhstan goods and the competitive capacities of Kazakhstan manufacturers increased. The corridors expanded and, more importantly, transformed their nature from being merely transit into economic ones creating additional jobs in Kazakhstan.

Conclusion

President Nazarbayev of Kazakhstan made a number of integration initiatives for Central Asia that have not been realized. The Central Asian states were unable to form an integrated economic region. The major reason for that is the lack of the political will in the countries concerned. The fact that the numerous treaties signed by the Central Asian countries were not implemented proves this point. Moreover, the provisions and purposes of the treaties on regional integration overlapped and were merged by one another. This also signified that the major players were neither ready nor willing to proceed towards a genuine economic integration.

In the meantime, despite a number of problematic issues, the integration within the EurAsEC laid the foundations for the establishment of the EEU (the idea had been articulated for the first time by President Nazarbayev as well). Thus, the EurAsEC became the dialogue platform that facilitated the agreement on the common customs tariff and non-tariff regulations to stimulate the mutual trade and coordinated work to formulate the common approaches to the economic policies. Unlike its predecessors, the EurAsEC was able to function as an economic integration entity. Therefore, the EurAsEC is rightly considered as a major facilitator of the establishment of the EEU.

There were a number of the side projects Kazakhstan was involved in. The CAREC aimed at integration of the transport infrastructures of the countries of the region of Central Asia had some positive effect on the economy of Kazakhstan providing the access to the commercial centers and the world markets beyond the EEU. The CAREC implementation enabled Kazakhstan to use its transit potential, transformed its transit routes into the full-fledged economic corridors and stimulated employment.

To sum up, it would be sensible to conclude that the integration projects, which were aimed at facilitating the economic development of the all their members in the longer run, proved to be beneficial for Kazakhstan in terms of the improvement of the living standards. Whereas, the sporadic moves aimed at gaining political benefits rather then at building a standing economic integration entity are harmful for the relationship of the countries of Central Asia decreasing the trust and increasing the tensions among them.

* Available on http://www.adb.org/countries/subregional-programs/carec

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Figure 1. CAREC Corridors
Sourse: http://www.carecprogram.org/uploads/docs/CAREC-Publications/CAREC-CPMM-Annual-Report.pdf

Scenarios for Eurasian Integration

LILIA MERGALYEVA

None of the countries in the world can survive without being economically linked with the other. The economy of any individual country exists as a part of the global economy.

The globalization is being facilitated by high-speed transportation, telecommunication, other communication means and media, higher level of education. The globalization process is primarily triggered by the human desire to improve constantly their living standards. The development of the global economy is fast and spontaneous despite the state borders and other barriers. In this respect, it is very much alike the process of natural evolution.

It is important to bear in mind, that not everybody is supporting a natural way of economic evolution; the likelihood of military conflicts is currently very high as there is a possibility of global economic development being managed by a single world power or a global government. This is in the direct contradiction with the principle of evolution that stipulated for the balance of powers. Thus, multipolarity, being the vital condition for a fairer world order, is the main feature of the contemporary situation.

The factors above impact the integration processes that are being unfolded in the contemporary world. States have the two options; they may adjust to the inevitable globalization trying to use the process for their good or chose the policy of isolation, which is a counterproductive course of action.

Given the accelerated globalization, a vast number of states have chosen to enter various regional alliances and agreements. The bulk of these engagements are economic by nature. Many of them, namely the WTO, ASEAN, APEC, EU, and BRIC are aimed at increase of export, removal of barriers and cooperation amidst intensified global competition. Therefore, the countries of the world tend to unite within regional economic blocks in order to pursue their common interests.

There are no any "new emerging markets" left on the planet. This is a genuine challenge for the global hi-tech business. The competition is likely to intensify even further on the markets of America, Europe, and Asia.

During the recent years, the CIS countries have become the major markets for the food manufacturers from the EU. Yet the post-Soviet markets are no longer adequate to the economic growth of Germany, Italy and Japan. New technologies are either transferred or invented in the Eurasian space. The international sanctions prevent the access to Russia (Kovalev, 2014).

The natural resources of the planet Earth are being exhausted. The competition for these resources motivates the states to unite in order to ensure the access to them. Regionalization is becoming a means to boost the competitive capacity of the national economies concerned via inclusion of the national economies and companies into the relations of global competition as being united they would become more capable to do so.

The trend of integration is manifested in the establishment of the engagements of political and economic character in the format of regional integrated groups or blocks usually uniting the neighboring states for the purpose of pursuing the common interests in economic, political and even military fields. The other option is regional and inter-regional trade agreements concluded by states and economic unions in order to establish a preferential regime for the participants in terms of the access to the markets of the fellow members.

Given the multipolarity of the world order and the competition for the markets of both consumer goods and raw materials, Kazakhstan faces a number of challenges. Kazakhstan is not to claim a status of a great power, the nation's ambition is to be among those states that have found their niche in the global distribution of the hi-tech production. This is how Kazakhstan is going to use globalization for its own good. This is the only way the country may survive today amidst intensified global competition.

From the one hand, Kazakhstan's chances to occupy its place in the club of the hi-tech economies are being diminished as the technologies are constantly changing, those outdated are replaced with the most cutting-edge ones. The Nokia's retreat from the markets because of the advancement of the Apple and Samsung or Kodak's virtual disappearance from the international market are very illustrative examples.

From the other hand, the speed and extend the new technologies are able to win the markets when they are of a genuine demand by the consumer increase the chances of any country. Kazakhstan shall introduce new technologies everywhere from production to retailing, from basic services to education.

If Kazakhstan is serious about its ambition to be among the most technologically advanced nations, it will have "to cut the wall through to have the window to Europe"*. Kazakhstan is a landlocked country, rather remote form all transportation routs and its transit potential is still underdeveloped. Therefore, the Eurasian Economic Union may become such a "window to Europe" for Kazakhstan. The pragmatic policies within the Eurasian Union are essential for Kazakhstan. The nation shall not be diverted from its track following the examples of Singapore and Malaysia in terms of economic breakthrough, from its ambition to become a next [Euro]Asian tiger.

The strategic goal of Kazakhstan is to improve the living standards making them closer to those in the most developed countries. There have been numerious programs and other strategic documents adopted in Kazakhstan in order to achieve this goal. Consequently, within the two decades after gaining its independence, Kazakhstan has been able to position itself as a nation that is stable, economically dynamic and constantly reforming in all spheres of life.

Kazakhstan managed to go through economic crises relatively intact, to stabilize the rate of its currency and increase its gold reserves, even to diversify its economy to a certain extend and build some infrastructure. Importantly, while conducting the reforms and implementing its development projects, the nation is self-sufficient in the most of the cases. Its government has been rather reluctant in terms of borrowing financial and other resources from the foreign states or intergovernmental organizations. This enhances Kazakhstan's capacities to pursue a more independent policy in accordance with the national interests.

It is in the national interests of Kazakhstan to expand the markets for Kazakhstan's exports, to remove the trade barriers and other obstacles for better business, to boost exchange of technologies. Thus, President Nazarbayev of Kazakhstan was the first to articulate the idea of a custom union back in 1994. Unfortunately, it was responded rather unenthusiastically due to the lack of the economic interest of the other states, first of all Russia; very few believed then in economic feasibility of the project, the main purpose of which was to mitigate the negative consequences of the dissolution of the USSR.

The initial idea, however, gained its continuation in 2000 in Astana when the EurAsEC was officially started. Since the end of 1991 there had been several projects within the former Soviet space: the CIS, CU, EurAsEC, CES, CSTO, ECE, and GUAM. None of the former alliance addressed the issues of integration and, therefore, those of the national sovereignty.

* "The window to Europe" is a popular metaphor used to describe the policy of accelerated modernization conducted by the Russian Tsar Peter the Great in the XVII century.

For the last three years, the integration processes of the Eurasian continent have been notably accelerating. The Eurasian Economic Union extends its influence on almost all aspects of life in Kazakhstan. Understandably, integration is a rather complex and controversial process. The project may be regarded as the first attempt of the states concerned to voluntarily share their sovereignty and to create an integration structure similar to that of the European Union.

Stages of Economic Integration

The European Union is the model of a stricture with the maximum degree of integration. Noskova (1996) identifies the four stages the EU has undergone: the free trade area, the customs union, the common market, and the economic union. Each degree of integration corresponded to a certain set of conditions that were codified in a number of intergovernmental agreements. Here the similar analytical framework is applied to discuss the integration processes in the Eurasian continent.

Stage one is *the free trade area* stipulates for the agreement between the states concerned about abolition or diminishing of the customs and other quantitative restrictions of international trade in goods and services.

Stage two is *the customs union* established on the basis of agreements of the member states on complete abolition of the customs duties on goods and services and establishment of a unified external customs tariff on its perimeter. The union obliges the member states to eliminate the customs restrictions and requires pursuing a common trade policy.

Stage three is *the single market* as a more advanced form of economic integration. Apart from above mentioned aspects of integration, it provides for the unification of technical standards, common environmental requirements, as well as common legal frameworks for businesses and other economic activities.

Stage four is that *of establishment of the economic union,* which is the highest form of integration. The union presupposes the existence of single economic, legal, military and information spaces. The structures of deeper integration usually mean establishment of supranational bodies of some kind. In the case of the European Union these are the European Parliament, the Council of Ministers, the European Commission, the European Court (Noskova, 1996).

We argue here that currently, Kazakhstan, Russia and Belarus* are on the second "customs union" stage of integration. Nevermind the official names of the structure, be it the Common Economic Space or the Eurasian Economic Union, it has been functioning as a customs union so far. By 2015, the member states have been unable to establish a common market, which is the stage when harmonization of technical standards and common environmental requirements is being achieved. A single legal framework for intra-entrepreneurship is also on the agenda.

Moreover, the share of mutual trade between the three countries is quite low. For example, the volume of mutual trade in goods, services as well as mutual investment within the EU is 60%, whereas in the EEU in 2014 the share of mutual trade amounted to 11.7%. Therefore, one may conclude that the extent of the economic cooperation between the member states is insufficient.

From the EEU and Beyond: Scenarios of Integration

The fact that the countries differ considerably one from another in terms of their power and interests may explain the difference in the outcomes they have out of the economic relations they are involved in. For example, the openness of some states for import may cause difficulties for the local manufacturers due to the intensified competition on the domestic market. This may even cause numerous bankruptcies of local businesses.

International economic integration is the most beneficial for the most developed, richest and politically sustainable states. There are a number of reasons for that. Firstly, their economies are those to produce the most competitive, hi-tech

* The analysis provided in this article does not take into consideration the more recent members of the EEU.

goods of the greatest international demand and, therefore, being the most profitable. Secondly, the export of capital tends to be the most profitable business internationally.

Those states that have not been involved into economic alliances before, decide to join out of their very particular interests. They do not expect very high profits, yet count on their economic engagements as on the vehicles that shall enble them to catch up with their more economically developed counterparts. These were the courses chosen by Japan, Australia, South Korea and more recently Singapor, Taiwan and Malaysia.

As for the members of the Eurasian Economic Union, the major trend is that each of them pursues its own economic interests and has its own expectations of their membership in the alliance. Given that, various scenarios of developments are possible. Given the complexity and complicatedness of the integration process on the post-Soviet space it is virtually impossible to make accurate predictions about the trends and directions of its future development.

One thing is clear: it is probably not the best idea for a nation to unite with any other unless it has the aspiration to leave the bottom in the world economic ranking i.e. such socio-economic indicators, as human development and standard of living.

The analysis of the foreign trade of the EEU, the structure of the exports and imports suggests that the raw materials remain the major component of the economies of its members. Thus, in 2014, mineral products amounted to 73.3% in the commodity structure of the export of the EEU members to the third countries. The machines, equipment and vehicles were 45.5% in the total imports. The figure for the chemical products was 16.4% and for the foods as well as agricultural raw materials was 13.5% respectively.

Let us consider the possible long-term scenarios of economic integration provided the features of the current state of the Eurasian Economic Union remain. The following scenarios are based on the assumption that none of the Union member states will have any conflict relationship with each other, neither will they have the trade barriers.

In the long term perspective, at least three scenarios are the most likely to occur within the Eurasian integration.

The first scenario is about state non-interference. The governments of the member states in the Union are jointly taking all measures necessary to provide a comprehensive common legal space for the economic activities to create favorable conditions for business and maintain maximum transparency. The legislature is being constantly improved and its enforcement is aimed at maintenance of human security, preservation of private property, elimination of corruption. The results are being achieved though (among the other measures) the number of supranational legal institutions. The member states are committed to the principle of the rule of law. The reformation of the law-enforcement system is being conducted. This scenario presupposes the creation of a space for fair competition, minimum state interference, laissez-faire policies, removal of the borders and barriers for trade and business between the member states.

The second scenario is about specialization of the member states within the Union. This scenario presupposes the establishment of a supranational body entitled to assign the quotas on production of a certain nomenclature of goods and services for the each member state. This is a commonly agreed policy to encourage specialization of each member state so that they world not have to compete with each other within the Union.

Each member state is developing a particular industry and occupies a niche in the structure of the export within the Union and beyond. For example Belarus is to become a major producer of dairy products whereas Kazakhstan is focused on the meet, Kyrgyzstan's major industry is textile while furniture is mostly produced in Russia. The Union conducts the policy of comprehensive state interference.

The most competitive businesses and industries are directly supported to realize to the maximum their export potential and ensure that their production meets the highest international standards of quality. The strict compliance with international quality standards and export orientation is the requirement imposed by a specially established institution.

The similar practice exists in Europe via a rather strict quota system for each EU member in terms of their industrial production and export. These quotas are allocated among individual companies that, in turn, determine the volume of production. For example, according to such quotas the leading producers of milk within the EU in 2013 were the following countries: Germany produced 31.3 million tones, 24.4 million tones were produced in France, the figure for the United Kingdom was 13.9 million tons and for Poland it was 12.7 million whereas the Netherlands produced 12.4 million and Italy 11.3 million tons of milk respectively. Moreover, the bulk of milk was exported.

The third scenario is about establishment of a series of *holding companies* in each sector. The Europeans had such an experience during the European Coal and Steel Community. The international organization brought together coal and metallurgical industries of France, Germany, Italy, Belgium, Netherlands and Luxembourg. By 1975 the ECSC had controlled about 90% of the steel production, almost 100% of the coal and 50% of the iron ore production in Western Europe. The ECSC may be considered the first instance in international history when the states concerned delegated parts their sovereignty to a supranational institution.

The most perspective, under the conditions of the EEU, may be the establishment of a number of holdings in agriculture, mining, petroleum, and other industries. Provided the industry is highly potent in terms of export, the holdings in each sector within the Union may help to harmonize the interests of the producers.

Similar practice started back in 2012 by Kazakhstan and Russia, when *the Memorandum on Cooperation* was signed between the Kazakhstan Association of Mining and Metallurgical Enterprises (comprising 65 companies), and the Russian Association of Mining and Metallurgical Complex (uniting 10 holdings). First Vice Premier of Belarus Semashko promotes the Rosbelavto holding project of the Belarusian MAZ and Russian KamAZ (REGNUM, 2015b). The president of the Kazakhstan Association of Sugar Producers proposes the holding between the companies of Russia, Kazakhstan and Belarus.

This experience can be applied to the agro-processing sector in general. The practice is widely known internationally[*]. Large holdings can become the major vehicles for modernization, transition to more innovative production technologies; they are more capable to launch specific projects in the energy, transportation, high technology, social development.

Each of the scenarios above has its drawbacks. The *first scenario of state non-interference* has a number of risks. Indeed, there is no economy in the world today that operated purely on the basis of free market. This kind of scenario is even more unlikely on the post-Soviet space. The state own the bulk of the economy of Belarus. The state ownership is less common in Russia. As for Kazakhstan, there is no public ownership in the proper sense there. The state interference is aimed at mitigating the drastic consequences of markets and providing some social justice. The first scenario, if implemented, risk to disturb the balance.

The second scenario of holdings in each industrial sector is rather promising but unlikely unless the initiative is grasped by the entrepreneurs themselves. To that end, the business, being economically motivated, shall become the major initiators of holding creation. Otherwise, the integration will remain formal.

For example, the first attempts to unite Europe by institutions such as the Organization for European Economic Cooperation, the Council of Europe, the European Defence Community were rather unconvincing, their decision were not binding and their scenarios of integration were repeatedly rejected by the national Parliaments.

[*] Only in the pharmaceutical market, since the beginning of 2015 the total amount of mergers and acquisitions exceeded $95.3 billion.

The economic motivation for integration, however, proved more successful. The common market was established by the governments due to the pressure maintained by the producers of coal, iron ore, scrap iron, steel, cast iron. The treaty abolished the customs duties on the coal and steel industry products and quantitative restrictions in trade in these products. It introduced the uniform freight rates for the coal and ore, scrap and iron as well as steel industry products. In 1951, the European Coal and Steel Community, was the first example of a well functioning supranational structure with the executive body controlled by the Council of Ministers, the Assembly and the Court. By 1955, the coal production in the members states had raised to 250 million tons and the steel production had grown to 60 million tons per year.

The economic alliances, therefore, are primarily motivated by pragmatic considerations of the states concerned in accordance with their national interests. In our case, certain economic interest shall be expressed by the businesses of Belarus, Kazakhstan, Kyrgyzstan, and Russia. In the meantime, they compete with each other. Moreover, there is no enough information about the possible benefits of the Eurasian integration.

The idea of Rosbelavto auto holding of the Russian KAMAZ (JSC) and the Belarusian MAZ (state-owned) has been discussed for five years. The lack of any concrete decision damages the reputation of the authorities of Belarus and Russia. The main reason why the holding has not been established so far is the lack of obvious advantages for Minsk. Belarus fears that the Russian capital will gain control over Belarusian enterprises (REGNUM, 2015a).

However, the four more projects are being promoted to merge the Russian and the Belarusian industrial sectors: the first one concerns the JSC Integral and JSC Russian Electronica as well as state-owned Rostekhnologii; the second is about the JSC Minsk Wheel Tractor Plant and the Rostekhnologii; the next one is about the JSC Peleng and the Roscosmos Federal Space Agency.

There is also a plan ot merge the JSC Grodno Azot with the JSC Mineral and Chemical Company EuroChem or with the Gazprom Investment.

In the meantime, despite the sanctions, KAMAZ, Mercedes-Benz and Mitsubishi are to unite their management assets in 2015 to establish a joint venture in Naberezhnye Chelny. The transaction to merge Mercedes-Benz Trucks Vostok (MBTV) and Fuso Kamaz Trucks Rus (FKTR) was approved by the European Commission (ExpertOnline, 2015).

To sum up, the holding scenario means that the smaller economies are absorbed by the larger ones. Whether this scenario is implemented depends on the decision taken by the businesses themselves.

The scenario of country's specialization is rather difficult to implement. This variant of integration presupposes division of the market between the member states so that they would be able to avoid unfair competition. Whether the EEU members will be able to agree about the quotas as the EU members do is an open question.

These kinds of issues are not resolved without problems even there. The meet and vine wars are the examples of rather intensive competition among such EU members as France, Spain, Italy and Germany.

Smaller EU countries face a number of difficulties as well: the sugar and milk production quotas allocated to the Baltic States are so small that these economies will have to leave one-third of the land uncultivated. The Baltic States express their frustration about that fact that subsidies for their producers are considerably lower. The interests of smaller economies within the EU are far from being a priority.

The quotas issue concerns not only the Baltic farmers but their counterparts from elsewhere in the Union. Since the beginning of 2015, there have been a number of farmers' protests throughout the EU: the major concern is that since April 1, 2015 the milk production quotas were abolished (DairyNews, 2015). The milk quotas removal has been the issue on the EU agenda for the last ten years. The EU farmers insist on keeping the quotas. It would seem paradoxical, because without the quotas they may not fear the penalties for their exceeding*, but in fact, the free market with fierce competition frightens them more. As demand grows in China, Korea and other countries, the EU policy is changing towards a more free-market orientation; the abolition of quotas is to increase export. Brussels has been considering the question of quotas removing for a while, but it could not foresee the sanctions against Russia and increase of domestic milk production in China.

The similar practice was implemented beyond Europe as well. The US Congress adopted the *Jones-Costigan Act* in the framework of the Roosevelt's New Deal stipulating for the annual quotas for the sugar to be sold on the domestic market. It also fixed the prices so that they would be reasonable for the consumers and fair for the producers and importers. The Act allocated the quotas for the domestically made and imported sugar and imposed other measures.

The example below is worth special consideration. *The European Emissions Trading Scheme* (EU, 2003) under the *Kyoto Protocol* assigned the mandatory quotas for greenhouse gas emissions to more than two dozen larger enterprises registered in the EU including heat and energy plants, oil refineries, iron and steel production as well as pulp, paper and mills. Together, they account for 45% of CO2 emissions. Smaller producers (those that do not meet the 20 MW thresholds) are released from the quota regime. The EU trades the emission quotas that defer from country to country (EU, 2003).

The EEU does not address such issues although there is apparent necessity to do so. The sugar and milk wars between Russia and Ukraine for markets of the CIS countries only prove that. The economy of Kazakhstan should not slip down under stronger competition. The quotas regime would be very useful in this context (Arbuzova, 2011). The government shall support Kazakhstan milk producers, it might insist on the quotas for them to enter the Russian market. So far, it is apparent that Belarus benefits most from its EEU membership. For example, after the introduction the embargo on Russia, the export from Belarus to Russia increased. The dairy manufacturers have been working in their full capacities recently, now Belarus, experiencing considerable milk shortages, has become a major milk importer of the EU, which it has never been before.

Meanwhile, the companies of Kazakhstan do not express any concerns. Kazakhstan entrepreneurs generally see no threat from the EEU and regard positively the integration process. At the same time, being involved into the global economic relations, the countries defend their own national interests and intensify the competition. This international competition is now conducted simultaneously at two levels: between the member states within economic unions and between those economic unions or other integrated structures. These are the factors Kazakhstan must be constantly aware of.

An economically developed country has not choice but to produce the goods and services of global demand. Moreover, it must be economically self-sufficient in such vital strategic sectors of water, heat, gas, electricity. This is the matter of national security. Apart from that, the government must create the favorable conditions and support large successful companies in promoting their exports. Every state is aware of that, it tries to support the domestic businesses, to develop national economy, to protect and provide for its nationals and, to ensure the very existence of the state in its integrity.

There is another challenge Kazakhstan is facing within the Eurasian Economic Union. This is the competition for quality human capital. Given the free movement of labor within the EEU, the most highly qualified professionals may decide to leave for Belarus or Russia. After joining the WTO the problem of hand/brain drain may even aggravate. Kazakhstan has invested a lot in educating its labor force through professional training and scholarship abroad. There shall be the mechanism found to retain our professionals at home so that they would contribute into the development of their country.

[*] In 2014, Irish dairy producers have paid 75 million Euros for exceeding the quotas, which is considerable given that Ireland exports 85% of its dairy products.

Conclusion

The member states in the Eurasian Economic Union are facing a number of vital issues such as diversification and modernization of their economies and advancement in the industries that may become the most profitable. Such spheres as R&D and innovation are crucially important. The EEU member states shall take huge efforts to catch up with the fifth and sixth technological revolutions. All these will boost the competitiveness of the countries of the EEU and ensure their sustainable future. Any of the scenarios above may be implemented. Kazakhstan shall find its place within each of them so that it would serve its national economic interests the best.

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С момента своего возникновения основной задачей Казахстанского института стратегических исследований при Президенте Республики Казахстан как государственного научно-исследовательского учреждения является научно-аналитическое обеспечение деятельности Президента Казахстана, руководящих органов страны.

За это время КИСИ превратился в высокопрофессиональный научно-аналитический центр. В настоящее время в институте работают шесть докторов наук, десять кандидатов наук, PhD, специалисты в области политологии, истории, экономики, социологии.

За 22 года деятельности в институте было издано более 250 книг по международным отношениям, проблемам глобальной и региональной безопасности. В КИСИ издаются три журнала: «Қоғам және Дәуір» (на казахском языке), «Казахстан-Спектр» (на русском языке), «Central Asia's Affairs» (на английском языке). Институт располагает собственным сайтом на трех языках: казахском, русском и английском.

В КИСИ ежегодно проводится большое количество международных научных конференций, семинаров, круглых столов.

Особый интерес у экспертов вызывают ежегодные конференции КИСИ, проводимые с 2003 г. и посвященные проблемам безопасности и сотрудничества в Центральной Азии.

В научных форумах КИСИ принимают участие не только эксперты из Казахстана и стран Центральной Азии, но и ученые из Германии, Индии, Ирана, Китая, Пакистана, России, США, Турции, Франции, Японии и др.

На базе КИСИ постоянно проходят стажировку и преддипломную практику студенты ведущих казахстанских высших учебных заведений, а также зарубежные эксперты.

В настоящее время в институте созданы необходимые условия для профессионального и научного роста сотрудников. Более подробную информацию о КИСИ можно получить по адресу:

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