Transport Networks, Eurasia's Economic 'Synchronization', and the End of a 'Flat' World
Jacopo Maria Pepe

Azerbaijan in the Silk Road Economic Belt: A Chinese Perspective
Bai Lianlei

CAUCASUS International

Challenging conventional thinking in the Caucasus

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Caucasus International is a Baku & Ankara-based academic journal that discusses policymaking in and on the Caucasus as well as the region's role in the global context. Each issue of the journal will focus on a global or regional theme and includes perspectives from authors from different countries and backgrounds. The journal focuses largely on the Caucasus neighborhood, but does so with a global outlook.

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Editors' Note

The current issue of *Caucasus International* is devoted to trans-Eurasian transportation networks and transportation politics and economics in Eurasia - one of the region's most intensely debated topics during recent years. It is comprised of eleven articles addressing the key aspects of this important theme. The issue also includes a special feature article on the Armenia-Azerbaijan Nagorno-Karabakh conflict, following the resurgence of violence along the line of contact in early April 2016, which brought the conflict back onto the regional and global agendas. As usual, the issue also includes the *Book Review* and *Caucasus Under Review* sections, providing an overview of recently published books on the Eurasian and South Caucasus regions as well as international politics more broadly.

The issue opens with an article by Dr. Jacopo Pepe, Research Fellow at the Berlin Centre for Caspian Region Studies and an Associate Fellow at the German Council on Foreign Relations. In his article, 'Transport Networks, Eurasia's Economic 'Synchronization', and the End of a 'Flat' World', Pepe argues that in the coming decades the development of a functioning transport network remains the key impetus for overcoming the current domestic economic difficulties in many Eurasian economies, and for sustainably re-shaping the economic, industrial and commercial face of the continent.

The second article of the issue, authored by Bai Lianlei, researcher at the Beijing-based China Institute of International Studies, analyzes the Silk Road Economic Belt as one manifestation of China's opening-up policy, as well as evaluates the importance China places on the development of its infrastructure policy. The author also examines the role of Azerbaijan-China partnership in realization of the project, and identifies areas for specific bilateral cooperation within the framework of the Belt.

In the third article, Dr. Alexander Libman, Associate Lecturer at the German Institute for International and Security Affairs, examines the prospects for cooperation between two ambitious regional integration projects – the Chinese Silk Road Economic Belt (SREB) and the Russia-led Eurasian Economic Union (EEU). This paper argues that the EEU and the SREB are strikingly different in terms of their design and goals. However, suggests Lib-

man, it is precisely these differences that create the possibility of the projects' co-existence in the Eurasian space, creating positive spillovers, as well as a agenda for more explicit cooperation.

The issue also includes an article authored by Onur Uysal, founder and editor of Rail Turkey, a railway journal and review of Turkish railways. Uysal critically analyzes the Iron Silk Road, the railway corridor connecting China to Europe and the Middle East. The paper gives particular focus to Turkey's current and future position in Iron Silk Road, including its efforts and investments in the initiative, such as the Marmaray tunnel and the Baku-Tbilisi-Kars railway projects.

'The Trans-Caspian Corridor: Geopolitics of Transportation in Central Eurasia', an article by Azad Garibov, Leading Research Fellow at Foreign Policy Analysis Department at the Center for Strategic Studies under the President of the Republic of Azerbaijan (SAM), talks about the importance of transportation networks in providing access to global markets for land-locked states such as the Caspian countries. The paper provides a comprehensive examination of the major transportation projects in Central Eurasia and their importance for regional economies.

Dr. Richard Weitz, Senior Fellow and Director of the Center for Political-Military Affairs at the Hudson Institute, assesses the trans-Eurasian transportation networks and the opportunities and challenges of economic integration within the Wider Eurasian region. He uses Kazakhstan as a case study for his research.

Dr. Rovshan Ibrahimov, Professor of Hankuk University of Foreign Studies in South Korea, provides an overview of the development of the transport sector in Azerbaijan. He also examines the implementation of the country's transportation strategy, including the challenges Baku has faced during this endeavor.

Stanislav Pritchin, Research Fellow at the Central Eurasia Centre of the Oriental Studies Institute of RAS, addresses the Caspian Sea's role in regional trade relations and its transport potential. Pritchin argues that given its location at the junction between important geo-strategic regions in the center of Eurasia, the Caspian Sea is an important component of the regional transport system.

In their contribution, Osman Karamustafa, Professor of Finance at Recep Tayyip Erdogan University in Rize, and Ali İhsan Kahraman, Research Fellow from the same university, argue that while the TRACECA corridor has been extensively analyzed from geopolitical perspectives, this approach fails to consider the full range of benefits the corridor would provide. The article presents a subregional/micro level analysis of the implications of the East-West corridor in general, and TRACECA in particular. The authors focus in particular on the role of TRACECA in the development of Turkey's Black Sea region.

Dr. Mikhail Molchanov, Professor at St. Thomas University in Canada, discusses the trans-Eurasian energy transportation networks and the necessity of regional cooperation for their successful realization. He highlights the fact that regional coordination is necessary to overcome self-interested behavior by both corporate as well as state actors in order to maximize benefits to the region.

In the last article of the issue, Dr. Farhad Mammadov, Director of the Center for Strategic Studies under the President of the Republic of Azerbaijan, evaluates the Armenia-Azerbaijan Nagorno-Karabakh conflict - the most complex as well as most dangerous conflict in the South Caucasus. Dr. Mammadov argues that the OSCE is hampered by its lack of commitment, a focus on conflict management instead of conflict resolution, its intergovernmental nature, and the rotating chairmanship of the organization. As a consequence, the OSCE is failing to address the resurgence of violence in this simmering conflict. He also notes that taking advantage of the various shortcomings of the OSCE Minsk Group's peace efforts, Armenia has refused to make any compromises in the conflict resolution process.

The current issue also includes a review of Marc Lynch's recent book *The New Arab Wars: Uprisings and Anarchy in the Middle East.* Last but not least, CI presents readers with reviews of recently published books on the Eurasian and South Caucasus regions, Armenia-Azerbaijan Nagorno-Karabakh conflict and Russia.

Finally, on behalf of the CI team, we hope this issue provides food for thought and for discussion!

Sincerely,
CI Staff

Transport Networks, Eurasia's Economic 'Synchronization', and the End of a 'Flat' World

Jacopo Maria Pepe*

The emergence of an interconnected Eurasian transport network is the most relevant – if equally challenging - development of the second decade of the 21st century. However, the current acceleration of the infrastructure re-connection of wider Eurasia dates back earlier than the initiatives such as the OBOR, the EEU or the AIIB. Indeed, its political-economic rationality is rooted in the massive geo-economic shift since the early 2000s. Using macro data on trade flows in Eurasia covering the decade 2000-2012, the author argues that far from being 'flat', the world economy is increasingly fragmented and de-synchronized, while economic and commercial re-aggregation is still taking place at more continental and regional level. Accordingly, continental Eurasia and the Indian Ocean-Asia-Pacific Ocean nexus are emerging as a self-sustaining geo-economic space, despite the geopolitical fragmentation and potential for political-military conflicts or economic crisis. The present economic downturn across Eurasia notwithstanding, in the coming decades the development of a functioning transport network remains the true impetus for overcoming the current domestic economic difficulties in many Eurasian economies, and sustainably re-shaping the economic, industrial and commercial face of the continent.

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Introduction

The emergence of an interconnected Eurasian transport network is the single most relevant and challenging event of the second decade of the 21st century. The Chinese OBOR (One Belt One Road) initiative, the Russian-led Eurasian Economic Union (EEU), and the recently established AIIB (Asian Investment Infrastructure Bank) – all launched between 2012 and 2015 – herald an era of massive investment in physical transport infrastructure. The AIIB in particular is intended to become a powerful financial tool for channeling investments into countries that are less connected and have weaker logistical capacities.[1] This could help improve the economic integration of the Eurasian space, overcome the 'transportation trap', and ultimately boost economic growth and industrial diversification.

Doubtless, the construction and modernization of trade- and transport-related infrastructure, as well as the technical harmonization of different transportation systems, are the necessary first steps. However, the creation of a truly functioning network of corridors across the vast Eurasian region, requires highly complex and uninterrupted supply chains and the development of modern logistics services. Only under these conditions this region can prove itself attractive to business and increase trade. In order to become competitive, a logistical supply chain needs to be developed based on criteria as wide-ranging as "efficiency of customs clearance process, ease of arranging competitively priced shipments, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time."[2] However, modern logistics services along overland (or multimodal) transportation corridors that connect countries and regions over long distances via rail, nodes (dry ports, inland terminals) and gateways (ports) are only practically and financially feasible if the industrial production basis located in the hinterland becomes part of trans-regional value and supply chains, and/or the high-

However, the creation of a truly functioning network of corridors across the vast Eurasian region, requires highly complex and uninterrupted supply chains and the development of modern logistics services.

1 Kazakhstan, the best performing country in central Eurasia including Russia, ranked 88 out of 160 countries in the Logistics Performance Index 2014. Meanwhile, Kazakhstan and-more generally- all emerging Eurasian countries have all improved their ranking compared to 2007. Turkey and China are among the best performers, with a general LPI score between 3.34 and 5 while central Eurasian countries, including Russia, Central Asia and the Caucasus, have improved their general score, which lies between 2,48 and 2,75. Arvi, J., Saslavsky, D., Ojala, L., Shepherd, B., Busch, C., Raj, A. (2014) *Connecting to Compete-Trade Logistics in the Global Economy-Logistics Performance Index 2014*. (Map p.1 and LPI-Table p.8). Available at: http://www.worldbank.org/content/dam/Worldbank/document/Trade/LPI2014.pdf. (Accessed: 12 February 2016).

2 World Bank (2016) *Logistics Performance Index*. Available at: http://data.worldbank.org/indicator/LP.LPI.OVRL.XQ (Accessed: 20 February 2016).

value added products need to reach final markets faster than by sea, and more cheaply than by air.

In Eurasia the task is even more challenging since it entails the re-connection of vast, sparsely populated and less diversified hinterland regions with each other as well as with industrially developed coastal areas. Hence, enabling functioning, integrated border-crossing connectivity in continental Eurasia is not simply a matter of physical connections. It is deeply interwoven with the spread of regional production-sharing networks and industrial hubs from the coast toward inland regions, and ultimately, with the ongoing transformation in value chains and production.

Transport, logistics, and supply chains are not only the backbone of trade and commerce; they are also crucial for economic diversification and growth, particularly in the energy-rich central Eurasian states.[3] Thus, the economic geography of the continental space must undergo massive restructuring. This is why initiatives like the Chinese OBOR, the Russian EEU or the AIIB have catalyzed the (geo)political and geo-economic interests of different countries on transport connectivity issues and their implications for wider Eurasia. Astonishingly, however, the re-connection of wider Eurasia by transport and trade does not have its roots in these particular initiatives. Indeed, its political-economic rationale dates back to the tectonic geo-economic shift that has been taking place at the global and continental levels since the early 2000s.

Transport, logistics, and supply chains are not only the backbone of trade and commerce; they are also crucial for economic diversification and growth, particularly in the energy-rich central Eurasian states.

The present article will focus on changes in the geo-economic structure of global and Eurasian trade, the driving factors in the accelerated Eurasian transport development of recent years. Against this backdrop, the article will analyze whether the present economic downturn across Eurasia economies will diminish or in fact strengthen the argument for further continental and sub-continental transport interconnection and economic integration.

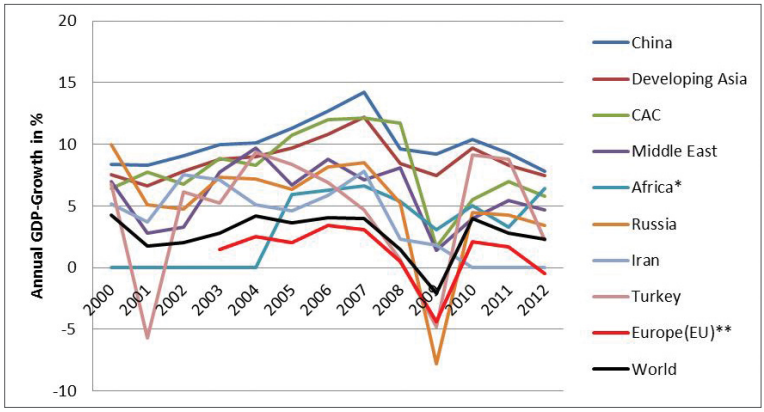
The World is not flat: The de-synchronization and fragmentation of the global economy

During the first 'long decade' of the 21st century, both advanced and emerging economies have experienced unprecedented economic growth, with the latter decisively catching up with the former. Between 2000 and 2012, double-digit growth in China and India as well as the above-the-average economic performance

3 Arvi, J. et al. *Connecting to Compete-Trade Logistics,* p.3.

of various emerging markets has significantly changed the geography of trade and growth, particularly in Eurasia, as shown in Figure 1.

Figure 1.Annual GDP growth: World, selected Eurasian subregions, and Africa (in %)



Source: World Bank Data, African Development Bank, Eurostat, various years, own graph

Today, the picture may look different – and indeed gloomier. With central banks almost powerless and monetary policy largely ineffective (notwithstanding historically very low or negative interest rates), the recent fall of commodity and oil prices, weak recovery in Europe, uncertain recovery in the US, slumping economies in China and Asia, and a diffuse recession in the former Soviet space, Russia and some emerging economies like Brazil4 seem to herald an era of slow global growth and 'secular stagnation.'[5]

It seems that the global economy has never fully recovered from the consequences of the 2008 crisis. Moreover, from a Western perspective, Asia, China and the emerging economies, which drove global growth and demand in the aftermath of the crisis, are now suffering from its consequences. This brings many to rediscover – if under completely different circumstances – Thomas Friedman´s famous definition, and assert that paradoxically the world has become 'flat', with geography and history becoming

4 OECD (2016) *Global Economic Outlook and Interim Economic Outlook- Stronger growth remains elusive: Urgent policy response is needed.* pp. 2-4. Available at: http://www.oecd.org/eco/economicoutlook.htm (Accessed: 23 February 2016).

5 Summers, L. H. (2016) ´The Age of Secular Stagnation-What It is and What to Do About It`, *Foreign Affairs*, 95(2), pp. 2-9.

increasingly irrelevant.[6]

According to this vision, the global economy has grown truly interconnected – even in a period of economic downturn – and the global mechanisms of transmission of crisis and recoveries among the world regions are still functional. After a decade of unprecedented global economic growth and trade expansion, what follows seems to be an age of global contraction, with emerging and advanced economies performances converging toward the economic bottom. Meanwhile, no region has become pivotal, nor emerged as a pillar of both economic and political power. Accordingly, the geopolitical risks of this new world do not come from the emergence of a revanchist single and coherent economic-political bloc but rather the combined effects of state implosion and sub-state conflicts on the one hand, and great-power interstate wars on the other.

After a decade of unprecedented global economic growth and trade expansion, what follows seems to be an age of global contraction, with emerging and advanced economies performances converging toward the economic bottom.

These risks are respectively fueled by the spread of non-state terrorism and sectarian warlords, and by the new assertiveness of economically declining but politically rising powers like China and Russia: a zero-growth global economy in a non-polar world order, exposed to wars, chaos and collapse. From the point of view of Brussels or Washington, this analysis is both reasonable and worrying. However, given the perception of the past years about their own decline in terms of economic and political power in the face of the 'rise of rest', as Paragh Khanna famously described the rise of non-western powers[7], the present fragility of the 'rest' is extremely comfortable for both Washington and Brussels . This could change if this analysis proves wrong, as this paper will argue

Indeed, by confusing between short-midterm economic and political risks and long-term trends, this analysis dramatically misses the geo-economic (and geopolitical) tectonic transformations witnessed over the past decade. Looking at the shift in the geographic distribution of trade flows and in supply and value chains, the world can hardly be considered 'flat'. There is little doubt that the large imbalances in GDP growth between advanced and emerging economies that characterized the past decade fell after the crisis of 2008-2009. Advanced and emerging

Indeed, by confusing between short-midterm economic and political risks and long-term trends, this analysis dramatically misses the geo-economic (and geopolitical) tectonic transformations witnessed over the past decade.

6 Friedman, T. (2005) *The World Is Flat: A Brief History of the Twenty-First Century*. New York: Farrar, Strauss and Giroux.

7 Khanna, P. (2008) *The Second World: How Emerging Powers Are Redefining Global Competition in the Twenty-first Century.* New York: Random House.

economies are now converging on a declining trend. While the effects may be similar, the causes are not: the 2008 financial and economic crisis – which originated in advanced economies – can only partially explain the present slowdown in emerging economies in Eurasia and Asia.

Indeed, despite the wider trend of declining growth, Asia – and especially China – still retain stronger growth rates and economic dynamism than advanced economies in Europe, the US, or Japan, which are still struggling to regain momentum, failing to re-establish themselves as world economic drivers.[8] While China´s transition crisis and the "new normal growth" may have ended the country's role as a global growth engine, Beijing – together with the emerging role of New Delhi – retains a major function in influencing and synchronizing regional and continental economic dynamics along the Indian Ocean - Asia-Pacific Ocean nexus.

Thus Eurasia's economic crisis seems less related to developments in the West, and more the consequence of the 'transition processes' in China and Asia. Parallel to falling oil prices – which have hit energy-exporters like Russia, Central Asia and the Middle East – the consequences of Asia's recent slowdown may – if they endure – prove more severe for Eurasian energy producers than the post-2008 economic recession in the West. Today, when each of these countries is experiencing an economic slow-down that requires a new and more sustainable economic model, global financial and economic developments may still pose challenges and risks. For instance, the Fed's decision to increase interest rates has increased the capital outflows from some emerging countries, inverting the trend that has fueled their debt-financed growth over the past decade. However, with growth in the West stagnating, solutions to structural problems will come first and foremost from within their continental and regional environments, rather than from the further integration with global markets. Indeed, while the powerful forces unleashed by the first stage of globalization have seen new national and regional players on the world stage and the expansion of global markets, the consequences of the 2008 financial and economic crisis are, paradoxically, leading to the geo-economic fragmentation of the world economy in macro-regions, whose development is increasingly desynchronized.

8 The OECD (Organization for Economic Cooperation and Development) forecast for 2016 and 2017 predicts China and India to grow at 6-6.5% and 7.3%-7.4% respectively, and the rest of the world at 2.5%-3.1%, confronted with a growth in advanced economies around 2% in the US and 1.4-1.7% in the Euro-Area. OECD (2016) *Global Economic Outlook.* p. 1.

As paths of economic growth and recession along with financial and macro-economic policies among the biggest world economic players (i.e. China, Japan, the US and Europe) de-synchronize at the global level,[9] a process of re-synchronization and re-aggregation of economic and commercial dynamics is taking place at the continental and regional level.

Shifting trade flows and the emergence of a self-sustaining Eurasian sub-system

Over the past decade, energy-exporting countries in Eurasia and the Middle East have increased their connections with the Asia-Pacific region, deepening commercial and financial ties that have largely bypassed the West. This marks the emergence of an increasingly autonomous economic-commercial sub-system, stretching from the Middle East, Turkey and Iran to Asia, via Russia and central Eurasia. The dynamics of this mega-continent, which consists of both maritime and continental dimensions, are increasing independent from the North-Atlantic space.

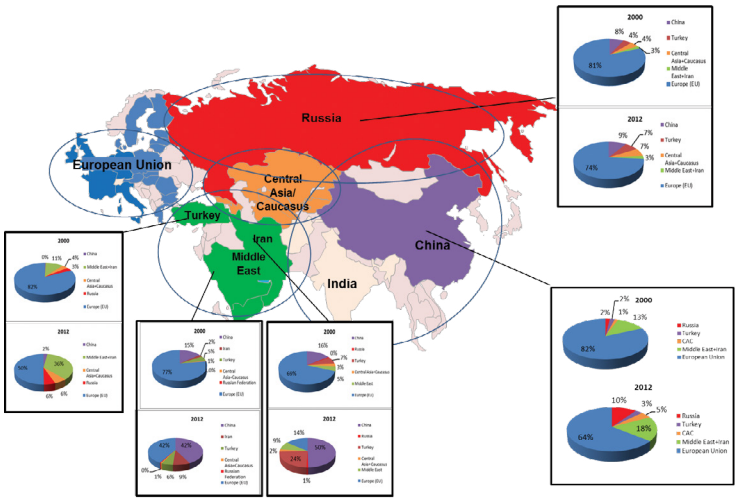
In the past fifteen years, the energy-driven trade links between the Persian Gulf and Northeast Asia have begun to catalyze a much larger, truly continental process. This has involved an increasing number of regional and continental players, from Russia to Kazakhstan, to Turkey and Iran, and to India and China.

Large energy-exporting countries like Russia, Kazakhstan, Turkmenistan and Iran have – to varying degrees – decisively re-oriented their energy exports to the Asia-Pacific space.[10] The affluent Asian markets are receiving both Middle Eastern and Russian/Central Asian energy resources. While Europe remains the main destination for Russian gas, Moscow has attempted to rebalance its overreliance on Europe by deepening ties with China and Asia. Meanwhile the value of Iranian, Saudi Arabian, Kazakh, and Turkmen gas and oil exports to China (and Asia) has dramatically increased. Overall, while the EU still has the leading share of Eurasian countries' exports, this share has significantly decreased in the past decade, in favor of intra-Eurasian trade, as the map shows.

9 Charrel, M. (2015) 'Les trois défis des banquiers centraux.' *Le Monde economie* Available at: http://www.lemonde.fr/economie/article/2015/12/19/les-trois-defis-des-banquiers-centraux_4835157_3234.html?xtmc=commerce&xtcr=183. (Accessed: 26 January 2016).

10 Calder, K. E. (2012) *The New Continentalism,-Energy and Twenty-First Century Eurasian Geopolitics*. New Haven and London: Yale University Press.

Figure 2. Exports to selected Eurasian countries/sub-regions, share disaggregated by region, 2000 and 2012.



Source: WTO, International Trade Statistics, various years, author's map and calculations

Accordingly, if we look at the changing geography of trade flows in wider Eurasia during the last decade, two effects of the changing nature of trade and production can be observed. The first is the further acceleration of intra-regional trade aggregation in Asia and Europe, and the second is the strengthening of ties among regional poles at the sub-continental and intra-continental level.

Kent Calder points to this correlation between the three dimensions, arguing, "[t]hese emerging relationships are sub-regional in character. They by no means create, in the aggregate, a cohesive Eurasian economic, political or geostrategic entity, however much they foster long-term interdependency."[11]

The re-emergence of these long dormant intra-Asian connections among these main actors is now expanding well beyond the energy sector, as energy-exporting countries in Eurasia and the Middle East, as well as countries like Turkey and Iran, are becoming the final destinations for China's manufacturing exports.

Contrary to what is commonly stated, China's final market diversification started well before the launch of the OBOR-Strategy in 2013. The goal to export its own industrial overcapacity

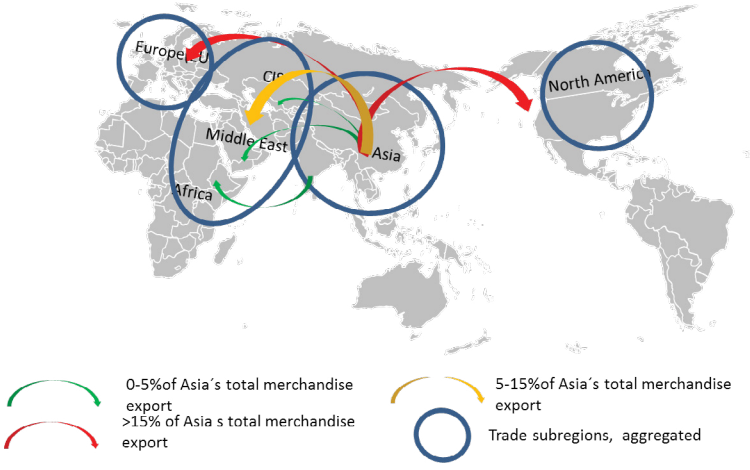
11 *Ibid*, p.200.

to Eurasian markets in order to ease the transition to a more consumption-led economy based on domestic demand rather than exports has only become part of Beijing's strategy in the past few years. That said, it is at least since 2006-2008 that China has sought to diversify its final markets, looking to Eurasia, the Middle East and Africa, in order to re-balance its overreliance on Western markets.

Contrary to what is commonly stated, China's final market diversification started well before the launch of the OBOR-Strategy in 2013.

With China taking the lion's share of Asia's manufacturing exports, the collective share of Asia's exports to the less-connected areas of former Soviet Eurasia, the Middle East and Africa was about 15% in 2012, as Figure 3 shows. This trend has continued during the years 2013-2015, as confirmed by WTO exports statistics.[12] The attempt to move along the value chain and produce more value-added goods will consolidate this process and establish China in the Eurasian and Middle Eastern markets as not only an exporter of industrial and cheap consumer goods, but as a potential alternative to high-tech products from the West.

Figure 3: Asian manufacturing trade exports by destination, 2012



Source: WTO, International Trade Statistics, author's map and calculations

12 World Trade Organization (2015) *World Region Exports-Asia*. p.7. Available at: https://www.wto.org/english/res_e/statis_e/world_region_export_14_e.pdf. (Accessed: 10 February 2016).

Eurasian trade flows, particularly between the Middle East and China/Asia, are becoming increasingly bi-directional, including trade in final and industrial/intra-industrial goods. Thus it seems that new and more enduring trade relations have emerged across the continent: countries as varied as Turkey, South Korea, India, Pakistan, Dubai, Burma, and Mongolia are refocusing their attention toward regional and continental connectivity as a way to profit from this 'Eurasian momentum'.

As a consequence, while oil and gas trade retains its relevance in defining intra-continental trade, technological innovations and massive investments in the rapidly developing national, regional, and trans-regional transport infrastructure and logistics networks (rails, roads, ports and dry ports) are paving the way for the re-connection and physical integration of the Eurasian space (both on the sea and overland).

As a consequence, while oil and gas trade retains its relevance in defining intra-continental trade, technological innovations and massive investments in the rapidly developing national, regional, and trans-regional transport infrastructure and logistics networks (rails, roads, ports and dry ports) are paving the way for the re-connection and physical integration of the Eurasian space (both on the sea and overland). This is the case not only along the traditional Western Europe-Russia/Post Soviet Space or Europe-Asia axes, but also at intra and sub-continental level, as deepening ties between the Gulf and the CIS demonstrate. [13]

The continental space stretching from Eastern Europe to Russia, the Caucasus, Central Asia and continental China is now not only increasingly interconnected but is also becoming part of Eurasia's maritime subsystem, stretching from the Middle East to India, China and Asia. Hence, sub-regional, intra-regional, and continental trade flows are gaining relevance over transcontinental or global level. New physical transport infrastructure connects competing but increasingly interdependent geopolitical poles.

This process is leading to a economic and political re-configuration of the Eurasian space, which is now both geopolitically more fragmented and geo-economically more interdependent. Against this backdrop, the economic integration of wider Eurasia will deepen and enter a more advanced – as well as more challenging – stage.[14]

At the core of this trend is the emergence of a new geography of trade and industrial production. Indeed, the fragmentation of

13The Economist Intelligence Unit (2016) *A Common Wealth: Building Gulf-CIS ties A report by The Economist Intelligence Unit* Available at: http://www.eiuperspectives.economist.com/sites/default/files/ACommonWealthBuildingGulfCISties.pdf. (Accessed: 23 February 2016).

14 Kaplan, R. (2012) *The Revenge of Geography: What the Map Tells Us About Coming Conflicts and the Battle Against Fate*. New York: Random House.

the global economy and the deepening ties at continental and regional levels are determining a geo-economic re-structuring of the entire Eurasian space. At the center of this is the crucial issue of transport infrastructure connectivity, both at national and international levels: railways and rail transportation are increasingly crucial for the future dynamic integration of the Eurasian continent.

Trans-Eurasian transport corridors as catalyst of wider Eurasian economic interconnection

Transcontinental long-distance rail services are mainly used for transporting high-value products between Europe and China such as white goods, auto parts, and electronic communications devices. The recently introduced rail services between China and Spain have shown that these services are increasingly profitable even for lower valued-added, small consumer goods like toys. However, freight volumes on overland rail routes will remain relatively limited in comparison to maritime trade, and thus will not challenge the supremacy of the latter.

Indeed, today, more than 90% of China-Europe and Asia-Europe trade is transported by ship, using the well-established sea-trade lines. Among the three main transportation routes (North America-Asia, Europe-Asia and Europe-North America), containerized transport via the trans-Eurasian route increased steadily between 2009 and 2012, slightly overtaking containerized transport via the transpacific route.[15] However, volumes traded along transcontinental routes are not the only factor within what is a much broader phenomenon. Indeed, the changing dynamics of Eurasian connectivity offer opportunities to re-integrate overland transportation with coastal and maritime routes for intra-Eurasian trade, beyond the Europe–China overland routes. Indeed, at the sub-continental level, intra-Eurasian containerized transport (linking Asia, Africa, the Middle East and developing Asia) and containerized transport via the subsidiary, non-mainline East–West route rose by 6.2% and 3.7% respectively in 2012.[16]

Indeed, the changing dynamics of Eurasian connectivity offer opportunities to re-integrate overland transportation with coastal and maritime routes for intra-Eurasian trade, beyond the Europe–China overland routes.

According to data from Deutsche Bank, while container transport

15 UNCTAD (2013) *Review of Maritime Transport 2013*. p. 25 (Figure 1.5b). Available at: http://unctad.org/en/PublicationsLibrary/rmt2013_en.pdf (Accessed: 10 February 2016).

16 As reported by UNCTAD : 'Reflecting intensified interregional trade volumes the average size of ships deployed on these routes increased markedly. With consumer demand in developing regions set to grow, markets in the "South" will continue to drive global container trade growth.' *Ibid.*

between Europe and Asia, and Asia and North America stagnated by 0-1% between 2012 and 2013, container transport between Asia and Africa, and Asia and the Middle East rose by 11% and 8% westbound, and by 10% and 8% eastbound, respectively, in the same period. This underscores the increasing relevance of sub-continental, intra-Eurasian connections beyond the liquid energy trade.[17]

This has opened up opportunities for continental Eurasia to functionally integrate as a complementary transit space, offering intermodal solution between Asia and the Middle East. In this respect, while implementing the transcontinental connections offering 'door-to-door' services from Asia to Europe is essential, developing hinterland-port rail connections as well as logistical services serving as feeder-services to and from the ports (and thus to and from world markets) will be the real game-changer at the continental and regional level. Hence, a new map of Eurasia is slowly emerging, crisscrossed by at least three main trans-continental overland corridors, but integrated by a rising number of intra-continental arteries. The original Trans-Siberian mainline is the backbone of the northern corridor connecting north-eastern China to Europe via Belarus and Poland.

Hence, a new map of Eurasia is slowly emerging, crisscrossed by at least three main trans-continental overland corridors, but integrated by a rising number of intra-continental arteries.

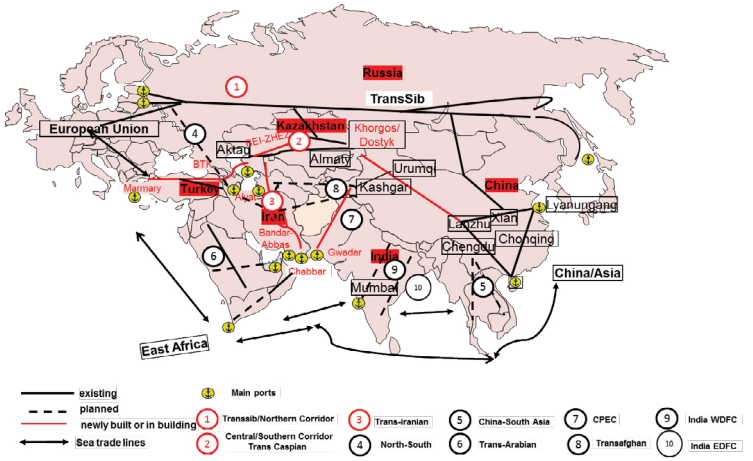
Since 2008, regular block train services have been travelling along the northern corridor. However, it is the new industrial hubs and special economic zones in central and western China like Chongqing, Chengdu, Kunming, Kashgar, and potentially Urumqi and Khorgos, have made the 'southern/central' corridor through Kazakhstan more attractive for business. Since 2012, rail services between central China and Europe via Kazakhstan have boomed, growing by more than 50%. A more recent development, facilitated by the end of the sanctions regime in Iran and the modernization of the Trans-Caucasus route from Azerbaijan to Georgia and Turkey, is the establishment of two further alternative routes. This run along the third, southern corridor; bypassing Russia, these routes run either from China and Kazakhstan through the Caucasus, or via Central Asia southward to Iran.

In 2016, German forwarder DHL has introduced a new train service along the Caucasus route. In addition, following the visit

17 Deutsche Bahn (2014), *Deutsche Bahn Welt-10/ 2014*. Berlin: Deutsche Bahn, pp.8-9. In 2012 5 million TEU were shipped via the Asia–Middle East-Asia trade route (more than 2/3 westbound), which accounts for 1/3 of all Asia–Europe transshipped goods (in TEU), and is slightly less than volumes shipped between Northern Europe and North America. World Shipping Council (2013) *Top Trade Routes (TEU shipped)*, Available at: http://www.worldshipping.org/about-the-industry/global-trade/trade-routes. (Accessed: 7 February 2016).

of President Xi to Iran, the first container train between China and Iran via the newly constructed Kazakhstan-Turkmenistan-Iran rail line has been tested. While designed to enable China's OBOR initiative to connect to Europe, the central and southern corridors are becoming part of an intra-Eurasian network, is aims to serve as a complementary network to the maritime routes linking East Africa, the Middle East and Asia, hence combining east-west with north-south corridors, as shown in Figure 4.

Figure 4: Eurasian transport sea, rail and intermodal routes (completed, under construction, planned corridors, 2015.



Source: The author's own map

With the end of the economic boom that was driven by the long period of high oil prices, and the slowdown of Asian and Chinese economies, the development of trans-border connectivity and domestic transport infrastructure and logistics is closely interwoven with the need for diversification, modernization and/or transformation of the economic model of each Eurasian country, including China.

The massive investments in China's transportation and rail network, matched by the shift in industrial activities toward the rapidly growing and industrializing central and western regions, are among the main reasons for the revitalization of continental transportation routes. However, since the beginning of the second decade of the 21st century, there have been similar attempts by key countries like Russia, Iran, Turkey and Kazakhstan. All these countries – under different conditions – are aiming to fol-

The massive investments in China's transportation and rail network, matched by the shift in industrial activities toward the rapidly growing and industrializing central and western regions, are among the main reasons for the revitalization of continental transportation routes.

low the Chinese example in order to reorient their own domestic transport network toward Asia, exploit the transit potential of goods from and to China and Asia, and use this external development to industrialize, modernize and diversify their economies.

As a consequence, the functional role of the main Eurasian players and their strategies has changed dramatically. China has provided the major impetus during the first stage of this development. With its economic power together with its market and route diversification strategy, the country is the main catalyst of Eurasia's re-connection.[18] Now, with the transformation of its economic model, Beijing will not be able to realize this vision without the active and willing participation of other Eurasian partners.

For its part, Russia, while clearly at an advantage due to its territorial extension along the northern Eurasian route and as a major regional player, is constrained by its structural economic weakness and chronic dysfunction.

For its part, Russia, while clearly at an advantage due to its territorial extension along the northern Eurasian route and as a major regional player, is constrained by its structural economic weakness and chronic dysfunction. Thus it cannot act as the sole integrating force, as the challenges faced by the EEU testify.[19] Against this backdrop, new regional and continental players are entering the Eurasian geo-economic equation.

In Central Eurasia Kazakhstan and Azerbaijan are emerging as overland trade hubs, attempting to diversify their access to the world markets and their economies. In maritime Eurasia- along the Indian Ocean/Pacific Ocean- India and Japan nexus,20 they are re-focusing their foreign and domestic investment strategies toward the transportation sector, aiming to re-synchronize their economies with the continental trends. Meanwhile in West Asia and in the Middle East, Iran and Turkey, facing the disintegration of the regional order, are willing (indeed,

18 The National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China (2015) *Vision and actions on jointly building the silk road economic belt and the 21st century maritime silk road* Available at: http://news.xinhuanet.com/english/china/2015-03/28/c_134105858.htm (Accessed: 8 February 2016) ; Government of the People´s Republic of China (2016) *China's Arab Policy Paper*. Available at: http://news.xinhuanet.com/english/china/2016-01/13/c_135006619.htm (Accessed: 26 January 2016).

19 Karaganov, S. (2015) *A Turn to the East: Development of Siberia and the Far East in the Context of Strengthening the Eastern Vector of Russia's Foreign Policy.* Moscow: Mezhdunarodnye Otnoshenia Publishers. Published in Russian.

20 Patil, S. (2015) 'After Modi's Visit, Is Central Asia Open for Indian Business? Prime Minister Narendra Modi's recent visit to Central Asia is an important moment for Indian business to increase its presence in the region.' Available at: http://thediplomat.com/2015/07/after-modis-visit-is-central-asia-open-for-indian-business/ (Accessed: 26 January 2016); Walker, J. W., Azumaa, H. (2015) 'Mr. Abe Goes to Central Asia: An Opportunity for Advancing Tokyo's New Thinking.' Available at: http://nationalinterest.org/feature/mr-abe-goes-central-asia-opportunity-advancing-tokyo%E2%80%99s-new-14215 (Accessed: 26 January 2016).

forced) to enter the Eurasian transport equation, albeit with different agendas.

Ankara is increasingly isolated in the region; its relations with both Iran and Russia are at odds and those with the West are critical. Deepening trade and transport ties with China and Asia via Central Asia seems to be the only means of escaping regional isolation. Iran, by contrast, is re-entering the Eurasian equation as fully-fledged member of the international community after a decade of isolation. Tehran is eager to fully exploit its geographic position and its geo-economic assets to open up to western business while also deepening trade relations with China, India, and Asia.

Conclusion

A wide-ranging analysis demonstrates that in a world with diffuse and persisting slow growth, major geopolitical risks may stem from the rising but fragile powers that tend to flex their muscles out of weakness,[21] or, from the destabilization and disintegration of entire regions, where a mix of economic stagnation and sectarian politics is undermining stability. The present economic downturn across Eurasia and Asia is a case in point: from the civil wars in Ukraine and Syria to the mounting tensions in the South China Sea, geopolitical conflicts seem to be spreading in parallel to weakening economic dynamics in China and Asia, or recession in Russia and the former Soviet space.

This paper has shown that while emerging powers and markets in wider Eurasia – including Asia and the Middle East – have entered a period of economic uncertainty and potential political instability, the West is not able to assume its traditional role as political-diplomatic stabilizer and global economic shock-absorber. In the past years, the transatlantic relation between EU and the US has grown increasingly tense, less value-oriented and more pragmatic. The role of the Euro-Atlantic as a coherent economic and political-diplomatic space is gone.

The US is keen to take on its new role as Pacific country vis-à-vis China while confronted with uncertain economic recovery and new-isolationism. For its part, the EU faces internal economic weakness, destabilization, and war at its southern and eastern

21 Kaplan, R .D. (2016) 'Eurasia's Coming Anarchy - The Risks of Chinese and Russian Weakness.' *Foreign Affairs*, 95(2), pp.33-41.

borders, in addition to a potentially explosive migration crisis. Paradoxically, both the US and EU must react to events that originate in the wider Eurasian space, with few options to jointly re-assess their economic and political centrality.

Indeed, the world is far from 'flat'. Moreover, it is characterized by a process of accelerated economic de-synchronization among the three great geo-economic poles: Asia; Europe; and the US. Meanwhile, in the past decade, the integration of wider Eurasia – driven primarily by Asia - has led to the synchronization of the economic dynamics across a vast space, encompassing the Indian and the Pacific Oceans as well as continental Eurasia. These three separated sub-systems are now beginning to take shape as a single, coherent and self-sustaining geo-economic space, despite their geopolitical fragmentation and the potential for political-military conflicts or economic crisis. Against this backdrop, in the coming decades the development of functioning transport networks in this poorly connected but geo-economically integrating macro-space will prove the catalyst both for overcoming the present domestic economic constraints in many Eurasian economies and re-shaping the economic, industrial and commercial face of the continent.

Azerbaijan in the Silk Road Economic Belt: A Chinese Perspective

Bai Lianlei*

The Silk Road Economic Belt is one manifestation of China's opening-up policy, and implies the evolution of this policy from seaward to both seaward and landward. The core ideas of the Belt are primarily based on the experiences of China's economic success. Azerbaijan is an ideal partner for construction of the Belt for three reasons: the Azerbaijan-located Caspian rim area is becoming a new joint zone of East Asian, European and Russian economic interest; Azerbaijan is the forerunner in the rejuvenation of the ancient Silk Road in terms of re-development multiple large-scale transnational transport systems; and Azerbaijan bears similarities with China which contribute to mutually beneficial cooperation. The Belt brings valuable opportunities to Azerbaijan, particularly in terms of the transit fees and industrial cooperation opportunities. What Azerbaijan and China can do is first to clarify China's thinking on the Belt, and second, to identify areas for specific cooperation.

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Introduction

Ancient China was one of the major agricultural civilizations whose external contacts depended mainly on land passages, with the Silk Road as the key among those passages. The route departed from inland China, passed through Central Asia and headed towards the Mediterranean littoral areas. Azerbaijan historically played a pivotal role in terms of this route, contributing both physically and culturally to the route as well as benefiting from it. 'Silk' represented all the goods traded on this route. The route was time consuming and perilous, meaning that only significant profit could offset the hardship. Silk, as a luxury good that was not only popular among aristocracy along the way, but also easy to carry, was a commodity perfectly matching this requirement. China's new Silk Road, officially named the Silk Road Economic Belt (SREB) reflects the new efforts of China to revitalize the ancient Silk Road, and signifies that China's opening-up is evolving from seaward to both seaward and landward.

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In 1978 China began establishing an opening-up policy, mainly in the eastern direction. This eastward opening-up is based on two factors. First, the preferred candidates for cooperation are Hong Kong, Taiwan, Japan and some Southeast Asian countries who boast comparatively developed economies, share cultural similarities with Chinese mainland, and have large Chinese diaspora populations. Second, when it comes to land neighbors, they tended to be as economically undeveloped as China itself, not to mention their terrible ecological environments. Regions open to foreign investment gradually expanded from the four economic special zones[1] in the eastern coastal region to inland cities and even the areas on the western frontier. The opening-up of the western border signifies Chinese movement towards an omnidirectional trade approach, even though most cities were still looking at maritime routes. In 2012 then-vice premier Li Keqiang said in a lecture, "westward opening is a fundamental step leading to omnibearing opening."[2] On 7 September 2013 Chinese president Xi Jinping put forward the initiative of Silk Road Economic Belt

1 They are located in cities of Shenzhen (深圳), Zhuhai (珠海), Xiamen (厦门), Shantou (汕头). Shenzhen is adjacent to Hong Kong, Zhuhai is close to Macau, Xiamen is the neighbor of Jinmen Island occupied by Taiwan Authority, and Shantou is well known for its diaspora. The location of economic special zones reveals the intention of directional cooperation.

2 Ministry of foreign affairs (2012), *Vice Premier Li Keqiang Attends the Opening Ceremony of the 2012 China (Ningxia) International Investment and Trade Fair and the 3rd China-Arab States Economic and Trade Forum and Delivers a Speech*. Available at: http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/xybfs_663590/xwlb_663592/t971512.shtml (Accessed: 12 May 2016).

(SREB) in Nazarbayev University of Kazakhstan, signifying an omnidirectional opening. In March 2015, China declared *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road (Vision and Actions)*, from which it can be seen that the SREB draws on the key lessons derived from Chinese economic history: that infrastructure connection is the priority and the preliminary stage of an economic boom; that openness leads to prosperity and closed-ness brings about backwardness; that politics serves the economy, particularly abiding by market rules rather than geopolitical rationale when carrying out the initiative.[3] As the SREB moves from the drawing board to reality, Azerbaijan is no longer just a remote friend but an emerging and directly relevant partner of China.

Azerbaijan as an ideal partner for interconnection

Azerbaijan is becoming the new point of connection between the European economic circle and East Asian economic circle.

Azerbaijan is becoming the new point of connection between the European economic circle and East Asian economic circle. After the dissolution of the Soviet Union, the former republics have witnessed a divergence of their external commercial relations. Armenia and Belarus remain in Russia's economic circle; the Baltic States have joined European Union, a path that Moldova, Ukraine, and Georgia are striving to follow. Azerbaijan and the Central Asian countries are located precisely within the convergence area of Europe, Russia and China. Azerbaijan is endeavoring to strike a balance between relations with EU and Russia, while Central Asian countries are seeking to do the same thing between Russia and China. Geo-economic structure is still evolving with Europe's economic stagnation, the recession of the Russian economy, and China's continuous growth. As a result, the East Asian circle will expand, while the EU and Russia circle will remain unchanged or even contract. In this context, the convergence point of the three circles will move westward, and the position of Azerbaijan, as well as the western shore of the Caspian Sea, will become a new joint area.

Azerbaijan is the pivotal country in the China-Central Asia-West Asia economic corridor (CCW corridor). This corridor is one of the Belt and the Road's six economic corridors,[4] involving

3 National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce (2015) *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. Available at: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html (Accessed: 12 May 2016)

4 The other five economic corridors are new Eurasian Land Bridge (新亚欧大陆桥), China-Pakistan Economic Corridor (中巴经济走廊), Bangladesh-China-India-Myanmar Economic Corridor (孟中印缅经济走廊), China-Mongolia-Russia economic corridor (中蒙俄经济走廊), and China-Indochina

five central Asian countries, Iran and the Persian Gulf region, Transcaucasia and Turkey, and the Saudi Arabian peninsula. Traditionally, transport between China and West Asia occurs mainly through maritime routes, and the CCW corridor is a land-based alternative to traditional maritime routes. The shortest route from China to west Asia is through Baku. To date, the railways leading to the ports of Aktau and Turkmenbashi have opened up, and cargo may be transported by ferry to the new Baku International Sea Trade Port (NBIST port), and then westwards onto Turkey and Europe. In August 2015, the Trans-Caspian International Transport Route (TITR) was launched; the Nomad Express carrying goods from China (Shihezi) traveled through the port of Aktau and arrived at Baku.[5] In addition, the port of Turkmenbashi in Turkmenistan, which connects to a railway running from Kazakhstan, provides an alternative route and is therefore a competitor to the Aktau option. The competition between these two ports on the eastern shore of the Caspian Sea has undoubtedly strengthened the position of Baku as a transport hub. The North-South Transport Corridor (NSTC), currently under development, has Azerbaijan as a joint point connecting Russia and Iran and is designed to provide Indian Ocean countries with a land-based access to Europe and Central Asia. Once complete, the NSTC will further consolidate the geo-economic role of Baku.

In the areas east of the Caspian Sea, China has initiated and promoted interconnection of routes. Azerbaijan plays a similar role to the west of the Caspian. In this way, China and Azerbaijan are natural partners.

In the areas east of the Caspian Sea, China has initiated and promoted interconnection of routes. Azerbaijan plays a similar role to the west of the Caspian. In this context, China and Azerbaijan are natural partners. Azerbaijan's efforts towards interconnection involve oil and gas transportation and railway construction. Since independence, Azerbaijani-initiated transnational transport infrastructure projects have been primarily directed towards Europe. The Baku-Tbilisi-Ceyhan pipeline (BTC), an energy artery transporting Caspian oil to European markets, began operating in 2006. Meanwhile, the South Caucasus Pipeline (also known as the Baku–Tbilisi–Erzurum Pipeline) also became operational, bringing Caspian gas to European consumers. Due to the ongoing Nagorno-Karabakh conflict and Armenia's occupation of Azerbaijani territories, Azerbaijan has been required to bypass Armenia, although it a shorter route from Azerbaijan to

Peninsula economic corridor (中国-中南半岛经济走廊) according to "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road".

5 Aliyeva, A. (2015) *Test container train from China arrives in Alat, Azerbaijan*. Available at: http://report.az/en/infrastructure/test-container-train-from-china-arrived-in-alat-azerbaijan/ (Accessed: 12 May 2016).

Turkey, introducing Georgia as an alternative route. Thus, Azerbaijan-Georgia-Turkey has become the somewhat standard westward transport line. In endeavoring to open routes toward Europe, Azerbaijan is also seeking to extend the westward routes to connect Central Asia and the Persian Gulf, which will transform Azerbaijan into a transit hub. Given the limited energy supply from Azerbaijan as a sole producer, and the EU's eagerness to diversify its energy imports, this 'win-win' plan is supported by the EU. In the OECD meeting in Istanbul in 1999, Azerbaijan, Turkey, Georgia, and Turkmenistan concluded agreements on the trans-Caspian gas pipeline, with the hope that this pipeline could become the eastward phrase of South Caucasus gas corridor. Although the agreements have not been realized due to a number of remaining controversies, such as the disputed legal status of the Caspian Basin, etc., the trans-Caspian energy transportation will eventually start operating. To date, Azerbaijan has signed a variety of trans-Caspian international transport agreements with Kazakhstan and Georgia, and even initiated the Trans Caspian transport consortium to operate TITR from China to Europe.[6]

As for railroads, Azerbaijan has been a stalwart supporter and promoter of the Transport Corridor Europe-Caucasus-Asia (TRACECA) project initiated by the EU, conceived as the backbone of the Great Silk Road. The westward railroads boast the flagship Baku-Tbilisi-Kars railway (BTK railway), also known as the iron Silk Road. Once the Marmaray tunnel in Turkey is opened, BTK railway could connect to the European railway system, which will undoubtedly help integrate the South Caucasus with the European economic space. The east terminal of BTK railway is the NBIST port. The port's first stage project could enable it to handle as much cargo as 10 million tons and 40,000 TEU per year. The third, final stage of the project could expand the capability to 25 million tons and 1 million TEU.[7] Given the potential of the iron Silk Road to shorten the Sino-Europe transportation time to six days, the potential of the NBIST port as a pivot has attracted significant attention from China. The NSTC also comes on the heels of the Iran nuclear deal and the lifting of UN sanctions.[8] The project ex-

As for railroads, Azerbaijan has been a stalwart supporter and promoter of the Transport Corridor Europe-Caucasus-Asia (TRACECA) project initiated by the EU, conceived as the backbone of the Great Silk Road.

6 Eurasian business briefing (2015) *Trans Caspian transport consortium to operate TITR from China to Europe*. Available at: http://www.eurasianbusinessbriefing.com/trans-caspian-transport-consortium-established/ (Accessed: 5 March 2016).

7 Mooney, T (2015) Caspian Sea Port of Baku builds for China-Europe overland links. Available at: http://www.joc.com/port-news/asian-ports/caspian-sea-port-baku-builds-opportunities-china-europe-overland-links_20151126.html (Accessed: 3 March 2016).

8 TODAY.AZ (2016) Azerbaijan, Iran to be linked by railway before late. Available at: http://www.

tends the transport system northward and southward from Baku, thus connecting Russia and Europe and Middle East and Indian Ocean. As the Iranian Minister of Communications and Information Technology Mahmoud Vaezi said, the commissioning of the railway line Qazvin-Rasht-Astara (Iran)-Astara (Azerbaijan) and the unification of transit lines between the two countries within the framework of the international transport corridor North-South will improve the efficiency of cargo traffic from India to Europe.[9] Moreover, the NSTC is also an energy transport route. Russia hopes to export its surplus electricity to Azerbaijan and Iran, while Iran hopes to sell oil and gas to Europe through Azerbaijan. The NSTC can play a key role in this regard.[10]

China and Azerbaijan share similar development strategies. First, they both place a high value on interconnectedness, and have outward facing foreign and trade policies.

China and Azerbaijan share similar development strategies. First, they both place a high value on interconnectedness, and have outward facing foreign and trade policies. Azerbaijan is balancing its relations with the West and the East. China, as mentioned above, is shifting from a focus on maritime opening to comprehensive land-sea openness. These parallel evolving strategies create historic opportunities for bilateral cooperation. Second, economic development is a strategic priority for both countries. China is focusing on economic restructuring and consolidation, aimed at turning China into a medium-developed country by around 2050, the goal set by former Chinese leader Deng Xiaoping in 1987. Azerbaijan's national strategy concept, 'Azerbaijan 2020: Outlook for The Future', indicates its intention to develop a competitive, non-oil, export-oriented, and high-income economy.[11] The economic diversification of Azerbaijan can be integrated with China's economic restructuring and upgrading. Third, they are both pursuing independent and peace-oriented foreign policies. Both countries cherish sovereign rights, adhere to international law and UN decisions, and maintain a strategic distance from exclusive military and/or economic blocs. Fourth, both China and Azerbaijan place great importance on political stability. Stable political order is considered as the precondition for economic development. Therefore, the two countries are both committed

today.az/news/business/146696.html (Accessed: 3 May 2016).

9 Katanov, R. (2015). *Minister Mahmoud Vaezi: International North-South Transport Corridor meets national interests of our countries*. Available at: http://azertag.az/en/xeber/Minister_Mahmoud_Vaezi_International_North_South_Transport_Corridor_meets_national_interests_of_our_countries-891888 (Accessed: 11 May 2016).

10 Karimova, A (2016) *Azerbaijan, Iran, Russia work on establishing energy corridor*. Available at: http://www.today.az/news/politics/147773.html (Accessed: 12 May 2016).

11 President of Azerbaijan (2012) *Azerbaijan 2020: look into the future concept of development*. Available at: http://www.president.az/files/future_en.pdf (Accessed: 3December 2015).

to the role of political stability, and are opposed to interference with internal affairs by foreign countries. Each state is focused on their unique national characteristics in seeking a suitable development model. Finally, both China and Azerbaijan have yet to realize the unification of their territories. Azerbaijan remains troubled by the Nagorno-Karabakh conflict, while China is still striving to maintain a peaceful cross-strait situation and to unify the mainland of China and Taiwan of China. These similar challenges actually contribute to mutual understanding.

Opportunities and challenges of the Belt

The first task of the Belt is interconnection. Europe and Asia now has a dumbbell shape, with Europe and East Asia as the two developed terminals and inland Central Asia and South Caucasus as the economic linkage zone between the previous two. The relatively undeveloped situation of inland areas is mainly due to lack of transnational transportation. In the era of maritime transportation, landlocked economies are confronted with the high costs of accessing a seaport. The dominance of maritime transport is declining, since the increasing added value of products is rendering the transportation efficiency more and more important. In this context, the cheap but slow maritime transport is losing its appeal, while the more expensive but faster land-based transport is increasingly attractive. The world is full of liquidity, but lacks infrastructure. The Belt will be led by the interconnection of infrastructures. Therefore it is necessary to fill in the infrastructure gap within Eurasia. Accordingly, China initiated the Silk Road Fund, for which Asian Infrastructure Investment Bank (AIIB) can be the candidate financial platform. As a result of its rapid economic growth during recent decades, China has developed an excellent and systematic manufacture industry, and its long history of massive infrastructure creation demonstrates the capability of Chinese enterprises. The Chinese government has identified the Belt as priority of foreign affairs, and will inject sustainable resources to advance it. Given these favorable conditions, the Belt can become a long-term project, from which Azerbaijan stands to benefit.

The first dividend from interconnection is a streamlined trans-Eurasia transport system. The main focus in on East Asia and the Western Europe, while Central Asia and South Caucasus act as a bridge between the two. The streamlined trans-Eurasia transport will first benefit the transit countries, for which transit fees could offer a sig-

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nificant source of fiscal income. This has been demonstrated by Kazakhstan's experience, where the transit fee reached 1 billion USD in 2014. Azerbaijan has not yet reached its full potential as a transit state; however with the development of trans-Caspian transport system and NSTC, Azerbaijan will benefit from its position as a hub on the western shore of the Caspian Sea. According to estimates, only the trans-Caspian route could transport approximately 300,000-400,000 containers by 2020, bringing hundreds of millions of manats in profit for Azerbaijan.[12] This transport connection will also boost economic cooperation. Azerbaijan has yet to establish a strong manufacturing sector; in 2014, Azerbaijan's manufacturing sector accounted for 8% of the total GDP, while China has made great progress since 1980s. In 2014, China produces 20% of the world's manufacturing output. The Chinese economy now is undergoing restructuring, manifested as optimization of industrial capacity structure and industry upgrades, which provides new opportunities for industrial cooperation. Optimizing industrial capacity structure is necessary since, on the one hand, there are multiple different industries, including traditional sectors like iron and steel, chemical industry, shipping-building, automobiles, household appliance, as well as emerging industries such as wind power equipment, solar panels, etc., the capacity of which exceeds what the internal market can consume.

On the other hand, some service sectors, like urban public transportation, high-speed railway and highways, personalized product design, financial consultancy, information access services, etc., are still unable to meet the market demand. Reallocation means cutting over-capacity sectors and expanding the underdeveloped sectors**.** A big part of the aforementioned overcapacity developed following 2008, partly as a side effect of the 630 billion USD stimulation plan. Therefore, the so called surplus producing capacity always applies advanced technique, and thus it is high-quality though surplus producing capacity**.** Industrial upgrades are also crucial given the decreasing labor force in China. Since 2012, both the proportion of the 15-60 years old labor force in the total population and the absolute number have been in decline. During the three years, from 2012 to 2014, nearly 10 million labor force, equal to the whole population of Azerbaijan, was lost in China. A shrinking labor force leads to the increase of labor prices, and as a result, the competitiveness of labor-intensive industries decreases. To offset the loss of labor force, auto-

12 Karimova, A (2016) *Azerbaijan, Georgia, Kazakhstan to establish railway consortium*. Available at: http://www.today.az/news/business/148012.html (Accessed: 12 May 2016).

mated industries are praised and valued in China, which plays a major part in industry upgrades. Cutting capacity and industry upgrades are always accompanied by industry relocation or enterprise migration, which overall conforms to the Flying Goose Model.[13] As mentioned above, the enterprises migrating abroad are gaining significance, creating increasing opportunities for international economic cooperation. Given the nearly complete industrial system China has established, a candidate partner like Azerbaijan could easily select what it needs most, whereby a mutually beneficial agreement could be reached.

Given the nearly complete industrial system China has established, a candidate partner like Azerbaijan could easily select what it needs most, whereby a mutually beneficial agreement could be reached.

Competition is emerging among different routes. The Belt and Road involve three geographic centers, i.e. East Asia, Europe, and the Middle East North Africa region. Transport routes from East Asia to Europe mainly pass through Xinjiang in China, Kazakhstan, and Russia. At present, there are eight Sino-Europe rail trains in regular operation, among which two rail trains start from the north east city Manzhouli in China, travel through Russia and then to Europe. The other six routes start from the Alataw Pass of Xinjiang and run through Kazakhstan and Russia. The route through Azerbaijan, through which three test rail trains have traveled to date, is not yet running regularly. Thus Kazakhstan and Russia are the key transit countries so far.

There are two primary candidate routes for connecting East and West Asia. One is the maritime route from the West Pacific, which runs through Malacca strait, then to Indian Ocean and the Persian Gulf. Two ancient land-based routes comprise the other option. One is through Kazakhstan/Turkmenistan-Azerbaijan-Iran, and the second is the Kazakhstan-Turkmenistan–Iran route. Thus Azerbaijan and Turkmenistan are actually in competition. The first test China-Kazakhstan-Turkmenistan-Iran train was launched in late January 2016, [14] but the Azerbaijan-Iran railway has not been completed, which is certainly a disadvantage at this stage. But when it comes to trans-Caspian transport, Azerbaijan can benefit from the competition between Turkmenistan and Kazakhstan. The BTK railway is the most promising route from South Caucasus to Europe, but both Turkmenbashi and Aktau could connect Baku. Kazakhstan hopes to strengthen its pivotal position and sees the potential of a trans-Caspian route, thus is

13 Akamatsu K. (1962) 'A historical pattern of economic growth in developing countries'. *Journal of Developing Economies*, 1(1), pp. 3–25.

14 TREND (2016) *First test train China-Kazakhstan-Turkmenistan-Iran launched.* Available at: http://en.trend.az/business/economy/2492990.html (Accessed: 12 May 2016).

proactively opening the Aktau-Baku route. Further, with the first 'Nomad Express' going through Aktau, Kazakhstan has shown an early advantage over Turkmenistan. Aside from the Kazakhstan-Turkmenistan-Iran railway, Turkmenistan is also awaiting the completion of Uzbekistan-Kyrgyzstan railroad, which expected to connect to China but is temporarily stalled in the Kyrgyzstan phase.

The China-Pakistan Economic Corridor (CPEC) is a strategic project integrating the Belt with the Road. CPEC stretches from Kashgar in China to Pakistan's Gwadar harbor. When the CPEC's transport system is completed, both central Asian countries and west China could gain direct access to Indian Ocean. Some cargo that would have gone via the land-based route to West Asia might instead turn south to go via the CPEC, thus diversifying the trans-Eurasia traffic, and affecting the profit flowing to Azerbaijan. However, the potential impact should not be overstated. One reason lies in that Central Asian countries' trans-border cargo is not very large and hence not so important to Baku harbor; the other is that Sino-West Asia trade is mainly comprised of low-value-added products which are currently primarily dependent on maritime transport. Azerbaijan could be one of key pivotal countries in the Belt; whether this pivotal position could be consolidated depends on the following three factors: the completion of BTK railway; the openness of North-South transport corridor through Azerbaijan; and the increased demand of relevant countries for land-based transportation. The first two factors are exclusively beneficial to Azerbaijan, but the last one is universally beneficial, and its potential has not yet been fully maximized.

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Geographically, China – the driving force of the Belt – is starting with its near neighbors, meaning that Central Asian countries and Pakistan stand to benefit first, adding to their existing range of bilateral cooperation. Thus their interconnection cooperation with China could develop rapidly. When it comes to the Couth Caucasus countries, Georgia, before the other two, has started free trade negotiations with China, which the Tbilisi and Beijing have vowed to complete by the end of 2016.[15]

15 Xinhua (2016) *China, Georgia vows to reach comprehensive FTA within 2016*. Available at: http://news.xinhuanet.com/english/2016-02/22/c_135120792.htm (Accessed: 12 May 2016).

Recommendations

Despite the challenges, the Silk Road Economic Belt offers strategic opportunities to both China and Azerbaijan. But opportunity outweighs the challenges. In order to maximize the opportunities and overcome the challenges, Azerbaijan first needs to understand China's vision for the Belt. Secondly, China and Azerbaijan should identify the preferential areas for cooperation.

The Belt is not unilateral aid to countries alongside it. The Belt attaches large importance to transportation infrastructure, which requires massive investment. But the construction should be the result of cooperation rather than China undertaking everything. China is a market economy, thus the actors on economic issues are businessmen rather than government officials. Aside from standards pertaining to the environment, social development, national laws, etc., the most significant factor for investors is profit. This rationale applies in the investment strategies of the Silk Road Bank, the New Development Bank, AIIB, etc. In fact, Azerbaijan is among the few countries involved in realization of the Belt projects that have the capacity, experience and willingness to invest in upgrading its transport infrastructure and thus can be considered very suitable partner for China in this regard.

China pursues diversified routes to reach different target markets. The diversified transportation system – i.e. combining both sea and land routes and opening multiple approaches to connections – could help overcome any emerging geopolitical challenges. This approach could also contribute to China's differentiated economic interests. At present, the China-Russia-Europe route mainly sees trade of manufacturing goods; the China-Central Asia-Persian Gulf route will be the energy and resource transport artery; and the Central Asia - Baku line would be a route transporting manufacturing goods, energy, and resource products.

China does not expect Central Asian and other countries to its west to digest its redundant producing capacity. Central Asian countries together are home to 70 million people and have the GDP of 345 billion USD, smaller than China's medium-size Hebei province. The combined GDP of Middle Eastern and North African economies is 1500 billion USD – roughly equal to that of China's Guangdong province. Even the western China, which has 400 million residents and a GDP of 2247 billion USD – i.e. larger than the aforementioned two areas combined, could not fully absorb China's excess capacity. China will not pursue unrealistic expectations of developing countries along the "Belt and

Road" in this regard. Yet, a certain portion of producing capacity could be taken over by countries-in-need through enterprise migration, which will have a win-win result.

1. Strengthen Sino-Azerbaijani cooperation on infrastructure

Azerbaijan aims to become a regional economic hub, cultivating an export-oriented economy, consolidating the foundations of the innovative regime, and fulfilling the goal of establishing diversified and competitive economy.

Azerbaijan aims to become a regional economic hub, cultivating an export-oriented economy, consolidating the foundations of the innovative regime, and fulfilling the goal of establishing diversified and competitive economy.[16] The potential of the trans-Caspian transport system is the leverage in realizing these goals, and is also the platform for Sino-Azeri cooperation - for which NBIST port could be the focal point. The first phase project of the port has been constructed and fully financed by the Azerbaijani state budget. The second and third phases could bring in the cooperation of international investors. China has a wealth of experience in infrastructure construction relating to harbors, and also boasts abundant capital, which is needed by Azerbaijani counterparts. China-Azerbaijan cooperation on this should be developed in the future. As well as for the Baku sea port, Azerbaijan is also undertaking several major projects, such as the BTK railway, Southern Gas Corridor, domestic power network renovation, construction of irrigation system, etc. The two countries could also seek new areas for cooperation.

2. Three key priority areas for industrial cooperation

The first is agricultural materials. Azerbaijan's aim to develop agriculture sector increases demand for mineral fertilizers, pesticides, fine breeds, and agriculture machines, implying a significant opportunity here for Sino-Azeri cooperation. Moreover, agricultural experience sharing, production, and trade cooperation should also be prioritized by decision makers. The second area includes metallurgy, the chemical industry, and renewable energy (such as wind and solar power) equipment production. Chinese enterprises have developed mature technologies and significant experience in regard to building and operating the above industries. Their desire to expand to overseas markets coincides with Azerbaijan's vision of the industry as the pillar of economy.

3. Improve intangible infrastructure and initiate policy coordination

The sluggish global economy has, to an extent, given rise

16 President of Azerbaijan (2012) *Azerbaijan 2020.*

The sluggish global economy has, to an extent, given rise to reduced turnover of international transport.

to reduced turnover of international transport. During January-September 2015, the transport turnover of TRACECA through Azerbaijan fell by 9.3% compared with the same period last year.[17] Nonetheless, the tough global economic environment is also an opportunity to improve the intangible infrastructure that is so crucial to private investors. Policy coordination is a key component of improving the policy environment. China and Azerbaijan could collectively develop industry standards. Transport infrastructures should share the same design and building standards in order to improve interconnection. Technical norms should be identical in order to help investors to adapt to target environments. They can further strengthen coordination on visa, labor licensing, custom clearances, etc. in order to streamline transport links involving transnational cargo reloading, multimodal transport, information sharing, etc. Strategic policy coordination on energy is also critical. The target for cutting greenhouse gas emissions makes it necessary for China to increase its consumption of clean energy sources such as gas, but Azerbaijan's clean energy exports are mainly directed to the European market, and the prospected trans-Caspian energy route is also much more likely to be a Europe-oriented one - thus giving leading to Sino-Europe competition over Central Asian energy. In light of this prospect, initiating energy policy coordination between China and Azerbaijan is mutually beneficial.

17 Report (2015) *Cargo transportation via TRACECA corridor reduced*. Available at: http://report.az/en/infrastructure/cargo-transportation-via-traceca-transport-corridor-decreased/ (Accessed: 12 May 2016).

Linking the Silk Road Economic Belt and the Eurasian Economic Union: Mission Impossible?

Alexander Libman*

The goal of the paper is to examine the prospects for cooperation between two ambitious regional integration projects in Eurasia – the Chinese Silk Road Economic Belt (SREB) and the Russia-led Eurasian Economic Union (EEU). Both Chinese and Russian leadership proclaim their goal of linking these two initiatives; however, the actual potential for cooperation is disputed by observers. This paper argues that the EEU and the SREB are strikingly different in terms of their design and goals – however, it is precisely these differences that create the possibility of the projects' co-existence in the Eurasian space, creating positive spillovers, as well as a limited agenda for more explicit cooperation. However, there are also important obstacles to cooperation: namely the growing protectionism in Russia; the danger of redistributional conflicts between the states of Eurasia; as well as broader geopolitical concerns.

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Introduction

The last decade has witnessed growing economic ties across the Eurasian continent, including China and South-East Asia, Europe and post-Soviet Northern and Central Eurasia. Assessments of this novel trend by observers differ – while some believe the 'new continentalism' to be a challenge for the process of Western-dominated globalization,[1] others see it as a stepping stone towards a globalized world, finally overcoming the decade-long fragmentation of Eurasia.[2] One of the major challenges to economic integration in Eurasia has been the lack of the physical connectivity. Transportation infrastructure (roads, railroads or pipelines) was either missing, or exhibited significant deficits in terms of quality (due to the lack of appropriate international governance). Throughout the last decade, numerous projects have been launched to overcome this deficit. One of the most ambitious initiatives is the 'One Belt One Road' project pioneered by China in October 2013, especially in regard to its 'continental' aspect – the Silk Road Economic Belt (SREB).

The key element of the SREB initiative is its inclusive nature. It intends to interact with other regional projects and initiatives (national, sub-national and supranational), and is open to all actors willing to promote common infrastructure and facilitate international trade and integration of financial markets.[3] For post-Soviet Eurasia, a particularly relevant question is how the SREB (for which the countries of Central Asia and the Caucasus are already of paramount importance due to their geographical location) will interact with the Eurasian Economic Union (EEU). The EEU is a Russian-led regional organization comprising a number of countries potentially crucial to the trans-Eurasian transportation infrastructure that SREB intends to create, i.e. Kazakhstan, Kyrgyzstan and Russia itself. As of early 2016, official voices from both Russia and China are enthusiastic about the prospects for 'linking' (*sopryazhenie*) the two projects. In May 2015, the presidents of Russia and China signed a declaration proclaiming their intent to coordinate the integration processes within the EEU and the SREB. Discussions on the practical implementation of this 'linking' began in autumn 2015. Specifically, the Eurasian Economic Commission (the governing body of the EEU) plans to sign a

1 Calder, C.E. (2012) *The New Continentalism: Energy and Twenty-First-Century Eurasian Geopolitics.* New Haven: Yale University Press.

2 Linn, J. and Tiomkin D. (2006) 'The New Impetus Towards Economic Integration between Europe and Asia', *Asia-Europe Journal*, 4(1), pp. 31-41.

3 Godehardt, N. (2016) 'No End of History: A Chinese Alternative Concept of International Order?' *SWP Research Paper*, 2016/RP 2, Berlin: SWP, p. 19.

comprehensive treaty on economic and trade cooperation with China. There are no plans to develop a free trade area between China and the EEU; the treaty will instead focus on specific sectors (transportation is especially important in this sense), as well as support and protection of mutual foreign direct investments.[4]

Observers are divided as to how to assess the future of this EEU and the SREB cooperation. Some believe it is a viable vision, potentially strengthening the economic ties between Russia and China and promoting the development of the trans-Eurasian infrastructure and transportation corridors. Others remain skeptical of the real potential for practical cooperation in the years to come. The goal of this article is to critically examine the possibilities for the interaction of the EEU and the SREB, and to identify the potential and the obstacles for 'linking' these two projects.

Differences in the goals and design of initiatives

The main difficulty in understanding the possibilities for linking the EEU and the SREB is that these two projects are fundamentally different in terms of their design and their goals.

The main difficulty in understanding the possibilities for linking the EEU and the SREB is that these two projects are fundamentally different in terms of their design and their goals. The EEU is a *regional integration agreement*, signed by five countries (Russia, Kyrgyzstan, Kazakhstan, Belarus and Armenia). Although there are currently multiple types of regional integration agreements being implemented around the world, the EEU is constructed (at least in terms of its formal organization) following the most common approach to regionalism –the EU model, which entails strong supranational institutions and a focus on governance.[5] The EEU is not the first project of this type launched by the countries of post-Soviet Eurasia – however, it is the first where the members actually honored their commitments and implemented the agreements they have signed. The focus of the EEU is on creating supranational institutions and common regulatory regimes for trade. In particular, the EEU has seen the implementation of a customs union. Under this initiative, internal customs borders between member countries were abolished, a common external customs tariff introduced, and decision-making on customs issues was transferred to the supranational Eurasian Economic Commission. Furthermore, the EEU

4 Butrin, D. and Edinova T. (2015) 'Po Doroge v Soyuz Svernuli na Shelkovyi Put'. *Kommersant*, 12 May. Available at: http://www.kommersant.ru/doc/2724437 (Accessed: 19 January 2016).

5 See Dragneva, R. and Wolczuk K. (2015) 'European Union Emulation in the Design of Integration', in Lane, D., and Samokhvalov V. (eds.) *The Eurasian Project and Europe: Regional Discontinuities and Politics*. Basingstoke: Palgrave, pp. 135-152; Furman, D., and Libman A. (2015) 'Europeanization and the Eurasian Economic Union', in Dutkiewicz, P., and Sakwa R. (eds.) *Eurasian Integration – The View from Within*. Abingdon: Routledge, pp. 173-192.

focuses on developing common industrial standards for goods, abolishing barriers for labor and capital movement. It also plans to integrate a number of crucial markets, including energy and financial services.

The SREB, by contrast, is *not* an organization. It does not have a secretariat or any other common governing institution (let alone a supranational one), nor even a clear set of members. The scope and the goals of the SREB are extremely vague, and subject to intensive debate even within China itself. To some extent, the SREB can even be seen as merely a label chosen by China to describe its foreign economic policy approach in Eurasia. The SREB does not envision the creation of common regulations or harmonization of tariffs and standards. Its focus is primarily on the infrastructure (transportation, electricity, pipelines etc.), as well as on establishing numerous platforms for dialogue and co-operation between interested actors. The SREB also intends to develop a network of institutions for financing this common infrastructure – including the Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund and the New Development Bank of the BRICS.[6] Different projects and forums within the SREB will have different set of participants. Again, this is strikingly different from the EEU, where all members are expected to comply with the common strategy. Generally speaking, the SREB is more similar to the 'open regionalism' of the APEC, although its regulatory component is even weaker than in the APEC.[7]

Hence, at the first glance, 'linking' the SREB and the EEU is a meaningless concept given their very different content. However, paradoxically, it is precisely these differences, and in particular, the flexibility of the SREB design, that make the co-existence and interaction of the two projects possible. From this point of view, the situation is entirely different from the how political and economic relations evolved in Eastern Europe, where the EEU and EU-initiated regional projects (Association Agreements) turned out to be incompatible *because* they had the same objectives (i.e. to liberalize foreign trade and creating common standards). Nonetheless, the question that remains is whether the co-existence of the SREB and the EEU could create mutual impact (either positive or negative). Furthermore, it is important to ask whether it still makes sense to augment mere coexistence with more targeted coordination. Indeed, there are arguments suggest-

6 Lehmacher, W. and Padilla-Taylor V. (2015) 'The New Silk Road – Idea and Concept' *ISPSW Strategy Series* No. 390.

7 Bergsten, C.F. (1997) Open Regionalism. *World Economy*, 20(5), 545-565.

ing that in terms of the goals of the EEU and the SREB, linking them may be a useful approach.

Mutual gains and advantages of cooperation

To start with, the EEU and the SREB do indeed have the potential to create positive spillovers for one another. On the one hand, the transportation and infrastructure projects of the SREB can clearly benefit from the liberalization of trade and movement of capital and labor within the EEU. This would reduce the intensity of border controls within the EEU, leading to increased speed of transit through the EEU territory. In turn, this would increase the competitiveness of the SREB transportation corridors through post-Soviet Eurasia. This positive effect should prevail as long as the EEU does not impose prohibitive trade barriers on its external borders (a possibility that will be discussed later in the current paper). On the other hand, the goal of market integration within the EEU can be more easily achieved if regulatory measures (i.e. the activities of the Eurasian Economic Commission) are complemented by the development of transportation infrastructure. The EEU space is, generally speaking, connected by Soviet era transportation networks, but improving and facilitating transport (the main goal of the EEU) will still provide an additional impetus to market integration.[8] Furthermore, implementing the SREB projects provides further opportunities for the companies of the EEU, strengthening business ties within Eurasia at the micro-level. From this point of view, the EEU (through regulation) and the SREB (through infrastructure) contribute to mutually compatible goals.

On the other hand, the goal of market integration within the EEU can be more easily achieved if regulatory measures (i.e. the activities of the Eurasian Economic Commission) are complemented by the development of transportation infrastructure.

Direct cooperation between the EEU and the SREB could also lead to positive outcomes – partly because the activities of the projects extend beyond the simple dichotomy of regulation vs. infrastructure. In terms of transportation, the EEU also has an ambitious agenda of developing common transportation infrastructure. In this case, connecting this infrastructure to the SREB could benefit the EEU countries by extending the impact of the common EEU infrastructural projects. Furthermore, while the main achievements of the EEU have so far been documented in terms of trade issues, it also envisions becoming more active in creating favorable conditions for cross-border investments.

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8 EDB (2011) *Perspektivy Razvitiya Infrastruktury Avtomobil'nykh i Zheleznykh Dorog, Vklyuchennykh v Transportnye Marshruty EvrAzEs*, Almaty: EDB.

From this point of view, linking the SREB and the EEU can be achieved through an investment agreement, focusing on providing favorable conditions for cross-border FDI (especially in the area of infrastructure). This is, in fact, the focus of the Eurasian Economic Commission, as discussed above. Finally, discussions on linking the SREB and the EEU can be used as a platform for consideration of broader economic cooperation between Russia, Central Asian countries and China – even if, strictly speaking, this extends beyond the EEU's direct jurisdiction.

One can see that the agenda for explicit cooperation between the SREB and the EEU is limited. Nonetheless, the unintended positive spillovers from their coexistence is evident, and the potential gains of cooperation are not negligible. More importantly, the areas for cooperation discussed above are priorities for the Russian leadership when it comes to engaging in dialogue with foreign partners. Over the last decade, Russia has embraced a different approach to the international economic cooperation than that of the European Union, for example.[9] For EU countries, international cooperation implies the creation of common norms and rules. Russia, however, looks at many of these norm-based international regimes with suspicion, believing that these norms have been introduced to promote the partner's political agenda. Moscow prefers to focus on specific projects in the areas of infrastructure and investments; if common norms jeopardize these projects, Russia's perspective is that they have to be abandoned. To provide a striking example: when European politicians talk about economic cooperation in broader Eurasia, they typically focus on the prospects of a free trade area, while Russian politicians embrace the idea of a transportation corridor.[10] Therefore possible discussions on EEU - EU cooperation are problematic; in the eyes of the Russian elites, the SREB, with its focus on infrastructure and investments, has a decisive advantage.

This does not mean, however, that cooperation between the EEU and the SREB would be problem-free. In fact, there are a number of barriers that could make linking the SREB and the EEU difficult, if not impossible. These are: internal and the external protectionism in the EEU; competing visions for transportation corridors and redistribution conflicts within the EEU; and geopo-

9 Libman, A., Stewart, S. and Westphal K. (2016) 'Mit Unterschieden umgehen: Die Rolle von Interdependenz in der Beziehung zu Russland', in Perthes, V. (ed.) *Ausblick 2016: Begriffe und Realitäten internationaler Politik*. SWP-Ausblick 2016, Berlin: SWP, pp. 18-22.

10 See, for instance, the statement of the chairperson of the Council of the Federation, the upper chamber of the Russian parliament, Valentina Matvienko in November 2015. Available at: http://www.fa.ru/dep/press/about-us/Pages/V--Matvienko-Rossiya.asp (Accessed: 17 January 2016).

litical competition, all of which potentially overshadow the benefits of economic cooperation. These will be discussed in greater detail in the following section.

The rise of protectionism

In order to contribute to increased Eurasian connectivity, the EEU should develop itself as a space with open borders (allowing goods to cross the territory of the EEU without any significant challenges). In this regard, abolishing the customs duties is not necessarily the central task; more important may be to expedite border crossing procedures and to simplify the bureaucracy. In fact, the time lost due to customs procedures has always been one of the major problems for trans-continental railroad transportation. Generally speaking, from the point of view of transportation costs, maritime transport (which dominates the economic ties between the Eastern and the Western parts of the Eurasian continent) is more cost-effective than the land transportation. The latter, however, has a significant advantage in terms of speed (according to some estimates, it may be potentially 2 - 2.5 times faster than maritime transport). However, this advantage only holds when customs borders do not cause additional delays.[11] The EEU's first steps appeared very promising in this respect. The organization managed to remove internal customs borders and controls. The idea that the EEU should, at least in the long run, open its borders for its neighbors was also actively discussed by EEU countries. This discussion is linked to the idea that the EEU should become a starting point for broader cooperation within a greater Eurasian space, encompassing the EU, Northern Eurasia and Southeast Asia. This point was made, for example, by Vladimir Putin in his seminal article in *Izvestiya* published in 2011 and frequently viewed as an expression of his long-term views on Eurasian regionalism.[12]

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Over time, however, the situation has changed dramatically. On the one hand, the idea of economic protectionism became increasingly popular in the EEU. In particular, this is relevant for Russia. Russian economic policy has always been torn between protectionism (fueled by the lobbying activities of individual business groups) and a desire to liberalize foreign trade.

11 Vinokurov, E., Dzhardaliev, M. and Shcherbanin Y. (2009) 'Mezhdunarodnye Transportnye Koridory EvrAzES: Bystree, Deshevle, Bol'she' *EDB Industrial Report* No. 5, Almaty: EDB.

12 Putin, V. (2011) 'Novyi Integracionnyi Proekt dlya Evazii – Budushchee, kotoroe Rozhdaetsya Segodnya', *Izvestiya*, 3 October, Available at: http://izvestia.ru/news/502761 (Accessed: 31 January 2016).

This tension persisted until 2013, and led to a contradictory and inconsistent foreign trade policy. An excellent example is Russia's accession to WTO in 2012. During the accession negotiations, Russia made substantial commitments to liberalizing its foreign policy. But despite these commitments, many of the protectionist barriers remained in effect – partly as an outcome of lobbying by individual interest groups.[13] In 2014, after the onset of Ukraine conflict, the balance shifted towards protectionism. Protecting domestic markets from excessive dependence on foreign suppliers was seen not only as a way to increase national security, but also to promote economic development by enabling domestic industry to develop and grow in the absence of foreign competitors. The idea of 'import substitution' became one of the cornerstones of Russian economic policy.[14]

The prevalence of protectionism in Russia has long been seen as a problem by China, which, for example, promoted the idea of a free trade area within the Shanghai Cooperation Organization (SCO) – an idea Russia definitively rejected.

The prevalence of protectionism in Russia has long been seen as a problem by China, which, for example, promoted the idea of a free trade area within the Shanghai Cooperation Organization (SCO) – an idea Russia definitively rejected. Russia's growing protectionist tendencies could potentially translate either to increased protectionism of the EEU as a whole (if the cohesion of the countries remains at a high level), or to the reemergence of internal customs borders in some form (if EEU countries take unilateral steps to liberalize their foreign trade, forcing Russia to introduce additional constraints to protect its market). As a result, the benefits of transit through the EEU territory will disappear, making the 'linking' of this project with the SREB a more difficult task. Nonetheless, we must acknowledge that the predominance of protectionism in Russia should not be treated as the only possible outcome of its long-term development: there are still many voices calling for more liberal trade policy; they simply carry less weight than they did several years ago. The ongoing economic crisis in Russia, however, may create another reason to tighten customs controls that even liberals will subscribe to – the need to generate fiscal revenue. Low oil prices make it more and more difficult for Russia to meet its budget requirements, and there is clear evidence that the Russian government has massively increased its efforts to generate new budget revenue options. This, again, can create problems for the dream of the trans-Eurasian transit through the EEU countries.

13 See discussion in O'Neal, M. (2014) 'Russia in WTO: Interests, Policy Autonomy, and Deliberations', *Eurasian Geography and Economics*, 55(4), pp. 404-421.

14 Libman, A. (2014) Außenwirtschaftlicher Protektionismus in Russland: Endgültige Abkehr von der Integration in die Weltwirtschaft? *SWP-Aktuell* 2014/A 69. Berlin: SWP.

On the other hand, many of the obstacles to trans-Eurasian transit are not the result of the economic policy decisions, but rather the consequence of foreign policy concerns. Over the last three years, Eurasia has seen the introduction of multiple sanctions introduced by key actors: EU sanctions against Russia, Russia's ban on food imports from the EU, mutual sanctions by Russia and Ukraine; Russian sanctions against Turkey. While these sanctions themselves necessitate additional customs controls, they also create substantial spillover effects. For example, in order to enforce its sanctions against Ukraine, Russia had to introduce new rigorous regulations for the transit of goods from Ukraine to Kazakhstan; similarly, in January 2016 Ukraine blocked Russian transit to Moldova. These spillover effects can be harmful for the transit between countries not involved in the sanction wars – once again, creating a challenge for any potential linking of the SREB and the EEU. In the worst case, this could even limit the implicit positive spillovers from their coexistence – if, for example, the chosen structure of transportation corridors by the SREB does not encourage trade links within the EEU.

Redistribution and different visions of transportation corridors

One of the key ideas of the SREB is that the multitude of transportation corridors in Eurasia is viable due to the economic potential of the countries of the region: i.e. there will be sufficient demand for transportation of goods. However, the current economic situation does not seem to support this assumption. China's ability to sustain long-term growth has come under scrutiny in the recent months, with mounting signs of economic weakness. Key countries in post-Soviet Eurasia – Russia and Kazakhstan – are suffering deep recessions due to the falling oil prices. More importantly, there are reasons to believe that this economic slowdown will be long term. Under these conditions, demand for transportation goes down, while on the other hand, governments' need to generate revenues goes up (because their traditional sources dry out). This means more competition between different transportation corridors within the SREB, some of which fit the interests of EEU countries, and some of which do not. Moreover, it also means more competition within the EEU regarding different transportation corridors (e.g., circumventing Russia or going through the Russian territory). In this environment of competition, linking the EEU and the SREB once again becomes a difficult task.

One of the key ideas of the SREB is that the multitude of transportation corridors in Eurasia is viable due to the economic potential of the countries of the region: i.e. there will be sufficient demand for transportation of goods. However, the current economic situation does not seem to support this assumption.

To some extent, the problem of compatibility of the transportation corridors within the EEU has already emerged in recent years. One example is the status of the Russian trans-Eurasian infrastructure – in particular the Trans-Siberian railroad. For Russia, this corridor is probably the most attractive one. However, in terms of the SREB, particular attention is paid to the transportation corridors along the southern border of Russia, through the Central Asian and Caucasian countries. While China and Russia have agreed to include the Trans-Siberian railroad into the SREB, it is not clear how exactly this will happen, and, more importantly, how the companies using the SREB infrastructure will manage the logistics. If at certain point it becomes clear that the Trans-Siberian railroad cannot generate revenues for the Russian government, it is possible that Russia will use its influence in the EEU to limit the development of alternative corridors. This would create clashes between the SREB and the EEU or, even more likely, internal conflicts within the EEU. There are numerous other examples of divergent preferences among individual countries regarding the transportation infrastructure. Again, as in the case of protectionism, this divergence does not necessarily mean that linking the SREB and the EEU is doomed to failure: redistribution conflicts are a natural part of any integration project. However, this constitutes a serious obstacle, and it is not clear whether the countries will manage to overcome it.

Another issue in which redistribution could play an important role is the allocation of contracts for companies implementing the SREB's infrastructure projects. In many cases, Chinese foreign direct investments will involve Chinese industrial capacity (and even workforce) as opposed to local businesses. It is not clear whether the SREB projects will be implemented based on the same approach. However, if this does happen, there will be backlash from EEU companies, and, ultimately, EEU governments - which are closely linked to corporate interests in their respective countries. Again, the worse the economic situation in the EEU countries is, the higher is the likelihood that governments and politically connected companies will perceive the SREB contracts as a source of revenues – and will engage in fierce competition. Ultimately, this can slow down or even prevent the implementation of the SREB projects. In the case of Russia, the risks do not necessarily come from the large corporations and the federal government – regional rent-seeking elites can also play an important role.

Finally, there are two fundamental problem of designing trans-

portation corridors in Eurasia, where the EEU countries and China may have different viewpoints. First, the relative importance of the North-South vs. East-West corridors is assessed differently by Russia and Kazakhstan, on the one hand, and China, on the other.[15] Second, and more fundamentally, it is not entirely clear whether the transportation corridors should focus on linking adjacent regions or 'go through' the territory of the EEU countries connecting China and Europe. In the last case, EEU countries benefit only from construction contracts and transportation fees, a limitation to the positive effects of the SREB for their economic development.[16] In this case, however, China may also be interested in promoting economic linkages within the Eurasian space rather than focusing only on the transportation to the EU: it could make the SREB projects more economically viable[17] and contribute to the development of the Chinese Western provinces. Still, the dispute on the topic mentioned is far from being resolved.

Geopolitical struggles

We have already made the claim that in terms of the mandate of the EEU and the current scope of the SREB, there is no direct competition. There is another important aspect to both of the projects, namely that they are frequently perceived as part of a general geopolitical toolbox used by Russia and by China. The expansion of the SREB is seen as a manifestation of Chinese influence, while the EEU is considered a new 'sphere of influence' for Russia. The importance of this aspect is for the actual functioning of the organization is certainly debatable; for example, the frequent proposition that the EEU decision-making is fully dominated by Russia cannot be empirically supported if one looks at the Eurasian Economic Commission. However, it matters a great deal for the *perception* of the organizations – most importantly, by parts of the elites in the EEU countries and in China. And if one perceives the EEU and the SREB primarily as geopolitical projects, their compatibility appears much more limited, in contrast to an assessment based on their declared scopes and goals. It depends on the congruence of interests of Russia and China.

The expansion of the SREB is seen as a manifestation of Chinese influence, while the EEU is considered a new 'sphere of influence' for Russia.

15 Vinokurov, E., and Ya. Lisovolik (2016) 'Shelkovyi Put' 2.0: Zachem Rossii Novye Zheleznye Dorogi'. *RBC*, 29 February. Available at: http://www.rbc.ru/opinions/economics/29/02/2016/56d4318a9a7947fe1ae7eb0b (Accessed: 05 June 2016).

16 Korostikov, M. (21016) 'Pod Vysokim Sopryazheniem'. *Kommersant,* 9 May. Available at: http://www.kommersant.ru/doc/2978877 (Accessed: 05 June 2016).

17 Vinokurov, E. (2016) Transport Corridors of the Silk Road Economic Belt across the Eurasian Economic Union: Preliminary Estimates for the Transportation Capacity and Investment Needs. *SSRN Working Paper*, Almaty: EDB.

Since 2014, Russia has declared a long term goal of 'turning to the East', making China its major international partner. In fact, the Russian support for linking the EEU and the SREB is probably primarily driven by this long-term strategic goal – more so than by the analysis of any specific economic benefits.

Since 2014, Russia has declared a long term goal of 'turning to the East', making China its major international partner. In fact, the Russian support for linking the EEU and the SREB is probably primarily driven by this long-term strategic goal – more so than by the analysis of any specific economic benefits. At the same time, however, Russian elites are still fearful of excessive Chinese influence, especially in Central Asia. If these fears become predominant in the Russian elites, Russia will become reluctant to support any form of cooperation between the EEU and the SREB – regardless of the tangible economic potential. This suspicion of China may grow if economic cooperation with China stagnates (not an unrealistic perspective given the problems of the Russian economy), and the Chinese presence in Central Asia becomes more evident. But one cannot exclude the potential rapid rise of critical attitudes towards China due to some unforeseen development, possibly entirely unrelated to Eurasia. The crisis in the Russia-Turkey relations in autumn 2015, which came as a surprise for many observers, shows how rapid and unpredictable the turns of the Russian foreign policy can be.

However, even Russia's continues embrace of the dialogue with China from the geopolitical perspective could become a barrier for the linking of the EEU and the SREB. From the Russian perspective, it would appear to be particularly attractive to focus on symbolic, rhetorical issues, supporting the vision of the Russian pivot to Asia for the elites and for the public, as opposed to the specific complementarities of the EEU and the SREB. As we have mentioned, these are frequently low-profile, technical issues (e.g., governance of foreign investments), which do not necessarily serve the foreign policy rhetoric. In this case cooperation between the EEU and the SREB could be stuck at the level of high-level declarations and statements that never reach practical implementation (as indeed has happened in the past with a number of regional projects in Eurasia – e.g., the Commonwealth of Independent States). These problems are likely to become particularly pronounced if the negotiations on linking the EEU and the SREB are conducted mostly by the Ministries of Foreign Affairs rather than the Eurasian Economic Commission and the Economic Ministries of the countries.

Conclusion

The outcomes of our discussion seem to be in some sense contradictory. On the one hand, linking the EEU and the SREB can bring tangible benefits. This will be the case if the two organizations merely coexist in Eurasia, and even more so if the negotiations on harmonizing the vision of the transportation corridors are successful and an investment agreement is reached. The design of the organizations makes them fully mutually compatible; even more, the design of the SREB makes it an attractive partner for the Russian elites given their general stance on international economic cooperation (paradoxically, the SREB seems to fit the global economic vision of Russia even to a greater extent than the EEU itself, which in many aspects replicated the European Union). But there are also serious obstacles to the interplay of the two organizations. These have the potentially to grow in importance if the economic crisis in Russia and other countries of the EEU continues, and the demand for redistribution and protectionism increases.

Ultimately, the key to success in terms of SREB - EEU cooperation is to keep it low profile and focused on technical aspects, as well as to acknowledge the design and the jurisdictions of the EEU and of the SREB – i.e., to avoid engaging in discussions that are beyond the scope of what these projects are supposed to achieve. This is not easy, particularly because the scope of the SREB is fluid. Paradoxically, while the idea of linking the SREB and the EEU was born out of Russia's foreign policy objectives and rhetoric ('turn to the East'), the best way to advance the cooperation of two projects is to de-couple it from Russian foreign policy (with its heavy emphasis on geopolitics) as far as possible. Whether this can be achieved remains to be seen. The lack of cooperation between the EEU and the SREB has the potential to severely limit the development of transportation infrastructure across Eurasia.

The Iron Silk Road: How will Turkey be Involved?

Onur F. Uysal*

The Iron Silk Road, the railway corridor connecting China to Europe and Middle East, is one of the fastest growing railway corridors in the world. China's strategic plan for creating strong economic ties with Eurasia, known as 'One Belt, One Road', is the primary source of this growth, though not the only one. Many other countries, including Iran, Russia, Azerbaijan, Kazakhstan, and Ukraine, all have specific political and economic interests in this new corridor. Turkey, located on the ancient Silk Road and at the crossroads between Europe and Asia, has ambitious targets with regard to its involvement in the Iron Silk Road. This article discusses Turkey's current and future position in Iron Silk Road, including its efforts and investments in the initiative, such as the Marmaray tunnel and Baku-Tbilisi-Kars railway projects.

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The Iron Silk Road

In the 19th century, Ferdinand von Richthofen named one of the world's oldest and largest trade routes, running from China to Turkey, 'the Silk Road'. At that time, the Silk Road referred to two overland and sea routes from China to the Middle East and Mediterranean Sea, continuing to Europe by sea.

Two hundred years later, China once again has become the main supplier, this time at the global level. Today, China is producing more than 13% of the world's total GDP, the second biggest after US.1 Its international trade turnover is even more remarkable. In 2014, Chinese ports handled 181,635,245 TEU, far ahead of the second ranking country, the US, with just 46,488,523 TEU.2

The modal share of maritime transport is about 90% in the world. The modal split in freight traffic between Europe and China accords an even greater share to maritime transport, with 96% of international trade transported by sea.[3] But while maritime routes may be cheap, simple, and easy, they are not fast. The port-to-port transit time between China and Europe is about 30-40 days, too slow for some industries.

Beyond the very fast but also very expensive option of transport by air, rail transportation has since 2010 become an interesting alternative for European industries interested in reducing transit times. The 15-day delivery times from Chinese industrial regions to Germany via railway offered a solution, leading to a significant boost in container traffic via rail over the last five years. In 2010, container traffic between China and Europe on rail was less than 6,000 TEU; last year, this rose to over 80,000. This route is now known as the 'Iron Silk Road'.

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One Belt, One Road: China's ambitious program

As mentioned above, 13% of global GDP is produced in China - but not, in fact, *only by* China. Foreign investments are playing an important role in China's industry, producing 10.5% of its GDP in 2014[4]. Many global companies have chosen China for

1The World Bank (2015) GDP at market prices. Available at http://data.worldbank.org/indicator/NY.GDP.MKTP.CD (Accessed: 13 June 2016).

2 The World Bank (2015) *Container Port Traffic*. Available at: http://data.worldbank.org/indicator/IS.SHP.GOOD.TU (Accessed: 17 February 2016).

3 The Chamber of Commerce of the United States (2006) *Land Transport Options Between Europe and Asia: Commercial Feasibility Study.* U.S. Chamber of Commerce and Rambøll Danmark A/S.

4 United Nations Conference on Trade and Development (2015) *Foreign direct investment flows and*

investment for now. However, everybody knows how easily and cheaply capital, people, goods and information can move.

Stability requires not only sustainable market appeal, but also the availability of open and effective transport connections to the rest of the world. This is one of the major problems China faces. The country lacks a strong position in two key respects: first, in the containership industry modal (the top three containership operators are from Europe);[5] second, in terms of the route. China has never become an important power in the Middle East, which remains the most critical location on the sea route between China and Europe.

In September 2013, the President of China, Xi Jinping, introduced the One Belt, One Road program with the intention of supporting economic cooperation and bounds across Asia as well as with Europe and Africa. This development strategy is not limited to political and commercial attempts to increase bilateral trade; a new government fund has also been set up to support infrastructural investments involving Chinese companies in other countries. The fund, worth $40 billion,[6] has been compared by some to the Marshall Plan.

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In March 2015, the Chinese National Development and Reform Commission published a strategy document, which introduced the main routes of the One Belt, One Road program.[7] To the west are the overland routes to Central Asia, Russia, Europe, the Persian Gulf, the Mediterranean Sea, Southeast Asia, South Asia and Indian Ocean, described in the document as 'The Silk Road Economic Belt'. Running southwards are the maritime routes to Europe, South China Sea and South Pacific, the '21st Century Maritime Silk Road'.

The framework of the vision is set forth in highly detailed terms, focusing on the development of new economic corridors to the

stock. Available at http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx (Accessed: 13 June 2016).

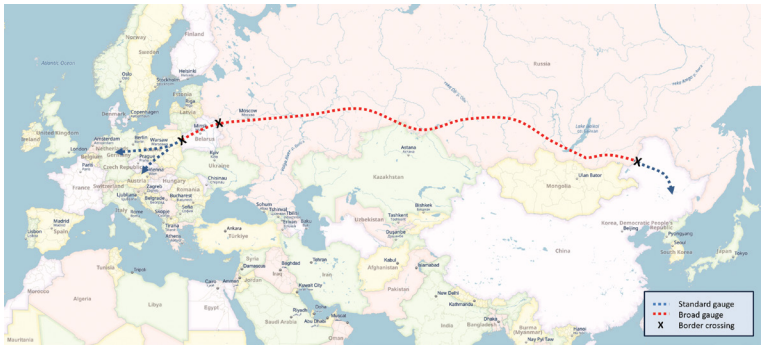
5 International Chamber of Shipping (2014) *Top 20 Containership Operators*. Available at: http://www.ics-shipping.org/shipping-facts/shipping-and-world-trade/top-20-containership-operators (Accessed: 17 February 2016).

6 HKTDC Research (2016) The Belt and Road Initiative. Available at: http://china-trade-research.hktdc.com/business-news/article/One-Belt-One-Road/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0A36B7.htm (Accessed: 18 February 2016).

7 National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce (2015) *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. Available at: http://tr.china-embassy.org/eng/xwdt/t1251131.htm (Accessed: 18 February 2016).

regions listed above. In regard to the Iron Silk Road, the Commission is aiming to build a new Eurasian Land Bridge by using international transport routes, investing in critical cities on way and cooperating with key economic players.

There are not many options for developing overland connections. Constructing long-distance railway corridors may be difficult and expensive, but surely the only sustainable choice in terms of speed, operational costs, environmental facts and management of huge volumes. Since China also offers funding for these projects, none of the countries hesitated to be involved in these emerging trade corridors connecting China to Europe. This vision requires the revitalization of existing rail infrastructure and/or construction of new connections, which in turn needs funding. China has not only the money, but also the knowledge and industrial capacity. Thus, the vision for the One Belt, One Road program can be realized through development of rail infrastructure, with the Iron Silk Road as an overland network connecting China, Europe, and the Middle East.

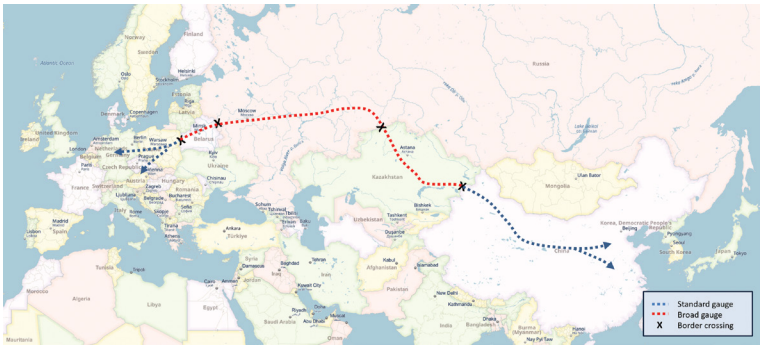


Trans-Siberian route map

Trans-Siberian route

This route starts in Northeast China, crosses Russia via the Trans-Siberian railway, and runs through Belarus to reach Poland. The route has two break-of-gauges (as do all the other options), but has the advantage of fewer border crossings. Russia's dedicated efforts to develop this ambitious project have been successful, and this route currently transports half of the China-Europe overland traffic.[8]

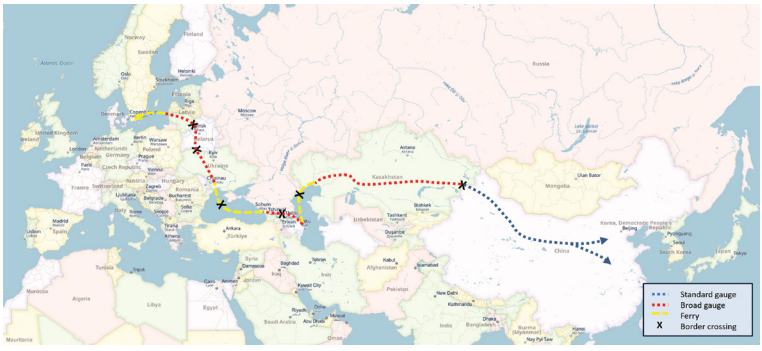
8 Kaderavek, P. and Tsuji, H. (2014) 'Trans-Siberian In Seven Days – Addressing The Challenge', *Railvolution*, 2/14, pp. 28-31.



Kazakhstan-Russia route map

Kazakhstan-Russia route

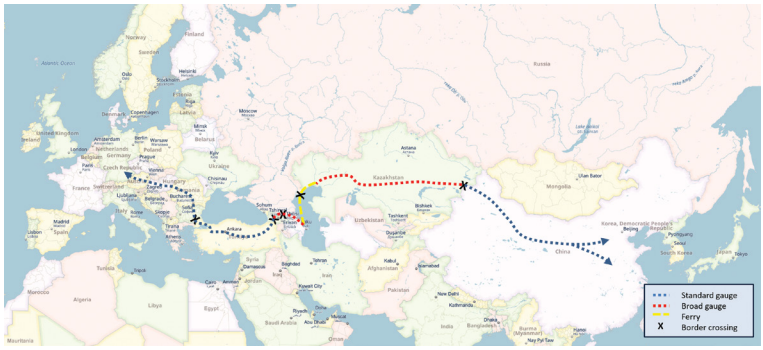
This route has achieved the top growth rate among the various options. Last year, Kazakhstan carried 42,000 TEU via this route, 40 times more than in 2011. The route follows the corridor towards Eastern China, crosses Kazakhstan, Western Russia, and Belarus, ending in Poland. The connection via Kazakhstan not only allows easy access to almost all regions of China, but also provides major benefits for China's western regions in the context of the Chinese government's economic development program in that area. Kazakhstan, another regional country keen to create new transport connections, is probably the top in the list with highest (and fastest) investments in rail transport in Central Asia and the Middle East. In addition to new railways constructed in East-West and North-South directions, KTZ Express, a subsidiary of Kazakhstan Railways, has been investing in container terminals in both China and Kazakhstan, together with Chinese companies.



Kazakhstan-Azerbaijan-Georgia-Ukraine route map

Kazakhstan-Azerbaijan-Georgia-Ukraine Route

Only one trial run has been conducted on this route to date. The route, classified as an intermodal route, was created as a result of major efforts by Ukraine, which was seeking new international connections following the crisis with Russia. This route is a candidate for completing the Trans-Caspian route, which currently ends at Poti Port in Georgia. The route follows the East-West railway corridor through China and Kazakhstan to Aktau Port, Kazakhstan's biggest Caspian Sea port. After crossing the Caspian Sea (via container vessels or rail ferries), it reaches Baku Port, crosses Azerbaijan to reach Georgia's Black Sea port at Poti. The route connects to the Viking Train at Ukraine's Ilichevsk Port after crossing the Black Sea via container vessels. The Viking Train connects the route to the Baltic countries, which have strong connections to the rest of Europe. While at present the route may not be a competitive alternative for China-Europe traffic, it may be a good solution for transportation between the Caucasus and Central Europe in the future.



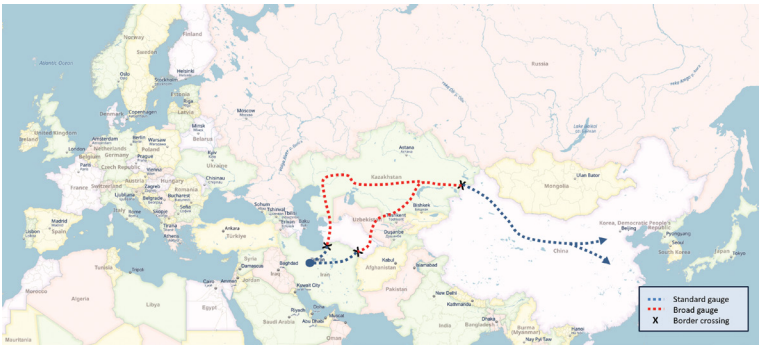
Kazakhstan-Azerbaijan-Turkey route map

Kazakhstan-Azerbaijan-Turkey route

Although not yet complete, this route deserves close examination, given that it is the result of close cooperation of Azerbaijan, Georgia, and Turkey. This route is very similar to the one above: Eastern China-Kazakhstan-Caspian Sea-Azerbaijan-Georgia. However, on reaching Georgia, it will follow the Baku-Tbilisi-Kars railway onto Turkey instead of going to Poti Port.

The Baku-Tbilisi-Kars railway will replace the existing connection between Azerbaijan and Turkey via Armenia, which has

closed since 1993. Azerbaijan and Turkey took on financial responsibility for this project when faced with Europe's unwillingness to support its development. Having been delayed for six years due to financial, logistical, and legal problems, the project is expected to be commissioned in 2017. The opening of this railway will mean that the route crosses Turkey and it goes over the Bosphorus (at first via rail ferry, and then through the Marmaray tunnel once that is completed in two years' time). Then it can be linked to rail container traffic between Turkey and Europe. This line has been partially tested a couple of times, up until Poti, with the remainder of the route handled by truck and sea connections.



Kazakhstan-Turkmenistan-Iran route map

Kazakhstan-Turkmenistan-Iran route

This route has recently been tested with a container train from Yiwu, China to Tehran, Iran. The train crossed Kazakhstan and Turkmenistan via recently completed railway sections, and then continued onto Tehran, taking 14 days. While this time frame is competitive in comparison with sea transport from China to Iran, it may not be sufficiently attractive enough for further connections to Turkey and especially Europe. Turkey has never demonstrated interest in a railway connection to China via Iran, although this is currently the only available rail link between China and Turkey.

Russian dominance of the transport market

The Trans-Siberian and Kazakhstan-Russia routes carry almost 100% of China-Europe traffic. Unsurprisingly, the entire volume of traffic, both ways, is currently controlled by Russian Railways. Russia has put enormous efforts into creating an efficient and competitive transport solution, including reengineering all the processes and operations along the route. It would be difficult

for any other three alternatives bypassing Russia to overcome its market dominance.

On the other hand, this prospect is not impossible. There are a number of political and economic factors that could strengthen the position of the routes bypassing Russia.

Breaking isolation

For some countries, involvement in international transport corridors is a means of reducing political and economic isolation. Iran's aggressive strategy for attracting transit traffic is a good example of its efforts in this regard; where Ukraine's 60% discount in rail freight tariff for trains between China and Europe is another.[9]

Creating alternatives

No one would be content to rely on a single route. Although the Kazakhstan-Russia route grows very fast, Kazakhstan also invests in Trans-Caspian route. Azerbaijan has invested in Baku-Tbilisi-Kars railway to be connected to Mediterranean ports of Turkey, but is also working on a rail connection to Iran ports. China, having close relationships with Russia, is still supporting any trial on any of the routes.

Backloads

China-Europe traffic suffers from back loads to China. There's less good flow from Europe to China, than it's from China to Europe. This ends up with empty trains in eastward direction. However, there is strong freight traffic in the West-East direction, notably Turkey to Kazakhstan. The lifting of the international sanctions against Iran may also improve eastward trade flow.

New political tensions

Political tensions across the region affect all routes. The escalation of tensions into a crisis in any of these areas could place a sudden limitation of the routes available, leaving the market open to others.

Turkey's big ambitions

Turkey has on many occasions expressed its interest in becoming a political and economic bridge between East and West. Ankara's strategy includes creating energy, air, sea corridors passing through Turkey, although the best known projects focus on

9 Uysal, O. (2015) 'Competition for Transit Loads on Rail', *Rail Turkey*, 9 January. Available at: https://railturkey.org/2015/01/09/countries-compete-transit-load/ (Accessed: 20 February 2016).

development of rail connections.

Turkey's new international rail connections map

The Marmaray rail tunnel, which runs under the Bosphorus, is undoubtedly the most famous of all Turkey's transport initiatives. The Marmaray Project will provide a rail connection between Turkey's European and Asian sides. The project, worth TL10bn (€3bn), aims to become the main rail solution for cargo between Europe and Asia. There is an existing rail connection, via the ferry service between Tekirdag and Derince, however, the tunnel will be cheaper and faster.

Turkey has on many occasions expressed its interest in becoming a political and economic bridge between East and West. Ankara's strategy includes creating energy, air, sea corridors passing through Turkey, although the best known projects focus on development of rail connections.

The Baku-Tbilisi-Kars Railway is another key project for Turkey. The project entails the replacement of the existing rail connection between Turkey and Azerbaijan via Armenia, which has been closed since the early 1990s due to Armenia's military aggression against Azerbaijan. The route will not only connect Azerbaijan to the Mediterranean Sea, but will also link Turkey with Central Asia and China. Despite a range of technical, political, and economic challenges, both governments remain committed to this project. With this railway and the Marmaray tunnel, Turkey plans to establish a continuous service along the China-Kazakhstan-Azerbaijan-Turkey-Europe rail corridor. Initially, the line will have an annual capacity of 1 million passengers and 6.5 million tonnes of freight, rising to 3 million passengers and 17 million tonnes of freight in long term[10]. Considering that in 2014, Turkey's international rail traffic was 1.7 million in 2014, this would entail a major boost.

The Baku-Tbilisi-Kars Railway is another key project for Turkey. The project entails the replacement of the existing rail connection between Turkey and Azerbaijan via Armenia, which has been closed since the early 1990s due to Armenia's military aggression against Azerbaijan.

10 Ministry of Transport, Maritime Affairs and Communications (2014) *Ulaşan ve Erişen Türkiye 2014*. Ankara.

International connections can play a vital role in the development of a specific mode of transport. Georgia is a notable example in this regard; 60% of total volume of rail freight carried by Georgian Railway (JSC) was transit loads, the trade between third countries crossing Georgian territory, in first half of 2015[11]. Given the negligible transit rail traffic (1‰ of total rail freight), Turkish State Railways (TCDD) has ambitious plans to strengthen international connections. The rail ferry connection to Russia between Samsun and Kavkaz Ports, direct rail connections to Iraq and Nakhchivan, a high speed rail connection to Europe and Iraq, new rail-connected main hub ports, and the revitalization of Hejaz Railway are all important projects that can help TCDD increase transit traffic.[12]

All these projects, together with the need to renew old infrastructure, requires dedicated funding. During the last three years, the railways have received the lion's share of the state transport investment budget, with the aim of bringing about rapid changes in the role of rail transport. The Turkish government's official targets envision an increase in the modal share of railways from 4% to 15% in freight, and from 1% to 10% in passenger transportation by 2023.[13]

Turkey's future: A SWOT analysis

Ankara has repeatedly expressed its desire to attract Silk Road traffic to Turkey, and has made substantial investments to this end. Nonetheless, Turkey's role in this regard is not necessarily easy to envision.

Ankara has repeatedly expressed its desire to attract Silk Road traffic to Turkey, and has made substantial investments to this end. Nonetheless, Turkey's role in this regard is not necessarily easy to envision. The region is one of the fastest changing areas in the world, both economically and politically. It has been faced with a series of critical developments over the last three years: Russia's conflict with Ukraine; the lifting of sanctions against Iran; Turkey's tensions with Russia; the continuously changing power balances in Iraq and Syria. Some of these may help Turkey and strengthen its position, while others may do the opposite.

There are also structural pros and cons within the region that need to be taken into account. Turkey's structural imbalance in trade with Europe and Central Asia is probably its biggest ad-

11 Georgian Railway (2015) *Company presentation*. Available at: http://www.railway.ge/cms/site_images/gr_investor_presentation.pdf (Accessed: 21 February 2016).

12 Ministry of Transport, Maritime Affairs and Communications (2010) *Türkiye Ulaşım ve Erişim Stratejisi Hedef 2023*. Ankara.

13 Ministry of Transport, Maritime Affairs and Communications (2014) *Ulaşan ve Erişen Türkiye 2014*. Ankara.

vantage in regard to Silk Road trade. Since all of the Silk Road routes suffering from insufficient back loads in eastern direction, Turkey can step forward with its surplus in this direction, both from Europe to Turkey, and from Turkey to Central Asia.

Increased interest by European companies in Iran after the lifting of the sanctions may also work to Turkey's advantage. While there are many alternative transportation routes between China and Europe, there is only one rail route connecting Iran to Europe: via Turkey. Together with Iran, Turkey may become a vital transit hub for Silk Road traffic.

Rapid growth of international ports in Turkey could also, if well designed, encourage revitalization of the ancient Silk Road route, which runs overland between China and Mediterranean by rail, with connecting sea services. PSA's Mersin Port, Mediterranean Shipping Company (MSC)'s Asyaport, DP World's Yarimca are a few examples of these hub ports.

On the other hand, there are some disadvantages in regard to railway transportation in Turkey. Even by 2023, after all the investments, Turkish freight trains will continue to run mainly on a single-track rail network, which limits the average speed and capacity. While Silk Road trains are running with an average speed of 900 km/day in Russia and testing over 1000 km/day, trains in Turkey are running at an average speed of less than 400 km/day.

On the other hand, there are some disadvantages in regard to railway transportation in Turkey. Even by 2023, after all the investments, Turkish freight trains will continue to run mainly on a single-track rail network, which limits the average speed and capacity.

The obligation to use rail ferries is another disadvantage. A ferry across the Caspian Sea required for the Kazakhstan-Azerbaijan-Turkey route, while the Kazakhstan-Turkmenistan-Iran-Turkey route uses the Lake Van ferry.[14] Russia, on the other hand, can provide a ferry-free route, either via the Trans-Siberian Railway or via Kazakhstan. Ferries always mean additional cost, longer transit time, and an element of uncertainty.

The major opportunity in railway transportation in Turkey may be the liberalization of rail transportation; as of June 2016, all the relevant legislation on this matter will be completed. There is no doubt that liberalization will provide additional speed. If this is accompanied by reduced costs, liberalization may give the Turkish route an added boost vis-à-vis the alternatives.

However, instability remains the biggest threat in the region.

14 Uysal, O. (2015) 'Can Turkey Replace Russia in China-Europe Rail Traffic?', *Rail Turkey*, 8 December. Available at: https://railturkey.org/2015/12/08/can-turkey-replace-russia-in-china-europe-rail-traffic/ (Accessed: 23 February 2016).

New sanctions, new wars, and new political alliances are all possible, and could completely change the playing field.

What needs to be done?

Turkey is not a natural transit point for Silk Road traffic. There are alternatives and very strong competitors.

Turkey is more focused on the conclusion of its investments than the operational details of this transport corridor. These investments do not come with a guarantee of success, despite what many seem to believe.

Turkey is not a natural transit point for Silk Road traffic. There are alternatives and very strong competitors. Countries have strategic plans and are expending enormous efforts to maximize their chances of success. Russia's long-term efforts to double the train speed on China-Europe route is a good example.

Turkey needs to have a very clear understanding of current situation (the current players, clients, demand, cost and speed), and solid, detailed operational and commercial targets. Ankara must develop Key Performance Indicators (KPIs) for cost, transit time and capacity, set deadlines for commissions, terminals need to be correctly located and designed, etc.

Thus Turkey needs to mobilize all of its available resources to plan its path to success, sharing information transparently in order to encourage private companies to start investing.

If it succeeds, Iron Silk Road via Turkey may become one of the leading transport corridors in Eurasia which will strengthen Turkey's economical bonds with Europe, Central Asia and China.

The Trans-Caspian Corridor: Geopolitics of Transportation in Central Eurasia

Azad Garibov*

Having reliable and effective transportation networks for easy access to global markets is vital for modern economic development and security, particularly for landlocked states with disadvantageous geographical locations. Thus, the creation of efficient transportation corridors is very important for Azerbaijan and its Central Asian neighbors Kazakhstan, Uzbekistan Turkmenistan, Kyrgyzstan and Tajikistan in terms of obtaining secure and cost effective access to the major export and import markets, and in order to overcome the trade bottlenecks created by the geography. Consequently, ensuring the reliable export of hydrocarbon resources to world markets and establishing cargo transport corridors have been a shared goal for Azerbaijan and the former Soviet republics of Central Asia since the restoration of independence in 1991. Currently, Baku-Tbilisi-Ceyhan oil pipeline, together with Azerbaijani railways, serve as an important export route for Central Asian oil to international markets. The Trans-Caspian partnership for the delivery of Central Asian energy resources to world markets is not limited to oil. There are also ongoing talks about the possibility of transporting Turkmen gas via Azerbaijan as part of the Southern Gas Corridor project. The other priority in regard to the creation of the geopolitically and geo-economically strategic Trans-Caspian corridor is the establishment of a South Caucasus-Central Asia cargo transit route between Asia and Europe. Attracting part of multi-billion EU-China trade to transit through Central Asia and South Caucasus offers a significant revenue source for all of the regional countries, as well as promises to create an effective corridor for their own trade relations with Asian and European countries.

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Introduction

Historically, the Central Asian and South Caucasus regions were located along what was once the single most important trade artery in the world – the Silk Road, running from China to Europe. This route played a significant role in their history; trade via the Silk Road was vital for the region's economic development. Major cities that later became political centers of the ancient and medieval states of the region emerged along this major trade artery. But later, starting from the 'age of discoveries' in the 16th century, international trade gradually shifted to the open seas, leaving the South Caucasus and Central Asia behind major international economic developments. This problem is still relevant for the both regions, creating serious impediments to international trade of the regional countries and, to a certain degree, leaving them vulnerable to external influences over their supply routes.

Given that the problem is the consequence of geographical location, this paper analyzes the transit networks of the Caspian region from the perspective of geopolitics. As an approach to the study of international politics, geopolitics emphasizes the importance of geographical factors in influencing relations among nations. Historical experience demonstrates close correlation between the geopolitical objectives of a state and the establishment of a reliable transport networks.1 Having reliable and effective transportation networks for easy access to global markets is vital for modern economic development and security, particularly for landlocked states with disadvantageous geographical locations. Coastal countries enjoy more advantageous positions in this sense, since they have direct and secure access to the maritime routes through which the major part of modern international trade is conducted. Accordingly they are not dependent on the development of costly land transit networks. The creation of efficient transportation corridors is much more important for landlocked states including Azerbaijan and its Central Asian neighbors Kazakhstan, Uzbekistan Turkmenistan, Kyrgyzstan and Tajikistan in terms of obtaining secure and cost effective access to the major export and import markets, and in order to overcome the trade bottlenecks created by geography.

Building an East-West Trans-Caspian transportation corridor passing through the South Caucasus and Central Asia to

1 Voronkov (2009) Geopolitical Dimensions of Transport and Logistics Development in the Barents EuroArctic Transport Area, Moscow State Institute of International Relations (University) of the Russian Ministry of Foreign Affairs, p.2

connect Europe to Asia entails building and upgrading railways, highways and pipelines, as well as tanker and ferry transport facilities. This corridor sits right at the intersection of politics and economics. Economically, it connects the countries to world markets and stimulates economic development by fostering integration with the global economy. In political terms, it strengthens sovereignty of the regional states by opening up new supply routes, and limiting the ability of external parties to block foreign ties. The leaders of the landlocked states listed above have repeatedly expressed their will to cooperate on transportation initiatives, with the aim of creating East-West transportation routes through the Caspian Sea corridor. With this goal in mind, numerous projects have been completed to date, or are under realization or consideration by regional states.

This corridor sits right at the intersection of politics and economics. Economically, it connects the countries to world markets and stimulates economic development by fostering integration with the global economy. In political terms, it strengthens sovereignty of the state opening up the new supply routes, and limits the ability of external parties to block foreign ties.

The first section of this article sheds light on the importance of transport corridors for landlocked countries, with particular focus on advantages and disadvantages of the Caspian and Central Asian regions. The second section examines the major energy transportation projects of the region, aimed at carrying oil and gas across the Caspian to Western markets. The third, final section focuses on the creation of an effective East-West cargo transportation corridor in the Caspian region, and the region's potential to become a trade facilitator between Asia and Europe.

Importance of transportation networks for landlocked states

Globalization implies increasing flows of people and goods across international borders. Thus, an increasing proportion of passenger and freight transportation operations face borders as impediments to movement.[2] The tradition of highly regionalized trade is becoming outmoded as the world becomes increasingly interdependent and globalized. International commerce is moving toward a globalized system in which continental trade between Europe and Asia is bound to gain significance.[3]

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Currently, maritime routes are responsible for a major part of

2 William Anderson and Jean-Paul Rodrigue (2013) Transborder / Crossborder Transportation, The Geography of Transportation Systems, at http://people.hofstra.edu/geotrans/eng/ch5en/conc5en/ch5c1en.html (accessed: August 02, 2013)

3 Ziyadov

international trade. Therefore, countries with direct access to the open seas are more advantageously located in the sense that they encounter fewer borders and related restrictions. In general, they have more percentage of their GDP traded than landlocked countries.

The situation for landlocked countries is very different. In spite of technological improvements in transport, landlocked countries continue to face structural challenges in terms of accessing world markets.[4] Without direct access to the open seas, international trade opportunities are limited. Competitiveness is directly linked to free access to the sea, along with the question of transit.[5] Due to their remoteness, landlocked countries are dependent on neighboring transit countries for external trade, which leads to high trade transaction costs. Goods exported to the international markets via the ports, or those imported to land-locked countries via the sea, must traverse the territories of bordering countries. Passing through these territories overland is generally more expensive and can entail unnecessary delays and costs. Calculations show that landlocked countries pay about 50% more in transport costs than coastal countries, with trade volumes up to 60% lower.[6] Lengthy customs and transit procedures together with expensive transportation costs are the obstacles to trade for land-locked countries, considered greater challenges than the tariffs themselves. As Anderson and Rodrigue have stated, huge transport costs, inadequate infrastructure, and bottlenecks associated with import and export requirements can collectively constitute a "serious stumbling block to their integration into the global economy, impairing export competitiveness or the inflow of foreign investment."[7] As a result, the delivery costs of imports are higher, exports are less competitive, and the appeal for foreign direct investment is weaker. Thus, effective transit is vital for the economic development of landlocked countries.

As mentioned previously, the creation of transit corridors is not

4 Michael Faye et al. (2004) The Challenges Facing Landlocked Developing Countries, Journal of Human Development, Vol. 5, No. 1, March 2004, p.31, at http://dspace.cigilibrary.org/jspui/bitstream/123456789/17540/1/The%20Challenges%20Facing%20Landlocked%20Developing%20Countries.pdf?1 (accessed: August 05, 2013)

5 Kishor Uprety (2003) From Barcelona to Montego Bay and Thereafter: A Search for Landlocked States' Rights to Trade through Access to the Sea –A Retrospective Review, Singapore Journal of International & Comparative Law, 7 pp 201–235, http://law.nus.edu.sg/sybil/downloads/articles/SJICL-2003-1/SJICL-2003-201.pdf (accessed: August 07, 2013)

6 The Global Facilitation Partnership for Transportation and Trade, The problems of landlocked countries, at http://www.gfptt.org/node/44 (accessed: August 08, 2013)

7 William Anderson and Jean-Paul Rodrigue (2013) Transborder / Crossborder Transportation, The Geography of Transportation Systems, at http://people.hofstra.edu/geotrans/eng/ch5en/conc5en/ch5c1en.html (accessed: August 02, 2013)

merely an economic development issue; requirements of modern security demand diversified access to the international arena too. Dependency on a single route makes a country vulnerable to potential blockades by other states, or at the very least, dependent on the goodwill of the transit country. For the landlocked countries, problems of distance are substantially compounded by the need to cross international borders. Landlocked countries not only face the challenge of distance, but also the difficulties stemming from dependency on transit country's will to reach international shipping markets.[8] The state that controls the transportation routes can block the flow of oil or other goods, or impose high transit fees. Routes can and have become points of leverage in times of political disagreement.

Landlocked countries not only face the challenge of distance, but also the difficulties stemming from dependency on transit country's will to reach international shipping markets.

There are 37 landlocked states in the world, three of which - Azerbaijan, Kazakhstan and Turkmenistan - are located on the shore of the Caspian Sea, which is a landlocked body of water. For the other three Central Asian states in question – Uzbekistan, Tajikistan and Kyrgyzstan - the Caspian corridor is the shortest route to the open seas. In fact, the distances between these six landlocked countries and the nearest seaports are among the longest in the world, ranging from 870 km for Azerbaijan to 2950 km for Uzbekistan.[9] Uzbekistan is doubly landlocked, because it has to go through at least two countries in any direction to reach the sea. There exists a clear and immediate need for cooperation both among these countries and with their neighbors for the benefit of all. Efforts in this direction have already been made through bilateral agreements, but an effective regional transport network can only be achieved through the development and implementation of more comprehensive regional transit corridors.[10]

8 Michael Faye et al. (2004) The Challenges Facing Landlocked Developing Countries, Journal of Human Development, Vol. 5, No. 1, March 2004, p.32, at http://dspace.cigilibrary.org/jspui/bitstream/123456789/17540/1/The%20Challenges%20Facing%20Landlocked%20Developing%20Countries.pdf?1 (accessed: August 05, 2013)

9 Susanna Lööf and Roel Janssens (June-July 2007) Transport, transit and transactions Easing trading bottlenecks in landlocked States, OSCE Magazine, p.30, at http://www.osce.org/secretariat/25780 (accessed: August 08, 2013)

10 Anwarul K. Chowdhury and Sandagdorj Erdenebileg (2006) Geography against Development: A Case for Landlocked Developing Countries, United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS), p. 80, at http://www.unohrlls.org/UserFiles/File/Publications/LLDC/05-33151_geography_sm.pdf (accessed: August 10, 2013)

№	Name of the country	Shortest distance from the sea (km)
1	Azerbaijan	870
2	Kazakhstan	3,750
3	Kyrgyzstan	3,600
4	Tajikistan	3,100
5	Turkmenistan	1,700
6	Uzbekistan	2,950

Source: OSCE at http://www.osce.org/secretariat/25780

At the same time, Central Asia has tremendous potential as a transit region itself, linking Europe with China and other Asian countries. Located in between Asia and Europe, the Trans-Caspian Corridor has every chance to become the shortest and competitive route for trade between the rising economies of Asia and developed European economies.[11]

Pipeline politics and trans-Caspian corridor

Since the collapse of communism, the former Soviet republics of Central Asia and Azerbaijan have been trying to exploit their natural resources, as they consider oil and gas to be the primary means of securing economic and political independence. Ensuring the reliable export of hydrocarbon resources to world markets has been a shared goal since the restoration of independence in 1991. However, Azerbaijan and the Central Asian countries, notably Kazakhstan and Turkmenistan have pursued their own export strategies – which have sometimes coincided, and sometimes diverged. Kazakhstan has been interested in joining the Baku-Tbilisi-Ceyhan pipeline project (BTC) - an alternative export route - since it was first proposed by Azerbaijan in mid-1990s. However, "Kazakhstan's first priority during 1990s was construction oil pipeline from Tengiz Field on the northern Caspian to the Russian Black Sea port Novorossiysk."[12] The first sign of serious progress in Azerbaijan-Kazakhstan cooperation in cross-Caspian oil transportation came in October 1998, when

Ensuring the reliable export of hydrocarbon resources to world markets has been a shared goal since the restoration of independence in 1991.

11 Anwarul K. Chowdhury and Sandagdorj Erdenebileg (2006) Geography against Development: A Case for Landlocked Developing Countries, United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS), p. 80, at http://www.unohrlls.org/UserFiles/File/Publications/LLDC/05-33151_geography_sm.pdf (accessed: August 10, 2013)

12 ShirinAkiner (Spring 2012) Kazakhstan's relations with the South Caucasus states, Caucasus International, Vol: 2 No: 1,pp: 157-175

with strong U.S. backing, Azerbaijan, Turkey, Georgia and Kazakhstan signed the Ankara Declaration on the construction of a pipeline from Baku to the Turkish Mediterranean cost. This was later named the BTC pipeline. BTC became operational in May 2005, becoming the first large-scale pipeline to break the Russian monopoly over export routes for Caspian energy resources. Since then, the pipeline has delivered over 2.1 billion barrels of crude oil (280 million tons) to the world market, the overwhelming majority of which is Azerbaijani oil, along with millions of tons of Kazakh and Turkmen oil.[13]

Kazakhstan started to export its oil through BTC in October 2008. However, in early 2010 Astana suspended its crude exports via BTC after the pipeline's shareholders raised transit fees.[14] In 2013 Kazakhstan resumed oil exports via the pipeline. According to available data, in the first two months of 2014, about half a million tons of Kazak oil were transported through the pipeline.[15] Altogether, Kazakhstan exports about 5 million tons of crude via Azerbaijan annually[16], the majority of which is transported via Azerbaijani railways to the Kazak-owned oil terminal on the Georgian Black Sea cost.

Currently, BTC serves as a single most important export route for Turkmen oil to international markets. Turkmenistan's current annual oil production is about 11.8 million tons per year, and the BTC pipeline serves as an important export route.[17] BTC transported 5.6 million tons of Turkmen oil in 2014, compared to 3.3 million metric tons in 2013. In the first seven months of 2015 (January-July) the pipeline transported 3.7 million metric tons of Turkmen oil to Ceyhan port.[18]

Trans-Caspian oil transportation is expected to grow in the near future, largely thanks to resumption of production in Kazakhstan's giant offshore Kashagan field. Kashagan is one of the largest oil fields in the world, located in the north of the Caspian Sea.

13 Report.az (February 19, 2015) Oil exports via BTC increased by 6%, available at: http://report.az/en/energy/oil-export-via-btc-increased-by-6/ (accessed April 03, 2015)

14 Azerinews (JANUARY 25, 2011) KAZAKHSTAN SEEKS TO RESUME BTC OIL EXPORTS, AT HTTP://WWW.AZERNEWS.AZ/OIL_AND_GAS/29002.HTML (ACCESSED: AUGUST 09, 2013)

15 ABC (March 13, 2014) Almost 489,500 tons of Kazakh oil already carried via BTC pipeline in 2014, http://abc.az/eng/news_12_03_2014_80007.html (accessed April 03, 2015)

16 ibid

17 BP (2015) Statistical Review of World Energy, at http://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf (accessed: March 10, 2016)

18 Maksim Tsurkov (August 18, 2015) Turkmen oil transportation via BTC increases, Trend, available at: http://en.trend.az/azerbaijan/business/2424933.html (accessed April 03, 2015)

Trans-Caspian oil transportation is expected to grow in the near future, largely thanks to resumption of production in Kazakhstan's giant offshore Kashagan field.

It holds an estimated 30 billion barrels of oil-in-place, of which 8-12 billion are potentially recoverable.[19] Not surprisingly, Kazakh oil minister Sauat Mynbayev stated at the energy forum in Astana in October 2012 that Kazakhstan would be interested in transporting Kashagan oil via the Baku-Tbilisi-Ceyhan oil pipeline (BTC), if there is spare capacity and on favorable commercial terms.[20] Production at Kashagan will be resumed at the end of 2016 and by 2020 it is expected to reach 13 million tons.[21] If transit fee issue is completely and successfully solved, the BTC offers a very favorable option for Kazakhstan, both economically and with security considerations in mind.

It is also worth mentioning that Baku and Astana already have a project under consideration to facilitate efficient shipment of large volumes of Kazakh oil across the Caspian to be pumped into BTC: the Trans-Caspian Oil Transportation System (TCOTS). The state energy companies of Azerbaijan (SOCAR) and Kazakhstan (KazMunaiGas) signed an agreement on the basic principles of creating TCOTS back in 2008.[22] As part of the project, new infrastructure will be built on the Kazakh coast of the Caspian Sea. Specifically, the Eskene-Kuryk oil pipeline will be constructed; the Kuryk seaport expanded, and new tankers with a loading capacity of over 60,000 tons purchased in order to ferry oil some 700 km across the Caspian Sea to importing facilities south of Baku.[23] Initially it had been planned that the system would be operational by 2012-2013, however delays in starting production at the Kashagan field delayed the timeline.

The Trans-Caspian partnership for the delivery of Central Asian energy resources to world markets via Azerbaijani territory is not limited to oil. There are also ongoing talks about the possibility of transporting Turkmen gas via Azerbaijan as part of the Southern Gas Corridor project.

The Trans-Caspian partnership for the delivery of Central Asian energy resources to world markets via Azerbaijani territory is not limited to oil. There are also ongoing talks about the possibility of transporting Turkmen gas

19 Kosolapova (25 December 2012) Azerbaijan, Kazakhstan negotiate to create infrastructure to transport Kashagan oil, Equites.com, at http://www.equities.com/news/headline-story?dt=2012-12-25&val=860983&cat=energy (accessed: August 11, 2013)

20 Russia & CIS Business and Financial Newswire (2 October 2012) Kazakhstan may pump oil through BTC pipeline on certain conditions – minister, at http://business.highbeam.com/407705/article-1G1-304155888/kazakhstan-may-pump-oil-through-btc-pipeline-certain (accessed: August 13, 2013)

21 CaspianBarrel (December 09, 2015) By 2020 oil production on Kashagan field to reach 13 million tons, available at: http://caspianbarrel.org/?p=37174 (accessed April 03, 2015)

22 Azernews (November 19, 2008) AZERBAIJAN, KAZAKHSTAN BOOST EFFORT ON TRANS-CASPIAN PROJECT, AT HTTP://WWW.AZERNEWS.AZ/OIL_AND_GAS/8724.HTML (ACCESSED: AUGUST 13, 2013)

23 Invest in Kazakhstan (2009) The Caspian Corridor, Kazakhstan Chamber of Commerce in the USA , at http://kazcham.com/the-caspian-corridor/ (accessed: August 20, 2013)

via Azerbaijan as part of the Southern Gas Corridor project. Turkmenistan has announced that it is ready to provide about 40 bcm of natural gas per year for delivery to Europe (30 bcm from onshore and another 10 bcm from offshore deposits), once all the technical details of the project have been agreed and the undersea pipeline has been constructed.[24] The cost of constructing the pipeline across the sea to Turkey was calculated at $3 billion at the beginning of the 2000s, but prices have now increased.[25] Azerbaijan is ready to guarantee delivery of this gas to Europe through its existing and planned pipeline systems.[26] The main export route for Turkmen gas from Turkish-Azerbaijani border to Europe would be via the Trans-Anatolian Pipeline (TANAP) pipeline, which is to be jointly built by Turkey and Azerbaijan, and is expected to be commissioned in 2018-2019. While the initial export capacity of the TANAP is projected at about 16 bcm per year, this volume will be doubled by 2026[27]. Gas exported via TANAP will later flow into Trans-Adriatic Pipeline (TAP), and go onwards to European customers via Italy and Greece.

In 2011 the European Commission was mandated to negotiate a treaty between the EU, Azerbaijan and Turkmenistan for the construction of Trans-Caspian Pipeline (TCP) to transport natural gas to Europe within the framework of the Southern Gas Corridor project. It was the first time that the European Commission had been granted such powers with regard to an infrastructure project. In September 2012, the EU Energy Commissioner Guenther Oettinger, Turkish Energy and Natural Resources Minister Taner Yildiz, and Azerbaijani delegates held talks with President Gurbanguly Berdimuhammedov and other Turkmen officials in Ashgabat on the possibility of transporting Turkmen gas to Europe via Azerbaijan. Later that year, Azerbaijan and EU reaffirmed their commitments to cooperate closely with Turkmenistan in drafting an Azerbaijani-Turkmen-EU agreement on the planned pipeline.[28] The construction by Turkmenistan of a 773 km long

24 Keith Weber (15 November 2012) Azerbaijan & Turkmenistan Disputes and The Tragedy of the Commons,CSIS blog, at http://csis.org/blog/azerbaijan-turkmenistan-disputes-and-tragedy-commons(accessed: August 18, 2013)

25 Russia & CIS Business and Financial Newswire (2 October 2012) Kazakhstan may pump oil through BTC pipeline on certain conditions – minister, at http://business.highbeam.com/407705/article-1G1-304155888/kazakhstan-may-pump-oil-through-btc-pipeline-certain (accessed: August 13, 2013)

26 Jafar Aghadadashev (February 06, 2013) Turkmenistan Is Ready to Transport 30 bcm gas to the EU Countries –Minister (In Russian: Туркменистанготовтранспортироватьвстраны ЕС 30 млрд. кубометровгазаМинистр), 1news, at http://www.1news.az/economy/oil_n_gas/20130206024454845.html (accessed: August 20, 2013)

27 Azernews (May 12, 2014) TANAP capacity to hit 31 bcm in 2026: SOCAR, available at: http://www.azernews.az/oil_and_gas/66922.html (June 13, 2016)

28 Contact.az, (December 22, 2012) EU, Turkmenistan and Azerbaijan continue cooperation on trans-

and 30 bcm capacity pipeline in 2015, to connect its largest gas fields in the East and West of the country, has strengthened hopes for the realization of the TCP project.[29] Currently, Azerbaijan, Turkmenistan, Turkey, and EU are continuing negotiations on the Trans-Caspian gas pipeline. While this option remains on the table, the realization of the project still seems a distant and challenging goal.

Establishing the East – West trans-Caspian cargo corridor

The other priority in regard to the creation of the geopolitically and geo-economically strategic Trans-Caspian corridor is the establishment of a South Caucasus-Central Asia cargo transit route between Asia and Europe. Trade between China and Europe is now worth well over $1 billion a day; in 2014 annual trade turnover reached $526.3 billion (excluding trade in services).[30] The volume of inland transportation, especially container trade, has doubled from 65 million tons in 2002 to 135 million tons in 2015.[31] The volume of goods and products shipped by container also increased, reaching 40% of total traded cargo by 2015. Currently 95% of this trade takes place via maritime routes, chiefly the Suez Canal.

Attracting part of this trade volume to transit through Central Asia and South Caucasus offers a significant revenue source for all of the regional countries, as well as promises to create an effective corridor for their own trade relations with Asian and European countries.

Attracting part of this trade volume to transit through Central Asia and South Caucasus offers a significant revenue source for all of the regional countries, as well as promises to create an effective corridor for their own trade relations with Asian and European countries. Currently this trade is realized via ocean routes, and, partly, via the Trans-Siberian and Trans-Kazakhstan railways. Though ocean shipments are comparatively cheaper than rail or highways, it is calculated that a railway passing through Trans-Caspian corridor will deliver goods from Europe to China and vice-versa much faster than by sea. According to the Bloomberg agency, it takes 40 days for a container ship to travel from China to Europe, while to carry a

caspian gas pipeline, at http://www.contact.az/docs/2012/Economics&Finance/121800021795en.htm#.UadQ7dLwZ_4(accessed: August 17, 2013)

29 Theaustralian.com (June 10, 2016) Turkmenistan completes gas line, available at: http://www.theaustralian.com.au/news/latest-news/turkmenistan-completes-gas-line/news-story/ce151adc-c27f87ff2126e7c16d709857 (accessed: June 13, 2016)

30 EUROSTAT (June 26, 2015) EU trade with China significantly up in 2014 for both goods and services, http://ec.europa.eu/eurostat/documents/2995521/6893875/6-26062015-AP-EN.pdf/44d4c87c-98dd-4061-bdf6-b292884a5073 (accessed: August 13, 2013)

31 Brief history of Silk Road, available at: http://fileserver.net-texts.com/asset.aspx?dl=no&id=4560 (accessed April 03, 2015)

container from Europe to China via the Trans-Siberian railway takes about 20 days.[32] It is calculated that the same trip from Europe to China will take about 15 days via the proposed South Caucasus – Caspian Sea - Central Asia route. The total length of the corridor, which starts in Korea and China's northeastern provinces and continues via Vladivostok, Khabarovsk, and from Samara to Brest via the Trans-Siberian railroad, is 10800km. Meanwhile, a corridor starting from the same point in China, running through Almaty, Tukmenbashi port, across the Caspian Sea to Baku and then through Tbilisi to the Black Sea port of Poti, and onwards to the the Ukrainian port of Odessa or Bulgarian Varna, is only 6900km.[33] Thus if the regional countries can cooperate and utilize this 'distance and time advantage' versus the cost advantage of maritime routes, they can become significant transit countries for the growing Asia-Europe trade.

Thus if the regional countries can cooperate and utilize this 'distance and time advantage' versus the cost advantage of maritime routes, they can become significant transit countries for the growing Asia-Europe trade.

Moreover, certain goods, most notably, mechanical and electro-technical products such as laptops, LCD screens, and auto parts are less suitable for sea transportation due to the high probability of damage under these transportation conditions. These products constitute an important part of EU-China trade.[34] This is generating new opportunities for Central Eurasian countries to increase their role as a transit corridor.

Transport Corridor Europe-Caucasus-Asia. The first initiative to launch the Trans-Eurasian Caucasus-Central Asia trade corridor was put forth in May 1993, at the Brussels conference between three South Caucasian and five Central Asian countries, when the participants signed the EU-backed Transport Corridor Europe-Caucasus-Asia (TRACECA) agreement. This agreement represented a commitment to join forces to create an effective link between Europe and Asia by improving transport infrastructure. In accordance with the project, regional countries have considerably improved the highways that will be used for East-West transport links. Between 2000 and 2010, the cargo trade along the Azerbaijani section of TRACECA has increased

32 Bloomberg Businesses Week (December 20, 2012) The New Silk Road, at http://www.business-week.com/articles/2012-12-20/the-new-silk-road (accessed: August 20, 2013)

33 Rovshan Ibrahimov (2008), European Union – South Caucasus Relations (In Turkish: Avrupa Birliyi-Güney Kafkasya Devletleri İlişkileri), PhD thesis, Ankara University, Ankara, p. 133

34 Bao Chang (December 06, 2012) Trade across Central Asia boosted by railway landbridge to Europe, at http://www.chinadaily.com.cn/cndy/2012-12/06/content_15990626.htm (accessed: August 13, 2013)

by 78%.[35] In 2010, it stood at 51.7 million tons,[36] and reached 40 million tons in the first 9 months of 2015.[37]

Baku-Tbilisi-Kars railway. To fully realize the potential of the Trans-Caspian corridor there is need for direct - and accordingly more efficient - railway system that will allow for the transportation of larger volumes of goods in a relatively shorter period of time. In recent years, several important steps have been taken in this direction. In 2016 the opening of the Baku-Tbilisi-Kars (BTK) railway is planned; this will link the railway systems of Azerbaijan, Georgia and Turkey, creating a direct rail link between Asia and Europe. The project is a strategically important project for Azerbaijan, since the existing railway linking Azerbaijan with Turkey remains closed due to Armenia's occupation of Nagorno-Karabakh and seven other adjacent regions – roughly 20% of internationally recognized territories of Azerbaijan. Aiming to become a regional transport hub, Azerbaijan was the key proponent of the project, and in 2007 Baku allocated a $200 million loan to Georgia for 25 years, with an interest rate of one percent, to finance the construction and rehabilitation of the Georgian section of the railway. An agreement to allocate an additional $575 million to the Georgian side, over 25 years at a rate of five percent, was signed in July 2011.[38] The completion of the project will, as mentioned, establish a direct rail route between Europe and China through the South Caucasus and Central Asia and with the capacity to transport large volumes of cargo as well as passengers. BTK's throughput capacity will initially be 6.5 million tons of cargo and will peak at 17 million tons of cargo and 1 million passengers per year.[39]

To fully realize the potential of the Trans-Caspian corridor there is need for direct - and accordingly more efficient - railway system that will allow for the transportation of larger volumes of goods in a relatively shorter period of time.

Development of ports facilities. In order to facilitate these various initiatives, Azerbaijan, Kazakhstan and Turkmenistan have made significant investments in developing the capacities

35 Taleh Ziyadov (June 2011) Azerbaijan as a Regional Hub in Central Eurasia, Strategic Assessment of Euro-Asian Trade & Transportation, Azerbaijan Diplomatic, p. 31, at https://www.wikileaks.org/gifiles/attach/37/37202_Azerbaijan%20as%20a%20Regional%20Hub%20in%20Central%20Eurasia_TZiyadov_new.pdf (accessed: August 15, 2013)

36 Ibid

37 Azvision.az (May 12, 2014) Cargo transportation via TRACECA corridor reduced, available at: http://en.azvision.az/news.php?id=22532 (June 13, 2016)

38 Nigar Orujova (January 30, 2013) PROGRESS IN BUILDING REGIONAL RAILWAY'S GEORGIAN SECTION IN FOCUS, AZERNEWS, AT HTTP://WWW.AZERNEWS.AZ/BUSINESS/49102.HTML (ACCESSED: AUGUST 20 2013)

39 Nigar Orujova (October 24, 2012*)* Kazakhstan to transport goods via regional railway, Azernews, at http://www.azernews.az/business/45001.html (accessed: August 20 2013)

of their Caspian ports. Turkmenistan has reconstructed the port in Turkmenbashi, while Kazakhstan and Azerbaijan are building new seaports and renovating the older ones in Aktau, Atyrau and Alyat. The Maritime Transport Development Program for 2006–2012 and other national transport development strategy documents have been adopted by Kazakhstan.[40] A new major port in Azerbaijan, Alyat, south of Baku, became operational in 2015. The Alyat port is located on a 400-hectare plot, of which 100 have been allocated to the Alyat International Logistics Center and further 50-100 hectares for the development of a Free Economic Zone.[41] Rail and road access to the country's transport network will be built, along with ferry, cargo and container terminals and different types of berths in the port complex. The estimated cost of the port is $760 million, though this figure will likely rise.[42] Currently, after the completion of the first phase, the port's overall capacity is 10 million tons of cargo and 50,000 containers per year. When all three phases of construction are complete, the annual operational capacity of Alyat port will reach to 25 million tons of dry cargo and one million TEU - making it one of the largest non-oil cargo ports on the Caspian coast.[43]

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Kazakhstan has also completed the construction of two railway routes to the Chinese border, establishing a direct railway link between Azerbaijan and China across the Caspian Sea and Kazakhstan. In addition to the Alashankao line, which passes through Kazakhstan, China wants to build a new railway to Central Asia. The China-Kyrgyzstan-Uzbekistan will be linked to Turkmenbashi and Baku through the existing routes. When completed, the railway line will go from Kashgar in Xinjiang through Torugart and Kara-Suu in Kyrgyzstan, onto Andijan in Uzbekistan, and then across Afghanistan, Iran, the Caspian Sea, Azerbaijan, and Turkey - as far as Europe. The cargo transit capacity of the line is planned at approximately 15 million tons; it is expected to cost China $2 billion.[44] In a joint statement

40 Oil and Gas Eurasia (March 24, 2012) The Caspian Sea: Ports, Tankers and Shipments, at http://www.oilandgaseurasia.com/en/tech_trend/caspian-sea-ports-tankers-and-shipments (accessed: August 26 2013)

41 Taleh Ziyadov (June 2011) Azerbaijan as a Regional Hub in Central Eurasia, Strategic Assessment of Euro-Asian Trade & Transportation, Azerbaijan Diplomatic, p. 31, at https://www.wikileaks.org/gifiles/attach/37/37202_Azerbaijan%20as%20a%20Regional%20Hub%20in%20Central%20Eurasia_TZiyadov_new.pdf (accessed: August 15, 2013) p. 169,

42 Ibid, p. 170,

43 Ibid, p. 169

44 Roman Muzalevski (2012) China-Kyrgyzstan-Uzbekistan Railway Scheme: Fears, Hopes and Prospects, Eurasia Daily Monitor Volume: 9 Issue: 102, Jamestown Foundation,

issued by Presidents Gurbanguly Berdimukhamedov and Islam Karimov during the Uzbek leader's visit to Ashgabat on October 2012, Turkmenistan and Uzbekistan voiced their interest in the Baku-Tbilisi-Kars railway project via the implementation of the Navoi-Turkmenbashi transport corridor project.[45] The Navoi-Turkmenbashi route, which would be connected to the Baku-Tbilisi-Kars (BTK) railway, will further increase the effectiveness of rail links between Azerbaijan and Central Asia. It will allow Uzbek, Turkmen and Afghan goods to be exported to westward via the BTK, as well as through Georgian and Turkish ports.[46]

The Trans-Caspian International Transport Route (TITR). A new impetus for the creation of the East-West Caspian transport corridor came with the signing of an agreement to create a coordinating committee for the development of a Trans-Caspian International Transport Route (TITR) by Kazakhstan, Georgia and Azerbaijan in November 2013. TITR is a 4766km-long multimodal route connecting China, Kazakhstan, Azerbaijan, Georgia and Turkey, reaching Europe as its final destination. After signing the agreement, representatives of railway and shipping companies from each of the three countries as well as representatives of Baku, Aktau and Batumi seaports has several times met in order to elaborate upon the details of cooperation and assess progress. Topics reviewed during the meeting included fixing competitive tariffs for cargo shipment, and the formulation of a comprehensive tariff rate for container trains along the TITR. Participants estimate that during its initial stages of operation, TITR will be able to transport up to 5.5 million tons of cargo annually, rising to 13.5 million tons of goods and 300,000 TEU per year by 2020.[47]

The project is steadily moving forward. In August 2015, delegates from member states welcomed the 'Nomad Express', the first container train to complete a journey leg of over 4,000km along the TITR corridor. Loaded with 82 containers, the train departed

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at http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=39434 (accessed: August 30, 2013)

45 Nigar Orujova (October 24, 2012) Kazakhstan to transport goods via regional railway, Azernews, http://www.azernews.az/business/45001.html (accessed: May 21, 2013)

46 Anvar Mamedov (December 01, 2012) Ride with the wind-Azerbaijan gained the status of a hub of a new railway ferry route -Silk Wind (In Russian: Проехатьсясветерком- Азербайджан обретает статус узлового центрного железнодорожно-паромного маршрута SilkWind), RegionPlus, No 123, pp. 57-59.

47 John Daly (February 18, 2015) Azerbaijan Invests in Upgrading Its Transport Infrastructure, The Central Asia-Caucasus Analyst, available at: http://www.cacianalyst.org/publications/analytical-articles/item/13139-azerbaijan-invests-in-upgrading-its-transport-infrastructure.html (accessed: May 13, 2016)

from the city of Shihezi, northern China, and six days later arrived at Baku International Sea Trade Port in Alyat, Azerbaijan, with a stop at Aktau, Kazakhstan, along the way.[48] The same year, Alyat port also welcomed a Turkmen Ro-Pax type ferry 'Berkarar' for the first time.

Russia's conflicts with Ukraine and Turkey have prompted Moscow to close its borders to outbound transit from these countries. Ukraine and Turkey have, thus, been forced to redirect their exports to China and Central Asia, which has further increased interest in the TITR route. Since the beginning of 2016, transit of Ukrainian goods through Russian territory has been banned, on the pretext that sanctioned EU goods might enter Russia under Ukrainian labels. This pushed Ukraine to search for alternative routes for its $1.3 billion in annual exports to Central Asia and China and the country proposed using the TITR as the most viable option.[49] The first container train loaded with Ukrainian goods departed from the port of Illichivsk along the TITR route on January 15.[50]

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Before Turkey's downing of a Russian warplane on November 24, 2015, which had violated Turkish airspace, Russian territory served as the major transit route for Turkey's multi-billion-dollar trade with Central Asia. But after Moscow imposed sanctions on Ankara, including a transit ban, Azerbaijan offered its transport infrastructure to Turkish truck traffic as an alternative route to Russia and signed a protocol with Turkey on international transit, reducing tariffs for cargo transportation via the Baku port to Aktau and Turkmenbashi and by extending multiple visas for Turkish drivers for a year.[51]

Even though ferry transit is still a weak link in the TITR chain, and only 5 ferries and a 'ro-ro' ship are operating between Baku

48 Eva Grey (November 11, 2011) Can the Trans-Caspian Route deliver the next freight revolution?, Railway Technology, available at: http://www.railway-technology.com/features/featurecan-the-trans-caspian-route-deliver-the-next-freight-revolution-4684339/ (accessed: May 13, 2016)

49 Daniyar Sabitov, Паромщик ТРАСЕКА: один у переправы, IWEP, available at: http://iwep.kz/ru/kommentariy-eksperta/2016-03-02/paromshchik-traseka-odin-u-perepravy (accessed: May 14, 2016)

50 Maksim Tsurkov (January 22, 2016) First container train from Ukraine to China arrives at Baku port, TREND, available at: http://en.trend.az/azerbaijan/business/2484304.html (accessed: March 16, 2016)

51 Daily Sabah (December 8, 2015) Caspian Transit Corridor to offer new markets to Turkey, available at: http://www.dailysabah.com/money/2015/12/09/caspian-transit-corridor-to-offer-new-markets-to-turkey (accessed: March 16, 2016); Ipek Velioglu (February 8, 2016) How the Russian-Turkish crisis affects Central Asia and the Caucasus, CACI Analyst, available at: http://www.cacianalyst.org/publications/analytical-articles/item/13328-how-the-russian-turkish-crisis-affects-central-asia-and-the-caucasus.html (accessed: March 16, 2016)

and Aktau (the same number of ships are also engaged in transit of goods between Baku and Turkmenbashi), in January 2016 transit of goods between the two ports increased by 10 times in comparison with the same period in 2015.[52]

Conclusion

Modern economic development requires effective access to world markets. Modern security necessitates diversified supply routes. Landlocked countries are at a disadvantage because they lack direct - and thus secure - access to the open seas, through which the major part of international trade is realized. For landlocked countries to deliver their products to international markets and to import the commodities from abroad, they must transit the territory of at least one neighbor. This makes their foreign trade both costlier, more time consuming and vulnerable. Therefore it is vital to focus on the establishment of cost- and time-effective and reliable transit routes in cooperation with their neighbors, in order to ensure smooth and secure access to import and export markets, as well as the open seas.

In light of this, the five landlocked Central Asian states and Azerbaijan are destined to cooperate in the field of transportation - both to deliver their energy resources to the world markets as well as to gain access to the major international markets to meet their import and export needs. A number of oil and gas transportation projects have been realized or are under consideration. Ports, railways, and highways have all been upgraded in recent years in order to open up the transportation potential of this landlocked region. Currently, the Baku-Tbilisi-Ceyhan oil pipeline is the important export routes for Turkmen oil, and Kazakhstan has recently resumed its oil exports via this route. Azerbaijan, Turkey, and the EU are also conducting negotiations with Turkmenistan, which has expressed interest in joining the Southern Gas Corridor via Azerbaijan.

The other key priority is to become an important transit route for trade between Asia and Europe, by establishing the South Caucasus-Central Asia trade corridor across the Caspian Sea. This process was launched in 1993 with the signing of the TRACECA agreement. Now, with the completion of the Baku-Tbilisi-Kars railway connecting Azerbaijan with Turkey, and Alyat seaport

52 Daniyar Sabitov, Паромщик ТРАСЕКА: один у переправы, IWEP, available at: http://iwep.kz/ru/kommentariy-eksperta/2016-03-02/paromshchik-traseka-odin-u-perepravy (accessed: May 14, 2016)

connecting Azerbaijan with the Central Asian ports, as well as the upgrading of Aktau and Turkmenbashi ports on the eastern coast of the Caspian, a competitive transit route is expected to emerge in this regard. The initiation of the TITR framework by Azerbaijan, Kazakhstan, and Georgia also adds new impetus to the development of trans-Eurasian inland transportation.

It would also be highly beneficial to further develop the institutional framework for establishing regional schemes of cooperation and lifting the barriers to economic activities, particularly transnational transportation. Although the improvement of infrastructure is taking place throughout the region, differences in transport legislation and weak coordination among the respective national entities reduces the effectiveness of the regional transport corridor, and causes unnecessary delays in cargo shipments. The approximation and harmonization of legislation along with improved communication and coordination among participant countries will increase the speed of this route - one of the crucial advantages of any transport corridor. Reducing fees for transportation services throughout the corridor and achieving a maximum degree of standardization across all participant states will also make the route more attractive. Revenue losses due to reducing fees will be compensated in the future via increased volumes of transported goods.

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

Richard Weitz*

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

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Introduction

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

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

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

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

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

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

To achieve these integration goals, Kazakhstan has sought to leverage its strong economic development since 1998, its pivotal location between Europe and Asia, and the common economic interests of potential partners.

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

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

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

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

6 Sputnik (2016) *Kazakhstan Ratifies Asian Infrastructure Investment Bank Deal.* Available at: http://sputniknews.com/business/20160114/1033101963/kazakhstan-aiib.html#ixzz49olDh3mf (Accessed: 27 May 2016).

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

While working with the Russian Federation and Western countries to promote integration and build transportation networks, Kazakhstan's transportation aspirations over the past decade have been focused on the People's Republic of China (PRC). A beneficial dynamic has arisen whereby increasing Chinese-Kazakh economic ties have provided an incentive for the construction of better transportation infrastructure. This, in turn, has helped expand mutual trade and investment. The two countries have developed border posts, energy pipelines, roads, railways and even a shared port complex on China's Pacific coast. These achievements have converted the informal shuttle trade that emerged in the 1980s between China and its new Central Asian neighbor into a robust east-west transportation node that rivals the north-south networks Kazakhstan inherited following the breakup of the Soviet Union. The Chinese government has provided much of the financing for these arteries, since PRC planners want to increase China's economic engagement with these regions, especially in regard to importing Central Asian oil and gas.

A beneficial dynamic has arisen whereby increasing Chinese-Kazakh economic ties have provided an incentive for the construction of better transportation infrastructure. This, in turn, has helped expand mutual trade and investment.

The challenge

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

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

Meanwhile, transportation cooperation among the former Soviet republics has been impeded by unresolved disputes over borders, trade, visas, illegal migration, and natural resources such as water and gas.

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

the EU.[7]

For Astana, the Russian decision poses a threat to Kazakhstan's ties with one of its top trading partners. Kazakhstan buys enough vehicles, food, and other goods to position Ukraine as one of its five highest sources of imports in recent years, after Russia, China, and a few other states. In response, Ukraine and Kazakhstan are working to expand deliveries by rail, road, and ferry through Azerbaijan and Georgia.[8] The Trans-Caspian International Transport Route connects major ports on the Black and Caspian seas: Ilyichevsk (Ukraine), Batumi (Georgia), Alyat (Azerbaijan) and Aktau (Kazakhstan). On January 14, Kazakhstan, Ukraine, Georgia and Azerbaijan signed a protocol establishing competitive preferential tariffs for container traffic.[9] That same month, a test cargo train followed the Ukraine-Georgia-Azerbaijan-Kazakhstan-China route and crossed from the Aktau port via the new Zhezkazgan-Beineu-Saksaulskaya-Dostyk railway line. The same pattern seems to be replicating itself in relations with Turkey. Due to Ankara's tensions and mutual sanctions with Russia, the development of the Trans-Caspian International Transport Route (TCITR) China-Kazakhstan-Turkey-Europe has been accelerated. The volume of Turkish goods entering Kazakhstan's Aktau port has soared, with the quantity passing through the port in the first two months of 2016 close to the overall volume of goods that had entered Aktau over the whole of 2015.[10]

Due to Ankara's tensions and mutual sanctions with Russia, the development of the Trans-Caspian International Transport Route (TCITR) China-Kazakhstan-Turkey-Europe has been accelerated.

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

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

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

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

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

11 *Ibid.*

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

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

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

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

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

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

The opportunity

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

The government has embarked on an ambitious program to embed Kazakhstan within a network of integrated infrastructure, transit, logistics, and harmonized customs and cross-border procedures. Kazakhstan's 'Strategy-2050,' launched in late 2014, envisages acquiring the transportation and other critical infrastructure necessary to double freight and passenger transit from Europe to Asia through Kazakhstan by 2020, and multiply it tenfold by 2050.[16] In addition, the government is striving to attract advanced technologies and modern management practices into priority economic sectors, which include transportation. For example, the Kazakhstan-New Silk Road project and other government initiatives are aimed at encouraging investment in the programs needed to make Kazakhstan a key transportation and business hub in Central Asia, as well as a pivotal transit link to attract a portion of the $600 billion worth of cargo transit between Europe and Asia.[17] Transport infrastructure is a critical element of economic growth and, subsequently, for attracting foreign investments.[18] In a message to the November 2013 'Kazakhstan–New Silk Road' Forum, Nazarbayev stated that "the transport sector is key in the leverage of economic prosperity, not only for our country, but for Central Asia as a whole."[19] At the same forum, Kazakhstan's Prime Minister argued that Eurasian countries must collaborate to enhance their mutual transportation capabilities and prosperity: "We believe it is important to employ multilateral principles in order to consolidate all stakeholders in the Eurasian transport and logistics system and to develop effective solutions while building highly competitive transcontinental transport corridors."[20]

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

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

17 *Ibid*.

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

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

20 *Ibid.*

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

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

These projects could provide a boon for Kazakhstan's economy by making the country the indispensable linchpin in transcontinental Eurasian trade. According to the government, there has been a surge of containers moving from China through Kazakhstan to Europe: 6,000 in 2013, 48,000 in 2015, and a forecast of 95,000 for 2016.[23] In addition, a study of economic impact of the

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

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

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

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

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

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

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

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

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

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

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

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

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

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

With the nuclear deal and the end of many of the international sanctions, Kazakhstan has launched a number of new commercial transport ventures, rail and maritime, with Iran that include other Eurasian partners.

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

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

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

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

President of Kazakhstan's main national railway corporation, Kanat Alpysbayev, believes that, with unimpeded passage, favorable tariffs, and faster trains, the China-Kazakhstan-Turkmenistan-Iran transnational railway could transport 700,000 containers each year by 2020.[32] However, Iran remains something of a wild card due to uncertainty about the durability of its political leadership and residual tensions with many states. Whereas more than 1200 cargo trains annually now use the 'northern route' from China to Europe through Kazakhstan, Russia and Belarus, only about 50 trains are expected to go from China to Iran each year.[33]

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

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

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

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

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

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

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

Recommendations

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

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

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

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

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

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

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

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

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

> … the economies in your region would benefit from opening up. Intra-regional trade in Central Asia stands at less than 6 percent of total trade, the lowest share in Asia. At the same time, Kazakhstan is a very large country with a relatively small domestic market and high costs of doing business.
>
> Some would say that Central Asia faces a predicament because it is landlocked. I would say it is blessed with systemic and dynamic neighbors on all sides: China and Russia on one side, Europe, India and South Asia on the other.
>
> So, if the region is to become the main artery of the "One Road, One Belt" initiative, it needs to deepen integration both internally and globally. …
>
> This means modern, efficient and low cost transportation and logistics services. It also means an environment where new investment can thrive and that is open for everyone – entrepreneurs, foreign investors, and women.[40]

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

However, Kazakhstan cannot achieve its goals without a more favorable regional environment, so Astana will need to work with its Eurasian partners on a number of issues.

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

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

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

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

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

The Development of the Transport Sector in Azerbaijan: The Implementation and Challenges

Rovshan Ibrahimov*

Since the restoration of independence, development of the energy sector has been considered crucial for Azerbaijan. The development of the energy sector has supported the resolution of some of the country's key geopolitical and geo-economic challenges. An integral part of Azerbaijan's energy strategy was the creation of a system of transport corridors for energy exports. Creating the necessary infrastructure is an ongoing process. However, given the risk of being dependent on one sector, there is a need to diversify the national economy. The result is that a number of sectors have been identified to support the further sustainable development of Azerbaijan. Due to its favorable location, one of sectors identified for development is transportation. Azerbaijan proposes the development of alternative sustainable transport routes, which will enable unfettered access to major world markets. This process entails the development of transport infrastructure in synthesis with the formation of logistical infrastructure, cross-border transfer coordination, creation of a common legal framework, and competitive tariffs for transportation with third states. This article describes the establishment of transport routes in Azerbaijan, and the country's role in the development of regional cooperation.

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Development of transport corridors in the energy sector

Since independence to the present day Azerbaijan's main export has been, and remains, hydrocarbons. The share of crude oil share its overall exports were to 77.61% in 2015, having reached 84.32% in 2014.[1] During the early years of independence, Azerbaijan focused on the creation of the necessary infrastructure to export its oil and later natural gas. It created the pipeline systems that would enable access to world markets. An important aspect of the development of this infrastructure is the avoidance of dependency on a single path, in order to reduce political and economic risks. Transit countries may use this as leverage. In the event that the energy producer and the transit state are in conflict, regardless of the level of disagreement, the transit country can block the border or impose regulatory restrictions on trans-border trade.[2] It was important for Azerbaijan to prevent such developments.

The following pipelines have thus far been built:

Pipeline	General Information	Importance
Baku-Novorossiysk Oil Pipeline	Commissioned in 1997 in order to transport 'early oil' from Chirag field. Connects Sangachal terminal with Russian port on the Black Sea. The length is 1330 km. Capacity 6 mln ton. Transportation fee- 15,67 dollars per ton.	Was commissioned in order to prevent undesired complications in relations with Russia, which was interested in controlling transportation of Azerbaijani oil.
Baku-Supsa Oil Pipeline	Commissioned in 1999 in order to transport 'early oil' from Chirag field. Connects Sangachal terminal with Georgian port on the Black Sea. The length is 833 km. Capacity 6 mln ton. Transportation fee- 3,14 dollars per ton.	For the first time in the post-Soviet space one of the countries gained access to world markets, bypassing Russia.

1 Vesti, Азербайджан Снизил Физический Экспорт Нефти на *7% в 2015* году, 22.01.2016, Available at: http://www.vesti.az/news/279819 (Accessed: 02 February 2016).

2 Faye, L. M. et al. (2004) 'The Challenges Facing Land-locked Developing Countries", *Journal of Human Development*, 5(1), p. 45.

Baku-Tbilisi-Ceyhan Oil Pipeline	Commissioned in 2006. Main export route for Azeri-Chirag-Guneshli oil field. Connects Sangachal terminal with Turkish port on the Mediterranean Sea. The length is 1768 km. Capacity 50 mln ton.	The project takes into account the geopolitical realities of the region. Thus, this pipeline passes through the territories of Georgia and Turkey which are both friendly to Azerbaijan.
Baku-Tbilisi-Erzurum Gas Pipeline	Commissioned in 2006. Connects Sangachal terminal with Turkish gas network in Erzurum. The length is 692 km. Capacity 8.8 bln cubic meters.	Export route for Azerbaijani natural gas from the Shah Deniz offshore field to the Turkish and Georgian markets.

The existing network of transportation infrastructure allows Azerbaijan to transport not only its own energy resources, but also oil from Central Asia, thus becoming a transit state. Thus via Baku-Tbilisi-Ceyhan pipeline, Kazakh and Turkmen oil is transported. In 2015 alone, the total volume of Turkmen and Kazakh oil via BTC was 5.2 million tons. In addition, a subsidiary of the State Oil Company of Azerbaijan (SOCAR) - SOCAR Trading SA Company signed a new agreement on the purchase of Turkmen oil. According to the agreement, up to 3 million tons of Turkmen oil will be transported via the BTC over the next 5 years.[3] It is expected that Kazakh oil exports will also increase.

The existing network of transportation infrastructure allows Azerbaijan to transport not only its own energy resources, but also oil from Central Asia, thus becoming a transit state.

In addition to the development of gas fields in recent years, Azerbaijan is also actively involved in the construction of transport routes in neighboring countries to export its own gas to the European markets, namely the Trans Anatolian Pipeline (TANAP) and Trans Adriatic Pipeline (TAP).

3 Report.az, Значение Трубопровода Баку-Тбилиси-Джейхан Растет, 29.01.2016, Available at: http://report.az/ru/energetika/znachenie-truboprovoda-baku-tbilisi-dzhejhan-rastet/ (Accessed: 02 February 2016).

Pipeline	General Information	Importance
TANAP	Expected to be completed in 2018. The main investor is SOCAR, which holds a 58%-share in the project. Partners: Turkish BOTAŞ -30% and BP - 12%. The length is 1841 km, running across the Turkish territory from its border with Georgia in the east, to the border with Greece to the west.	Export route for Azerbaijani natural gas from the Shah Deniz offshore field to the Turkish (10 bln ton) and Southern European markets (6 bln ton).
TAP	Expected to be finished in 2018. SOCAR share is 20%. As the continuation of TANAP, TAP will run from the Greek border, pass through the territories of Greece via Albania to Italy, finally connecting to the Italian gas network.	Export route for Azerbaijani natural gas from the Shah Deniz offshore field to the Southern European markets (6 bln ton). In perspective will transport to the Western Balkans.

Creation of transport corridors as a basis for the development of the non-oil sector of the economy

In 2013, Azerbaijan launched the 'Azerbaijan 2020: Look into the Future' concept,[4] which focuses on the creation of transport infrastructure and transit of goods and passengers through its territory as an alternative to the oil sector. It is expected that once this corridor is at full capacity, the number of containers transported in 2020 could reach 300-400 thousand, which in turn will enable Azerbaijan to earn hundreds of millions of manats in revenue.[5]

In this regard, Azerbaijan pays close attention to the develop-

4 Official Site of Azerbaijan Prezident, Концепция Развития 'Азербайджан – *2020:* Взгляд *в* Будущее*'*, Available at: http://www.president.az/files/future_ru.pdf (Accessed: 23 December 2015).

5 Филипп Громыко, Азербайджан Расширяет *'*Окно*' в* Китай, 24.08.2015, Available at: http://kavpolit.com/articles/azerbajdzhan_rasshirjaet_okno_v_kitaj-19320/ (Accessed: 25 December 2015).

ment of transport infrastructure within the framework of the 'West-East' transport corridor. This route was first announced in 1998 at an international conference in Baku dedicated to the revival of the Great Silk Road within the EU TRACECA project.[6]

In this regard, Azerbaijan pays close attention to the development of transport infrastructure within the framework of the 'West-East' transport corridor.

This project includes the development of the railway transport system, connecting the Caspian Sea with the Black Sea coast between the Georgian ports of Batumi, Poti, and Kulevi, and the Azerbaijani ports of Alyat, Sangachal and Dubendi. These ports connect the Central Asian (via Kazakhstan and Turkmenistan) and Black Sea regions.[7]

Full-scale renovation of the national railway network is underway in Azerbaijan, including the modernization of the central administration system, renovation of locomotives and wagons, and work to increase average speed of the trains. This is a key task for the transport sector. Otherwise, this route cannot effectively compete with other routes. Currently the average rail speed in Azerbaijan is 30 km/h, while the average speed of the trains in Georgia between Tbilisi and Poti consists 25-30 km/h.[8]

Full-scale renovation of the national railway network is underway in Azerbaijan, including the modernization of the central administration system, renovation of locomotives and wagons, and work to increase average speed of the trains.

An average train speed of 30 km/h is not competitive. Curiously enough, world famous French writer Jules Verne, in his 1893 story 'Claudius Bombarnac', describes the journey of the hero from Europe to China. The protagonist travels by train from Tbilisi to Baku, a journey of thirteen hours.[9] According to a train timetable from the end of 2015, travel time from Tbilisi to Baku at the end of 2015 was 16 hours and 40 minutes.[10] While this now includes a border crossing (whereas 120 years ago Azerbaijan and Georgia were both part of the Russian Empire), and until recently the train stood idle for several hours at the border, this lack of progress is noteworthy.

However, it should be noted that there are ways to resolve this

6 Тофиг Аскеров, Гюльнара Зейналова, Визит Ильхама Алиева в Китай: Большая Политика на Великом Шелковом Пути, 10.12.15, Available at: http://www.vzglyad.az/news.php?id=50648#.Vq5EN7KLTDc (Accessed: 25 December 2016).

7 For more Information See: Rovshan Ibrahimov together with Shirin Akiner, Ariz Huseynov (2013) 'Interregional Cooperation in Eurasia, Transport and Logistic Projects as an Accelerator of Integration within and between the Black Sea region, the South Caucasus and the Central Asia", *SAM Review*, Special Double Issue, Volume 9-10.

8 Ziyadov, T. (2012) *Strategic Assessment of Euro-Asian Trade and Transportation*, HASEN, Istanbul, December, pp. 27-28.

9 For More Information See: Jules Verne, *Claudius Bombarnac*.

10 Georgian Railways, Обший График Поездов, 02 October 2015, Available at: http://railway.ge/?action=page&p_id=480&lang=rus (Accessed: 26 November 2015).

problem and improve the quality of cargo services. From February 1, 2016 Azerbaijan's two main rail border crossings introduced a new means of checking the cargo in the wagons without stopping the train.[11] This reduces the valuable time spent at borders. However, along with reduction of bureaucracy at the borders, it is also important to further increase the speed trains. At the moment, this railway can transport up to 8 trains per month, almost 100 trains per year. For comparison, the capacity of the Trans-Siberian Railway is about 150 trains a day, or 4500 trains per month.[12] In this regard, Azerbaijan may face difficulties in attracting carriers to its transport networks, in addition to the question of how to handle increasing volumes of traffic in line with speed requirements.

An important step towards resolving the problem of speed was taken on 21 November 2007, when the construction of the Baku-Tbilisi-Kars railroad was started. This project includes the construction of a segment of railroad across the border between Georgia and Turkey, which will connect the European railway with East Asia via the South Caucasus and Central Asia. At the same time, the existing railway network along this route is being updated. This is a high-value of project, because it will offer an alternative to the Trans-Siberian Railway. In addition, after the completion of the 'Marmaray' tunnel under the Bosporus strait in Istanbul (begun October 29, 2013), it will be possible to travel from Beijing to London by rail.

In the context of the construction of energy transport corridors, Azerbaijan has been the main initiator of the Baku-Tbilisi-Kars railroad. Baku is providing crucial financial support to its neighbor, Georgia. Initially, for the implementation of this project Azerbaijan provided a loan of $200 million to Georgia for 25 years, with a yearly interest rate of 1%. Azerbaijan also allocated an additional $575 million at the rate of 5% per annum.[13] These loans have not been provided with the purpose of generating income, and the interest rates are symbolic.

According to expert estimates, it is expected that in the initial

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11 Report, Железнодорожные Поезда на Границе Азербайджана Будут Проверяться Без их Остановки, 29.01.16, Available at: http://report.az/ru/infrastruktura/zheleznodorozhnye-poezda-na-granice-azerbajdzhana-budut-proveryat-sya-bez-ih-ostanovki/ (Accessed: 23 February 2016).

12 Кирилл Соков, Транскаспийский Маршрут: Обойти Россию Будет Трудно, 30.01.16, Available at: http://m.ritmeurasia.org/news--2016-01-30--transkaspijskij-marshrut-obojti-rossiju-budet-trudno-21646 (Accessed: 23 February 2016).

13 News Azerbaijan, Азербайджан выделяет Грузии новый льготный кредит на *$575* млн, 01.07.11, Available at: http://www.newsazerbaijan.az/economic/20110701/296142544.html (Accessed: 05 February 2016).

stage this road will carry up to 6.5 million tons of cargo, as well as up to one million passengers per year. Later, after the third year of operation, the volume of cargo will be 3 million tons, and after the fifth year, at least 5 million tons. Following 10 years of operation, the volume of freight traffic will exceed 10 million tons. The peak of the corridor's transport capacity will be approximately 17 million tons per year.[14] Resulting revenue from the transit corridor stands to provide a serious infusion to the state budget of Azerbaijan, increasing the proportion of income generated by the non-oil sector. Moreover, active transport will also contribute to the development of the country's regions. The provinces that are crossed by this railroad may provide logistical support, leading to additional revenues for the government and private entrepreneurs.

Resulting revenue from the transit corridor stands to provide a serious infusion to the state budget of Azerbaijan, increasing the proportion of income generated by the non-oil sector.

The modernization of the locomotives and wagons is a key factor. To this end, in 2014 the Swiss company 'Stadler' started to build a rail carriage factory in the western Azerbaijani city of Ganja. Once the factory has been completed, Azerbaijan will be able to produce various types of locomotives and carriages for its own needs. These products will also be exported to other countries such as Turkey, Georgia, Kazakhstan, Uzbekistan, Turkmenistan, and Iran.[15] In addition, in the summer of 2014 'Azerbaijan Railways' and 'Stadler' signed a contract on the purchase of 30 new passenger rail cars. The first batch of 10 cars was put into operation in 2016. An important feature of the new carriages is that they are adapted to automatically move the pair of wheels for movement on the European railway track.[16] This is necessary because the width of railway tracks in the post-Soviet region is 1520 mm, while the most common width in the rest of world – including neighboring Iran and Turkey – is 1435 mm. The ability to transition quickly from one type of track to another will increase speed, as well as enable the integration of the Azerbaijani railway with international rail networks. Since, as in railway track width is 1435 mm.

The existing South Caucasian Azerbaijan-Georgia railway transshipment corridor makes it possible to transport dry cargo as well as oil and non-oil products in both directions. Ports on the Black

14 Эмиль Исмайлов, Заграница для Азербайджанцев Станет Еще Ближе, Available at: http://news.day.az/economy/710785.html (Accessed: 05 February.2016).

15 Trend, *Azerbaijani President Attends Foundation Laying Ceremony of Stadler Ganja Carriage Factory*, 19.10.2014, Available at: http://en.trend.az/azerbaijan/politics/2323477.html (Accessed: 06 February 2016).

16 Эмиль Исмайлов, Заграница для Азербайджанцев Станет Еще Ближе, ibid.

and Caspian Seas are being modernized as well as the relevant segments of the national railway networks of Azerbaijan and Georgian. This transport corridor is successfully being used not only by the South Caucasus states, but also by the Black Sea and Central Asian regions. Moreover, the South Caucasus region provides a serious alternative as a transit hub – not only between the Black Sea and Central Asian regions, but beyond, connect the EU with East Asia. This is very important because the trade relations between these two regions are increasing year-on-year. It should be noted that 90% of total cargo transportation between these regions is currently conducted by ship via the Suez Canal.[17] At the same time all continental transportation is conducted through Russian territory, via highway or the Trans-Siberian railroad, which connects Moscow with Vladivostok. In this regard, the importance of the new transit routes between the two biggest economic regions in the world is critical.

The relevance of the trans-Caspian route

A new international port that is being built in Alat, located 65 km south of Baku, will play an important role in linking the South Caucasus with Central Asian countries.

A new international port that is being built in Alat, located 65 km south of Baku, will play an important role in linking the South Caucasus with Central Asian countries. The new port will replace the old one in the center of Baku, which does not meet modern requirements. The new port will provide services for general cargo as well as passenger terminals. It will be able to receive both oil and non-oil freight, will obtain cargo handling and Ro/Ro facilities, and will include a rail ferry terminal connecting the ports of Aktau and Atyrau (Kazakhstan) and Turkmenbashi (Turkmenistan), as well as an International Logistics Centre.[18]

The first stage of the new Baku International Sea Trade Port has already been completed. In its first phase, of overall annual capacity of the port is expected to 10 million tons of cargo and 50,000 containers. In the second phase, capacity will rise to 17 million tons of cargo and 150 thousand containers, and reaching 25 million tons of cargo and 1 million containers by the end of the third stage.[19]

Cargo of non-oil freights between Kazakhstan and Turkmenistan

17 Ziyadov, T. (2012) *Azerbaijan as a regional hub in Central Eurasia*, ADA, Baku, p. 12.

18 Baku Port, *About Alat Port*, Available at: http://www.bakuport.gov.az/index php?lang=en&Itemid=496 (Accessed: 07 February 2016).

19 Trend, Президент Ильхам Алиев Принял Участие в Открытии Паромного Терминала Нового Бакинского Международного Порта, 22.09.2014, Available at: http://www.trend.az/azerbaijan/politics/2314386.html (Accessed: 10 February 2016).

and Azerbaijan is increasing. This has been made possible through improved coordination among the transport agencies of Azerbaijan, Kazakhstan and Turkmenistan. These partner states are now concentrating on the development of a new tariff policy, to include discounts and preferential rates in the transportation sector. Infrastructure development and logistical coordination make it possible to further increase West-East maritime freight transportation via the Caspian region. The annual capacity of the Trans-Caspian route is 27.5 million tons. As a result of infrastructure development in the east, 2015 has seen an increase in traffic intensity on the Caspian Sea via Turkish carriers:

Cargo of non-oil freights between Kazakhstan and Turkmenistan and Azerbaijan is increasing. This has been made possible through improved coordination among the transport agencies of Azerbaijan, Kazakhstan and Turkmenistan

Route	Reason for activity expansion	Advantages for Azerbaijan
Baku-Aktau	Turkish haulers prefer to transit though the Trans-Caspian corridor after relations between Russia and Turkey have spoiled. The Caspian Shipping Company has reduced tariffs for maritime transport on the Baku-Aktau route by 20%. The current price for one standard car with a trailer (length 16.5 meters truck) is $1,200, and $2100 for round trip is.	The volume of traffic of trucks increased by a factor of 10. Azerbaijani ships are heavily involved in transportation. Currently, 11 ferries and 2 Ro-Ro vessels are involved in transportation between Baku, Aktau, and Turkmenbashi. By 2020, the project participants expect to increase freight transport to 300,000 TEU.
Baku-Turkmenbashi	There is a growing interest among Turkish carriers who traditionally connect to Central Asian countries via the road through Iranian territory. However, they regularly face arbitrary challenges at border crossings, because Iran wants to create more favorable conditions for Iranian carriers.	

The issue of waiting times for trucks at the Caspian Sea ports presents a key challenge. As the volume of traffic has increased dramatically, Azerbaijan and Kazakhstan have carried out measures to address the congestion of trucks in Aktau and Alat, halving the car load waiting period.[20] There are also other steps being taken to improve services for truck drivers.

It is not only Turkey that has demonstrated interest in the Trans-Caspian. The following countries are also interested in using the corridor for their foreign trade and transit.

Turkmenistan

Turkmenistan is interested in increasing transit via Turkmenbashi port. In 2013, it began work to expand its infrastructure. The construction of the new port will cost a total of two billion dollars. In terms of significant developments, in January 2015, the port in Alat welcomed its first 'Ro-Pax' 'Berkarar' ferry type from Turkmenistan. Regular activity along the Baku-Turkmenbashi route will increase the possibility of transportation via this route, and will also reduce the transit time for trucks coming from Turkey to Central Asia, an average of 50,000 vehicles per year. This route was very actively used during the Soviet era: a regular train-car ferry service between the port of Baku to the port of Turkmenbashi (Krasnovodsk at the time) was opened in1963.

Kazakhstan

Kazakhstan is interested in developing the transport infrastructure on its territory as part of the new economic policy 'Нұрлы жол' (Lightened road). This policy includes the state program for infrastructure development in the period of 2015-2019.[21] In addition, China and Kazakhstan have entered the practical phase of the realization both 'Нұрлы жол' and the 'Silk Road Economic Belt' transport initiatives.[22] This will further increase freight traffic. Kazakhstan is interested in transportation of Chinese goods, as well as in finding alternatives to existing Russian routes in order to export goods to world markets, for example grain.[23] In this

20 Н.Аббасова, Ежемесячный Объем Перевозки Грузовых Автомобилей Судами Каспар по Маршруту Баку-Актау Увеличился в 10 раз, 11.01.16, Available at: http://interfax.az/view/661950 (Accessed: 10 February 2016).

21 Daylynews, Правительство РК Одобрило Проект Общенационального Плана по Реализации 'Нурлы жол", 14.11.14, Available at: http://www.dailynews.kz/economics/pravitelstvo_rk_odobrilo_proekt_obschenatsionalnogo_plana_po_realizatsii_nurly_zhol (Accessed: 10 February 2016).

22 Kazautozhol, *'ЭксИмБанк' КНР Профинансирует Проекты Программы 'Нұрлы жол'*, 01.09.15, Available at: http://kazautozhol.kz/press-tsentr/novosti-obshchestva/item/eksimbank-knr-profinansiruet-proekty-programmy-n-rly-zhol (Accessed: 22 October 2015).

23 Black Sea Grain, *Kazakhstan finally decided to build a grain terminal in the Georgian Black Sea*

regard, an alternative route runs west through the Caspian Sea and then on though the Caucasus. A few years ago, a joint grain terminal was built in Baku. Another grain terminal is located in Aktau, from where the grain is taken to Baku for its further transportation.[24]

Azerbaijan

Azerbaijan has already declared its readiness to create the necessary conditions for the smooth export of Kazakh goods to Western markets including oil, oil products, grain, and other goods.[25] Additionally, in 2014, the construction of a production and logistics center for the Azerbaijani company 'Azersun' was initiated at Aktau port. This center has already been completed and will promote the development of bilateral trade in the non-oil sector.

Uzbekistan

This state wants to use the Baku-Tbilisi-Kars railway to export goods to European markets, mainly cotton and other agricultural products. Since Uzbekistan has no access to the Caspian Sea, it intends to implement the Navoi (Uzbekistan)-Turkmenbashi railway route, which can be connected with the South Caucasus railway network via the Caspian Sea. The BTK railway can also be beneficial in the reverse direction, to transport of goods from Europe to the Central Asian states and Afghanistan.[26]

Ukraine

This state is seeking new ways to enter the markets of Central Asia, following Russia's introduction of new rules for the transit of Ukrainian goods. Ukraine's main exports to Kazakhstan are agricultural and food products. On January 15, 2016, an experimental container train departed from the Ukrainian Port of Ilyichevsk, loaded mainly with food and beverage products, travelled along the Ukraine-Georgia-Azerbaijan-Kazakhstan-China route (via the Caspian and the Black Sea). If this route proves

port, 14.05.2010, Available at: http://www.blackseagrain.net/agonews/kazakhstan-finally-decided-to-build-a-grain-terminal-in-the-georgian-black-sea-port (Accessed: 22 October 2015).

24 Tengiznews, *Kazakhstan Starts Construction of Grain Terminals at Iranian-Turkmen border*, 06.08.2014, Available at: http://en.tengrinews.kz/industry_infrastructure/Kazakhstan-starts-construction-of-grain-terminals-at-Iranian-255209/ (Accessed: 22 October 2015).

25 1news, Азербайджан Готов Способствовать Беспрепятственному Выходу Казахстанских Товаров на Западные Рынки, 20.06.2013, http://www.1news.az/economy/20130620101916256.html (Accessed: 22 October 2015).

26 Энвер Мамедов, (2012), 'Проехаться с Ветерком-Азербайджан Обретает Статус Узлового Центра Нового Железнодорожно-Паромного Маршрута", *Silk Wind,Region Plus*, No 123, pp. 57-59.

cost-effective, and a high-level of coordination between the transit countries can be achieved, it will be able to increase the volume of transported goods and, consequently, income. It is worth noting that in 2015 exports of goods from Ukraine to Kazakhstan amounted to $544.1 million and general turnover as $1.6 billion- despite the fact that exports fell by 35% compared to 2014.[27]

Azerbaijan transport infrastructure as part of international transit routes

Transport infrastructure in Azerbaijan is also contributing to regional projects in Eurasia, such as the EU TRACECA initiative, the Chinese 'One Belt, One Road', and the Russian-Iranian 'North-South' initiative. All these regional projects are underpinned by the necessary infrastructure and logistical support.

Within the framework of the TRACECA project, the 'Silk Wind' route was developed in late 2012.[28] On August 3 2015, the port Alat received the ferry with the container train 'Nomad express'. The container train made the journey of over 3,500 km from the Chinese city Shihrezi then from Kazakhstani Dostyk city to the port Aktau, and onward to Alat. The train's final destination was Keshla station, located near Baku. It took only five days for the 82 shipping containers, loaded with caustic soda, to reach their destination.[29] Typically, container shipments from China to Europe take from 25 to 40 days.[30]

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Thus there is a significant scope to increase freight traffic along this route. In order to attract cargo flows into Azerbaijan, it is important to reduce the transit time across its territory. One of the important tasks in this regard is the synchronization of the different modes of transport. To this end, in late October 2015, Azerbaijan formed a coordinating council, which will draft a common policy on transit cargo. The Council will facilitate the accelerated implementation of a uniform and transparent tariff policy for the transit of goods via rail, sea, ports

27 Елена Павлова,Украина Едет на Восток, 16.01.16, Available at: http://www.gazeta.ru/business/2016/01/15/8023517.shtml (Accessed: 22 January 2016).

28 Елена Платонова, Китай Идет в Обход России, 29.12.2015, Available at: http://www.gazeta.ru/business/2015/12/27/7995287.shtml (Accessed: 26 January 2016).

29 Inform, Баку Принял Первый Поезд по Транскаспийскому Транспортному Маршруту из Актау, 03.08.15, Available at: http://www.inform.kz/rus/article/2803283 (Accessed: 26 January 2016).

30 Gasimli, V. (2015) 'The New Baku International Seaport: A Nexus for the New Silk Road", *Eurasia Daily Monitor*, 12(178), 02.10.2015, Available at: http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=44442&tx_ttnews%5BbackPid%5D=7&cHash=2ba96fa4dd2f20e18e98cb681e3c64e6#.VjjSa7fhDDc (Accessed: 27 January 2016).

and marine terminals in Azerbaijan. This initiative will simplify border procedures and ensure coordination between the state institutions within Azerbaijan.[31] This council has an important role. Without a stable relationship between the various modes of transport and streamlined border-crossing procedures, Azerbaijan routes will be less competitive. It is also important to coordinate actions with the neighboring transit countries.

Azerbaijan is also interested in developing cooperation within the Chinese initiative 'One Belt, One Road'. For this project, China has invested a significant amount of capital in transport infrastructure, both within China and in neighboring regions, especially Central Asia. The foreign trade turnover between the EU and China is constantly growing, reaching about $600 billion in 2014. Goods traded between Europe and China is carried mainly by maritime routes, through the Suez Canal. The length of this maritime route is about 24,000 kilometers, with a delivery time of 40-50 days.[32]

Azerbaijan is also interested in developing cooperation within the Chinese initiative 'One Belt, One Road'.

China is now looking for new ways to reduce transit times. Given China's interest in the development of alternative transport routes, in December 2015, Azerbaijan President Ilham Aliyev paid an official visit to Beijing. During the visit, the parties agreed to implement measures to promote a joint 'economic belt of the Silk Road.' In addition, agreements were signed on cooperation in the transport sector and in the spheres of railway transport and civil air transport.[33] These discussions and agreements have ensured the coordination of bilateral activities.

Another international transport corridor in which Azerbaijan can play a significant role is the 'North - South' initiative. The new route runs between the countries of North West Europe, the Caspian Sea, the Persian Gulf, Central, South and Southeast Asia.

Another international transport corridor in which Azerbaijan can play a significant role is the 'North - South' initiative. The new route runs between the countries of North West Europe, the Caspian Sea, the Persian Gulf, Central, South and Southeast Asia. There is also scope for the further development of Euro-Asian transport, for a shorter and more economical route.

31 1news, В Азербайджане Будет Создан Координационный Совет по Транзитным Грузоперевозкам, 21.10.2015, Available at: http://www.1news.az/chronicle/20151021075908757.html (Accessed: 27 January 2016).

32 Тофиг Аскеров, Гюльнара Зейналова Визит Ильхама Алиева в Китай: Большая Политика на Великом Шелковом Пути, 10.12.15, Available at: http://www.vzglyad.az/news.php?id=50648#.Vq5EN7KLTDc (Accessed: 27 January 2016).

33 1news, Визит Президента Ильхама Алиева в Китай как Поворотный Момент во Внешней Политике Азербайджана, 14.12.15, Available at: http://cp.1news.az/authors/editorial/20151214124104421.html (Accessed: 27 January 2016).

Azerbaijan is one of the links in this route, as agreed between Russia, Iran and India in 2000.[34] The parties decided to create a new route for the transportation of goods between Europe and the Far East. This route has seen a number of pilot shipments, mostly by rail. These tests made it clear that this line is quicker than traditional routes. The new transport route offers a competitive alternative to the sea route via the Suez Canal, slashing costs and shipment times. It is expected that the prices for the transport of containers can be 30% cheaper.

Baku is now actively involved in the implementation of this route. Azerbaijan is a part of the western branch of the corridor, which is a rail link from Russia via the territory of Azerbaijan with further access to the Iranian railway network via the border crossing at Astara (Azerbaijan) - Astara (Iran).[35] This is a new intermodal route, which enables the delivery of container cargo through Russia to Iran. The estimated capacity of the railway is up to 10 million tons in the first phase, and will be increased to 15 million tons per year in the future.[36]

Since the Soviet times, Russia and Azerbaijan have been connected by rail. With regard to rail connections between Azerbaijan and Iran, all that is needed is a 8.4 km connecting track in Azerbaijan to reach the border.[37] As for Iran, large-scale work is needed, namely the construction of the Qazvin-Rasht-Astara railway, which is 375 km long. A 7 km bridge linking Astara (Azerbaijan) - Astara (Iran) over the Araz River also needs to be built.

On May 3, 2015 Russia, Iran and Azerbaijan signed an agreement on the construction of the Qazvin-Rasht-Astara railway. Iran has completed the railway line between the cities of Qazvin and Rasht, 205 km in length. A groundbreaking ceremony for the construction of the bridge has also taken place.

In parallel with preparations for the construction of the railroad, the heads of the customs services of Azerbaijan, Russia, Iran and India have discussed the coordination of customs regulations in order to ensure efficient operation. Further meetings on this issue

34 Ministry of Foreign Affairs of Russia, Международный транспортный коридор 'Север–Юг', 27.10.11, Available at: http://www.mid.ru/foreign_policy/economic_diplomacy/ism_communication/-/asset_publisher/fajfwCb4PqDA/content/id/187770 (Accessed: 28 January 2016).

35 Official Site of Russian Railways, *North – South*, Available at: http://eng.rzd.ru/statice/public/en?STRUCTURE_ID=86 (Accessed: 28 January 2016).

36 Minisrty of Foreign Affairs of Russia, Международный транспортный коридор 'Север–Юг', ibid.

37 Official Site of Azerbaijan Railways LTD, *'North-South"*, Available at: 'http://railway.gov.az/index/en/2nd-column-3/north-south (Accessed: 28 January 2016).

are expected in the future.

As demonstrated, Azerbaijan is keenly aware of the development trends in Eurasia, and is ready to take an active role in implementing regional geo-economic projects. Azerbaijan has created regional energy transport routes, building the necessary infrastructure for these networks. As an active player in this field, Baku has consolidated and strengthened its role as the initiator of the new transport corridors in the non-oil sector.

Transport Potential of the Caspian Sea: Prospects and Limitations

Stanislav Pritchin*

This article addresses the Caspian Sea and its transport potential. Located at the junction of important geo-strategic regions in the center of Eurasia, the Caspian is an important component of the area's transport system. Moreover, geopolitical struggles over transport potential are no less intense than competition for its energy resources. Two major strategic transport routes have been delineated: the East-West route (or TRACECA); and the North-South route. Competition between routes actually has a positive effect on the development of transport infrastructure in the region. All project participants are striving to create the optimal conditions for transit and to increase the efficiency of infrastructure. As the result, the general appeal of the Caspian Sea as transport route has increased. At the same time, the transport sector offers an important economic opportunity for a number of countries in the context of the financial crisis and decline of oil prices.

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Introduction

The Caspian Sea is an important component of the transport system of the Eurasian continent. When the Great Silk Way was at its peak, a number of its offshoots circumvented or crossed Caspian Sea. Today, the major logistic hub is the natural reservoir that is located in the center of the continent, connecting to a network of the navigable rivers. Moreover, geopolitical struggles over transport potential are no less intense than competition for its energy resources.

Two major strategic transport routes have been delineated; the first is the East-West route, initiated by the West. The core component of this corridor was the TRACECA project, which has not reached its planned capacity. China's 'Economic Belt of the New Silk Road' project has replaced the European project. The second major initiative is the North-South route. Russia and Iran are active proponents of this route, aimed at creating a fully-fledged international transport corridor: Indian Ocean-Iran-Caspian Sea-Russia-Europe. The lifting of international economic sanctions against Iran and Tehran's desire to intensify cooperation with other Caspian region countries may herald a new chapter in the development of this transport route.

At the same time, the transport sector offers an important economic opportunity for a number of countries in the context of the financial crisis and decline of oil prices.

The development of any transport initiatives, and even competition between routes, will promote the overall growth of the Caspian Sea as a transport hub. In turn, the successful realization of the region's transport potential is crucial for the economic development of the Caspian countries. At the same time, the transport sector offers an important economic opportunity for a number of countries in the context of the financial crisis and decline of oil prices.

Legal and infrastructural limitations on the transport potential of the Caspian Sea

One of the barriers to the full realization of the Caspian Sea's transport potential is its unresolved legal status. The Convention on the legal status of the Caspian Sea must agree upon a regulatory regime that includes a zone of free navigation, exclusive economic areas for each country, a system of navigation, insurance of transport routes, and safety of navigation.

For many years, the littoral states have been working on a draft of the Agreement on Merchant Shipping. It is anticipated that the document will ensure smooth passage for vessels across the

Caspian Sea. However, there are a number of clauses in this draft on which the parties have not reached agreement. These questions around the use of internal maritime routes and the organization of transportation, as well as conditions of reciprocity and responsibility. In addition, Azerbaijan insists that the Agreement should include a provision stating that the Russian Federation must provide free transit through its internal rivers for ships from the Caspian countries.

Notwithstanding the delay in finalizing the agreement, the issue of maritime navigation in the Caspian has always been the issue of utmost importance and the key focus for the governments of the littoral states. This issue was discussed during the fourth presidential Caspian Summit, held in September 2014 in Astrakhan, Russia. In the final declaration, four out of 19 points concerned questions of navigation, to varying degrees. The significance of this lies in the fact that the declaration outlined the key approaches to the resolution of disputed issues. These agreed approaches will be further implemented in the Convention on the Legal Status of the Caspian, and the Agreement on Merchant Shipping.

Notwithstanding the delay in finalizing the Agreement, the issue of maritime navigation in the Caspian has always been the issue of utmost importance and the key focus for the governments of the littoral states.

Paragraph 7 of the declaration determines the size of the exclusive economic zone, and the specific zones of national sovereignty. The width of two of these zones makes 25 miles. The remainder of the Sea remains in common use, and free for navigation and fishing. Paragraph 8 provides for freedom of navigation for all littoral countries outside the zones of national sovereignty.

Paragraph 9 addresses issues of maritime safety and security, but without concrete proposals or mechanisms. Finally, paragraph 10 regulates the issue of access to the maritime area of the Caspian Sea. Only vessels belonging to the coastal countries are permitted access the waters of the Caspian.[1]

The need to update the fleet of ships transiting the Caspian has long been an impediment to transport sector development. The majority of ships operating on the Caspian Sea are mixed 'river-sea' navigation vessels, which once belonged to various Soviet era river shipping companies, in addition to the Caspian Sea shipping company. The most common multipurpose dry cargo

1 The official website of the President of the Russian Federation (2014) 'Statement by the presidents of the Republic of Azerbaijan, the Islamic Republic of Iran, Kazakhstan, Russian Federation and Turkmenistan/ The official website of the President of the Russian Federation'. Available at: http://kremlin.ru/supplement/4754 (Accessed: 3 December 2016).

vessels are the 'Volgo-Balt' and 'Volgo-don', 'Omsk', ST / STC types. Most of the ships were constructed in 60-80-ies of the last century.

Recently, the countries of the region have actively invested in the construction of new ships. Kazakhstan and Azerbaijan have been developing their sea transport companies. The Azerbaijani Caspian Sea Shipping Company's fleet consists of 86 ships with a overall deadweight of 434,782 tons, among them 41 tankers and 35 dry cargo ships.[2] Part of the company's fleet consists of new vessels which were built in the early days of independence, with the aim of developing transport potential.

Kazakhstan is pursuing a similar policy. In 2005-2006, the 'Kazmortransflot', the country' major maritime transportation company purchased a number of modern tankers with deadweight of 12,000 tons. This allowed Kazakhstan to significantly increase the export capacity of its oil fleet in terms of the volume and geographical delivery area for raw materials.[3] About 70 ships operate under the Russian flag. Iran has a few shipping companies operating on the Caspian the sea; the leader among them is 'Khazar' which in 2014 transported nearly 1 million tons of freight. Turkmenistan, in turn, has declared its intention to develop a commercial fleet.

Experts also note problems of document flow and insurance of transport shipping on the Caspian Sea. Because there are no uniform standards and requirements for insurance of courts and freights, there is no agreement on the standard documents necessary for the transportation of goods. Each company has its own style; this lack of harmonization damages investment appeal, and reduces reliability, transparency, and efficiency.[4]

The main Caspian Sea transport routes

The New Silk Way

The New Silk Way, a Europe-Caucasus-Asia transport corridor (also known as TRACECA) was first initiated almost 20 years ago. During the Soviet era, there was a uniform, integrated, and

2 Fleet of the Caspian Sea shipping company (2015) 'Official site of the company Caspian Sea shipping company'. Available at: http://www.caspar.baku.az/flot.html. (Accessed: 1 May 2016).

3 Official site of the company Kazmortransflot (2015) 'List of ships of the Kazmortransflot Company'. Available at http://www.kmtf.kz/articles/view/10 (Accessed: 3 November 2016).

4 The Site of Far East transport group (2008) 'Golubchik A.M., Holopkov K.V. Features of sea delivery of the Russian foreign trade freights on the Caspian Sea'. Available at: http://www .dvtg.ru/publishing/161 (Accessed: 3 December 2014).

mostly isolated transport system. After the collapse of the USSR, 15 newly independent states appeared on the political map of the world. These states had limited transport connections with countries outside the Soviet bloc. The TRACECA project envisioned the creation of a transport corridor connecting the former Soviet republics with Europe, and then, in the longer term, with China.

However, while the original vision of the TRACECA project has not materialized, the notion of a global transport route has led the countries of the region to develop a number of independent projects. In February 2007, the presidents of Azerbaijan, Georgia and Turkey signed an agreement on the construction of the Baku-Tbilisi-Kars railway. The project includes the construction of the 98 km long Kars-Akhalkalaki railroad (68 km in Turkey and 30 km in Georgia), as well as the rehabilitation of the Akhalkalaki-Tbilisi railroad. Following the most recent amendments and allocation of additional resources, the total cost of the project has increased from $600 million to $1,2 billion.[5] It is supposed that the annual transportation capacity of a new transport route will be up to 20 million tons of freights.[6]

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Though this project is not a direct descendant of TRACECA, it is obvious that it fits into an overall vision of a multimodal Europe-Caucasus-Asia transport corridor that bypasses Russia. Thus in Turkey, the Baku-Tbilisi-Kars will be connected to 'the Marble Project' – the undersea tunnel across Bosporus strait, which will finally enable delivery freight from Baku to the EU via railway.

While China was not an official participant of TRACECA, it was nonetheless interested in the project's implementation. Moreover, it subsequently became the main initiator of a transport corridor project. In September 2013, during his visit to Astana, Chinese President Xi Jinping announced the "Economic Belt of the New Silk Way'. For Beijing, 'The New Silk Way' offers same benefits the EU has perceived. It will help strengthen its influence in the region, expand sales markets, and will also support the economic development of China's northwest regions (in particular, Xinjiang).

China has big expectations for this transport corridor and has made major financial investments in the development of its trans-

5 The RZD-Partner International (2015) Available at:http://test.rzd-partner.ru/news/different/366060/ (Accessed: 12.10.2015)

6 REGNUM news agency (2014) 'The declaration on creation of a railway corridor of Kars-Tbilisi-Baku'. Available at: http://www.regnum.ru/news/459898.html (Accessed: 4 July2014)

port infrastructure. In 2004, the first TRANS-China railway was built, connecting Nunungan port in the Yellow Sea with the Kazakh border, turning the remote town of Horgos into a transport and logistics hub. Beijing also plans to build an additional 12 highways linking Xinjiang with the regional countries.[7]

Counting on the Chinese freight traffic, Kazakhstan has taken steps to realize its transit potential. The main project is the Dostyk – Aktau railroad that connects the Chinese border with the Caspian port.[8] On July 28 2015, a train consisting of 41 cars and 82 containers left the Chinese province of Shiheji. The train passed through the Shikhetsi-Dostyk-Aktau-Alyat corridor. On August 3 it arrived at the Baku international sea port.[9] Astana is also seeking to reduce its dependence on Russian transport routes. It has built a new 275 km long branch line between Hromtau and Altynsarino, enabling cargo movement between its northern and western regions without using Russian railways.[10] China is also planning to construct a railway line through Kyrgyzstan to Uzbekistan. Currently these countries are connected by road.

China has big expectations for this transport corridor and has made major financial investments in the development of its transport infrastructure.

China's initiatives to develop pipeline infrastructure for importing raw materials from the region must be addressed as a separate topic. China is currently constructing the fourth branch of the Central Asia-China gas pipeline.

An analysis of the various measures taken by China demonstrate that the "Economic Belt of the New Silk Way' is a priority, in order to secure a western transport route through Central Asia. Work on the Lanzhou-Xinjiang segment of the Lyanyyungan-Urumqi high-speed railway line has begun; large transport and logistical centers in the cities of Xian, Lanzhou, Urumqi have been created; and the modernization of railway transitions at the Kazakh border has been ensured. In terms of official discourse in China, Central Asia's role in the creation of the China-Europe overland bridge is a dominant theme.[11]

In recent months, the Trans-Caspian International Transport

7 Pritchin S. (2008) 'Russia and alternative transport routes', *Independent observer of the Commonwealth countries,* No. 2.

8 Romanikhin A. (2005) 'The railroad bypassing Russia', *Industrial sheets*, No. 5.

9 Sputnik Azerbaijan (2016) 'The new Baku seaport accepted the first railway structure from China', *Sputnik Azerbaijan*, Available at: http://ru.sputnik.az/economy/20150803/401380335.html#ixzz3xwswaRPZ (Accessed: 15 February 2016).

10 Kommersant (2007) 'The track defines consciousness', No. 87 (3663) of 23 May 2007.

11 Oleg Timofeev Central Asian and TRANS-Siberian routes APSP not competitors. Available at: http://russiancouncil.ru/inner/?id_4=7159#top-content (Accessed: 3 December 2014)

Route (TMTM) has received significant media coverage. In October 2013, member countries created the Coordinating Committee on the Development of the TMTM. In Istanbul at the end of November 2015, the largest transport companies of the states, including the Chinese Minsheng Logistics, the Georgian Trans Caucasus Terminals, the Kazakhstan KTZ Express, the Azerbaijani Karvan Logistics and the Azerbaijani Caspian Sea shipping company, expressed their readiness to create a consortium for the transportation of goods from China to Europe.

It is estimated that a container leaving the Kazakh-Chinese border will be delivered to Turkey within 10 days, and the cost of transportation will be approximately $5,000. Those terms would be significantly more favorable than the conditions for transportation of goods via the Trans-Siberian Railway (12-14 days and $6,000-7,000 respectively). Route capacity is projected to reach 8 container trains per month, and by 2020, the volumes of cargo transportation on TMTM will exceed 6 million tons a year.

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The main problem with the TMTM is weak demand on the part of Chinese suppliers. The majority of freight traffic from China traditionally goes to the EU by sea. A smaller proportion of freight is transported by land. Container rail transportation of Chinese goods to Europe takes place out in two ways: through Kazakhstan and the European part of Russia follow through Siberia (on the Trans-Siberian Railway).

North-South route

In the context of the transport capacity of the Caspian Sea, Russia and its neighbors have another megaproject, namely the international transport corridor (ITC) "North-South". The agreement for this corridor was signed in 2000 between Russia, Iran and India.[12] The route travels through the following points: Mumbai (India), the ports of Benrabas, Bendramirabad (Iran), Amzili (Iran), Caspian Sea, Olya port, Astrakhan (Russia), and St. Petersburg.

North-South International Transport Corridor

The agreement on the North-South ITC entails cargo delivery

12 Official web-site RZD (2001) 'ITC North-South', Available at: http://cargo.rzd.ru/wps/portal/cargo?STRUCTURE_ID=682 (Accessed: 3 December 2014).

from various ports, both on the Caspian and the Black Sea. The components of the ITC include two existing international transport corridors: No. 9 (Finland - St. Petersburg – Moscow, with branches to Astrakhan and Novorossiysk) and No. 2 (Berlin - Warsaw - Minsk - Moscow - Nizhny Novgorod - Yekaterinburg), transport infrastructure of Volga and Don, including Volga-Baltic and Volga-Don canals, ports of the Astrakhan region (Astrakhan, Olya) and Dagestan (Makhachkala).

The long term plan is to create a junction between the ITC 'North-South' and the Trans-Siberian Railway, creating a major transit hub in Russia.

In the Caspian Sea region, the ITC has three main transport corridors: (i) the Transcaspian, through the seaports of Russia, Iran, Kazakhstan, Turkmenistan, and Azerbaijan; (ii) railway and automobile links along the western branch in the Astrakhan direction – Makhachkala – Samur, and further across Azerbaijani territory with an exit to Iran through the border station at Astara; and (iii) on the east coast via the railroad through Kazakhstan and Turkmenistan, with an exit to Iran's railway system on the Tedzhen-Serakhs boundary transition. All three directions will finally join up with Russian infrastructure networks, either railway, highways or internal waterways.

Even before the emergence of the ITC global project, some its participants began to develop joint projects which later became important parts of emerging 'North-South' corridor. In 1996, Turkmenistan and Iran started the 295 km long Mashhad-Serakhs railroad. Between 1996 and 2006, about 14 million tons were transported on the new highway, and turnover of annual goods was, according to official figures, close to 3 million tons.

At the same time, the Islamic Republic of Iran developed its internal railway infrastructure. By 2005 it finished the construction of 756 km of Bafk-Mashhad railroad. The Uzen-Gyzylgaya-Bereket-Etrek-Gorgan railroad, which connects Iran, Turkmenistan, Kazakhstan and Russia on the east coast of the Caspian Sea, is a key component of North-South. The memorandum on the construction of the highway was signed in Tehran in October 2007. Construction of the road began in 2009.[13]

On December 3, 2014 the ceremonial opening of the railroad - 146 km in Kazakhstan, 470 km in Turkmenistan, and 70 km in

13 Kurtov A.A. (2009) 'Caspian transport corridors: neighborhood of economic feasibility and political environment', A state and prospects of interaction of Russia with the countries of Central Asia and Transcaucasia. *M. IMEMO RAHN*. p. 67-106.

Iran - took place. The officially declared capacity is up to10 million tons of freight annually. The cost of the road for Turkmenistan was 371 million dollars; for Kazakhstan 430 million dollars; and 106 million dollars for Iran.[14]

The sea corridor of ITC North-South is developing successfully. According to Russia's transport strategy up until 2030 (adopted on November 22, 2008), freight transfers through the Caspian ports of Russia must reach 16 million tons per year by 2010, exceeding 23 million tons by 2020. The share of container transportations must increase to 5.1 million tons in 2030, up from 0.7 million tons in 2010.[15]

Even before the emergence of the ITC global project, some its participants began to develop joint projects which later became important parts of emerging 'North-South' corridor.

However, many elements of the ITC project remain on paper, and indeed remain at the discussion stage. The actual volumes of cargo transportation are still far from the projected goals. It is only more recently, in anticipation of the lifting of the sanctions against Iran, that the branch line on the western shore of the Caspian Sea has been confirmed. In September 2015, the head of Azerbaijani railways Javid Gurbanov declared that Azerbaijan and Iran plan to finish construction of the Qazvin-Rasht-Astara railroad, which runs through Iran. "In the territory of Iran, work on the construction of a 200 km segment of the Qazvin-Rasht-Astara. Now the parties are engaged in search of sources of financing for joint construction of the remained site in 175 km" Gurbanov stated.[16]

In the long term, the Russian direction can be strengthened by the development of water channels. Today, two global megaprojects - the 'Volga-Don - 2' and the 'Eurasia channel' the project connecting the Caspian and Azov Seas - are on the agenda. Currently internal Russian river transport ways are the only means of ocean access for Azerbaijan, Turkmenistan, and Kazakhstan. However, the limited capacity of the rivers and channels are limiting factor in terms of the development of water transit of freight from the Caspian Basin through Russia. The average depth of the existing Volga-Don Canal is only 3.5 meters, and therefore the maximum deadweight of the used ships cannot exceed 5,000 tons. Moreover, both the Volga and the Don freeze in the winter, and so

14 MGIMO (2015) 'Persian incomplete filling. Whether there are prospects at the railroad of Kazakhstan-Turkmenistan-Iran?', Available at: http://old .mgimo.ru/news/experts/document276208.phtml (Accessed: 2 January 2016).

15 Russian Government Marine Board (2001) 'Maritime Doctrine of the Russian Federation till 2020', Available at: http://www.morskayakollegiya.ru/legislation/doktrina/ (Accessed: 3 December2014).

16 RegionPlus (2016) 'Azerbaijan plans to complete together with Iran a site of the railroad Qazvin-Rasht-Astara', Available at: http://www .regionplus.az/posts/view/67047 (Accessed: 2.12.2016).

each year the channel can only take 5,000 ships, or 16.5 million tons of freight.[17] In this regard the question of development and expansion of the capacity of internal waterways is highly pertinent; this will surely be a major project requiring substantial investments.

Conclusion

Against the backdrop of decline in oil prices, the Caspian countries are faced with the need to develop the non-oil sectors of their economies. In this situation, the transport sector offers an important direction for economic development. Strengthening the competition for transport routes within the region will improve the development trajectory of transport infrastructure. Eventually, this will allow the realization of the sea's full transit capacity, creating the long term conditions for economic development of the non-oil sector. Thus, the development of a transport cluster in the region - even with the competition between different routes – will benefit all the players.

Despite the delay in the preparation of the Agreement on Merchant Shipping, the issue of navigation remains a key focus for the coastal states. Thus, this question was discussed during the fourth presidential Caspian summit, which was held in September 2014 in Astrakhan, Russia. In the final declaration, four out of 19 points concerned questions of navigation, to varying degrees. The significance of this lies in the fact that the declaration outlined the key approaches to the resolution of disputed issues. These agreed approaches will be further implemented in the Convention on the Legal Status of the Caspian, and the Agreement on Merchant Shipping.

There are two major strategic directions for the transport routes in the Caspian Sea region: the East-West route, or TRACECA, and the North-South route. The main problem with the East-West project is the weak demand on the part of Chinese suppliers. The majority of freight traffic from China traditionally goes to the EU by sea. Nonetheless, the route holds promise, especially the component that starts in Azerbaijan and runs to the West, which can be used to transport freight from Iran to the EU. Moreover, a post-sanctions Iran opens up a variety of new opportunities, and will provide access to the Persian Gulf and the Indian Ocean for the Caspian Sea countries.

17 Kurtov A.A. (2008) 'The second Volga-Don', The Independent newspaper – the Diplomatic courier No.242, p. 8.

The East-West Transportation Corridor TRACECA and Its Implications for Sub-regional Development: The Case of the Black Sea Region of Turkey

Osman Karamustafa
and Ali Ihsan Kahraman*

As a promising route for the promotion of economic development for countries located along the corridor, the East-West corridor has been analyzed overwhelmingly from geopolitical perspectives. This approach, however, fails to consider for the full range of benefits the corridor would provide. The sub-regional benefits, even at the individual country level, are often overlooked. In order to present a subregional/micro level analysis of the implications of the East-West corridor in general, and TRACECA in particular, this paper focuses on the place and position of Turkey's Black Sea region within TRACECA. It evaluates the influence of this cross-continental mega project on a sub-region of Turkey. The paper suggests that TRACECA has significance not only in terms of regional geopolitics but also in regard to sub-regional development. The paper assesses official statements by the Turkish government and the Permanent Secretariat of TRACECA. The authors discuss the opportunities and challenges posed by TRACECA's development targets as well as those of the Turkish government at the local level.

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Introduction

Turkey's role in international projects is a matter of general discussion, given its participation in several multinational and transnational projects including the Turkish Stream, TANAP, and the BTC. The most recent discussions are primarily focused on energy mega projects. However, there are also other larger regional projects, such as the *Transport Corridor Europe-the Caucasus-Asia* (TRACECA), key to developing trans-Eurasian transportation networks. These various initiatives are helping to consolidate Turkey's critical position in regional and global politics. For Turkey, accordingly, TRACECA is perceived as a macro-level project; this view has also been reflected in policy-making and academic circles. As this paper suggests, however, this view may be too narrow. Having acknowledged the macro-level focus of such projects, this paper argues that TRACECA and similar macro-level projects also have important national and sub-regional level implications. In order to demonstrate this and to uncover the sub-regional implications of these macro-level projects, this paper shifts the focus from regional to sub-regional. In order to do so, it evaluates the implications of TRACECA for the Black Sea region, a coastal area in northern Turkey that is key to the realization of the project at the national level. In explaining these implications, we also deal with the challenges at the sub-regional and project-specific levels.

What does TRACECA mean for the individual member states?

The aim of TRACECA is, according to the Ministry of Transport Maritime and Communications of Turkey (MTMC), to support political and economic development in the Black Sea region, Caucasus and Central Asia by improving international transport links.[1] The Permanent Secretariat of TRACECA, on the other hand, states that TRACECA is aimed at gradually developing trade and economic development. According to the project, major traffic flows will pass through Western and Central Europe, and Central and South-East Asia. In addition, TRACECA aims to create a sustainable infrastructure chain ensuring multi-modal transport with the step-by-step integration of the corridor into the Trans-European Transport Networks (TENs).

In addition, TRACECA aims to create a sustainable infrastructure chain ensuring multi-modal transport with the step-by-step integration of the corridor into the Trans-European Transport Networks (TENs).

At present, the integration between Central and Eastern Europe is actually provided through TENs. However, this integration only

1 TRACECA (2016). *TRACECA Avrupa- Kafkasya- Asya Ulaşım Koridoru*. Available at: http://www.traceca.org.tr/ (Accessed: 12 February 2016).

relates to European countries. On the other hand, the integration of transport links between South East and Central Asia has been gradually developing. However, the connection between Asia and Europe was absent, and TRACECA is one of the major projects seeking to fill this gap. TRACECA represents a major link between two existing – or developing – transportation networks between Europe and Asia.[2]

We would like to highlight the difference between the definitions of TRACECA provided by the Ministry of Turkey and the Permanent Secretariat. While the Ministry of Transport Maritime and Communications of Turkey (MTC) says that the Caucasus, Black Sea and Central Asia is the focus area, for the Permanent Secretariat, the focus extends towards Europe and South Asia. This divergence indicates that Turkey's interests in TRACECA are centered more on the positive implications for Turkey's own development in association with the general aim of this major project. Introducing this difference will enable us to illustrate the links between a major international project and the sub-regional development targets of a member country. We will explain this connection later on in the paper, while presently continuing with our analysis of what TRACECA means for the countries located along its route.

The meanings of TRACECA for its member countries have changed following the increase in the number of member countries.

The meanings of TRACECA for its member countries have changed following the increase in the number of member countries. The first meeting of the TRACECA Project was held in 1993 in Brussels, with the Ministries of Transport of Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan in attendance. As a result of the conference, 'members adopted [the] Brussels Declaration, to give rise to implementation of the interregional program of technical assistance TRACECA, financed from the European Union aimed at the development of the transport corridor from Europe, crossing the Black Sea, Caucasus, the Caspian Sea and reaching the Central Asian countries'.[3] Since then, new members have joined the initiative. As a result of the participation of new states, the project has extended both eastwards and westwards, covering a wider geography.

2 The expression 'to be exist' is valid for the network in Asia, because there isn't any existing network between South East and Central Asian countries, at all. However, especially China and Russia try to construct such a network.

3 TRACECA (2016). *History of TRACECA* Available at: http://www.traceca-org.org/en/traceca/history-of-traceca/ (Accessed: 13 February 2016).

However, participation seemed to dwindle after 2007. After 2009, the annual government meetings of TRACECA were not organized. Therefore, TRACECA could not maintain its expansion, weakening its identity as a transport corridor between East and West. In contrast, another purpose of TRACECA gained popularity, namely contributing to the development of member countries. This paper also argues that TRACECA should be reconsidered from the perspective of support for sub-regional development of member countries.

Establishing such a major transportation network between Asia and Europe has been also described as the reconstruction of the historical Silk Road. For instance, according to the 2004 report by the Economic Commission for Europe Inland Transport Committee of the United Nations Economic and Social Council, "Countries along this corridor have high regard for its strategic importance in the context of Euro-Asian transport links and consider it as complementary to commercial exchanges between themselves and the Far East, with the possibility of the ancient Silk Route becoming once again a major trade corridor."[4] As noted in the report, the revival of the ancient Silk Road means the rejuvenation of historical trade links between Asia and Europe. Therefore, the countries on the Silk Road could benefit from their historical trade wealth, but in cooperation rather than competition. This is why the member countries have supported the project.

How feasible is TRACECA?

The notion of reviving the historical Silk Road is appealing to member countries because it promises a return to a time when the East was wealthier.[5] This concept has stimulated four projects between the East and the West: Trans-Siberian (TSR), TRACECA, Southern Corridor, and North-South Corridor. The Trans-Siberian aims to link Europe, the Russian Federation, Korean Peninsula, and Japan. The Southern Corridor aims at linking South East Europe to Central Asia and China through Turkey and Iran. The North-South Corridor, on the other hand, will link Northern Europe to the Persian Gulf via the Russian Federation,

The notion of reviving the historical Silk Road is appealing to member countries because it promises a return to a time when the East was wealthier.

4 UN Economic and Social Council (2004) *Euro-Asian Transport Links*, Available at: https://webcache.googleusercontent.com/search?q=cache:NHY-cmDroJYJ:https://www.unece.org/fileadmin/DAM/trans/doc/2004/sc2/TRANS-SC2-2004-03e.doc+&cd=1&hl=tr&ct=clnk&gl=tr (Accessed: 12 February 2016).

5 Here, the point for member countries of TRACECA is not the competition between the West and the East. In contrast, the attractive issue is return to old richer days. Furthermore, we are rejecting to read any issue from the perspective of competition between East and West.

Azerbaijan and Central Asia.[6] Among these four corridors, TSR warrants particular attention, as it is already operational, and its route seems to be parallel to that of TRACECA. This suggests that they could be complementary. However, as this paper argues, competition between these two routes is highly likely.

Regarding the prospect of competition, it is true that Turkey has a key strategic location between East and West; however, this inference should be made based on an analysis of alternative routes. Therefore, we will first of all demonstrate the linkage between TRACECA and sub-regional development in Turkey by discussing whether it retains its importance in the context of alternative routes.

At present, TSR is also active and seems to be fulfilling its mission. However, there are certain problems too. A report by two representatives of the Coordinating Council on Trans-Siberian Transportation stated that the volume of transit transportation through TSR had fallen between 2006 and 2008. According to Lukov, the Adviser to the Council, the volume of transit transportation declined by 5 percent in 2007 compared to 2006.[7] Furthermore, there was a decline of 17 percent between 2007 and 2008[8], according to Sergeev, the Deputy Head of the Council. While imports and exports through TSR increased, transit transportation decreased. This indicates that TSR was being used for Russia's imports and exports. However, transit transportation via TSR has lost its appeal. Lukov stated that the reason for this was the non-competitiveness of the TSR's through rate in comparison to the freight rates offered by deep-sea shipping companies. This is reiterated in 2016 by the Coordinating Council as an obstacle to improving transit transportation via TSR.[9] Thus it seems that TRACECA has a competitive advantage against TSR.

The comparison between TSR and TRACECA also enables us to envision the potential issues that may arise for TRACECA, indicating the extent to which we should draw links between sub-regional development and an international project.

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6 UN Economic and Social Council, *Euro-Asian Transport Links.*

7 Lukov (2009) *The Transsiberrian Rail Corridor: Present Situation and Future Prospects*. Available at: file:///C:/Users/%C4%B1kt2/Downloads/Lukov_CCTT_TSR.pdf (Accessed: 13 February 2016), p. 11

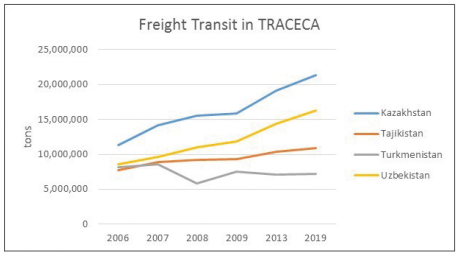
8 Sergeev (2008) *Transsiberrian Route: An Effecting Transport Corridor connecting Asia and Europe*. Available at: http://www.zscargo.sk/files/vystavy/Obch-rok-2009-prezentacie/CCTT.pdf (Accessed: 13 February 2016), p. 6

9 Coordinating Council on Transsiberian Transport (2015) *Increasing Competitiveness of the TSR*. Available at: http://en.icctt.com/increasing-competitiveness (Accessed: 13 February 2016).

ternational project. The challenge of deep-sea shipping between Europe and Asia-Pacific that TSR faces is also, at first glance, relevant for transit transportation via TRACECA. However, TRACECA has two important advantages over TSR. While TSR only runs within Russia from Asia to Europe, TRACECA crosses 8 countries. Trade between these 8 countries means that TRACECA can remain economically feasible, even if is not competitive vis-à-vis deep sea shipping. But without increasing its competitiveness, TSR cannot survive or maintain its importance for transit transportation from Asia/Pacific to Europe. Therefore, TRACECA has better chances of survival, and Turkey's opportunities to develop its sub-regions remain in play. For instance, the trade flows from 2006 to 2009 through TRACECA have increased and are expected to do so until 2019 for Kazakhstan, Uzbekistan and Tajikistan, as shown in Figure 1.[10] This means that TRACECA has gained importance for freight transit in terms of traffic flow in Central Asia, while TSR has lost its relevance. Therefore, investing in TRACECA project seems very prudent as a course of action for Turkey.

This demonstrates that first of all, TRACECA enables participating states to benefit from the increase in trade between East and West. Secondly, it is reasonable for Turkey to invest in TRACECA compared to its alternatives. The paper will now determine how Turkey can utilize this major project to encourage sub-regional development. In order to do this, we will address the issue of sub-regional development in Turkey's Black Sea region, which is also included in the vision for TRACECA, though its development also entails a number of different considerations. Establishing the link between TRACECA and sub-regional development of Black Sea region requires an assessment of these distinct and independent characteristics of Eastern Black Sea.

Figure 1



10 This figure is drawn by the author according to the data from TRACECA. The excel sheet for data could be found by searching the filename '*Country Freight Transit Country TONS06 19'* in TRACECA's library. TRACECA (2016) *Country Freight Transit Country TONS06 19.* Available at http://www.traceca-org.org/en/publications/noc/1/ (Accessed: 13 February 2016).

The Black Sea region and its development action plan 2014-2018

Turkey's efforts "to decrease the developmental differences between regions of Turkey and to increase the competitiveness of each region"[11] reflect similar experiences in other countries, such as the US and China. Just as western China is less developed than the eastern part, Turkey's eastern regions are less developed than the western area. Hence, the 'Regional Development Strategy for 2014-2023' prepared by the Ministry of Development addresses these issues as follows:

> "Regional differences continue still to be important for many countries, like for Turkey. In some regions employment and level of income are over the average of country while some other regions may be under the average of country's level because of their geographical, social and economic conditions."[12]

Garver has set forth three steps for addressing the developmental gap in China: (i) construction of modern lines of transportation, (ii) exploitation of western resources, and (iii) acceleration of rates of development to achieve levels more nearly approximating China's east.[13] Turkey faces the same problem. As Garver stated in regard to China, Turkey must construct modern lines of transportation to address its own development gap, in addition to the other steps. At this point, the significance of TRACECA comes to the fore. In order to see the close relationship between TRACECA and the potential to address the developmental gap in Turkey's sub-regions, we will start by discussing the construction of modern lines of transportation via the Eastern Black Sea Development Project (DOKAP), and then continue by showing how this relates to TRACECA.

DOKAP is one of Turkey's 26 Development Agencies, established by the central government with the aim of implementing development projects on site. DOKAP involves seven cities in the Eastern Black Sea: Artvin, Bayburt, Giresun, Gümüşhane, Ordu, Rize and Trabzon. These seven regions comprise of 5% of Turkey's total surface area and of 4.89% of the ountry's total pop-

11 Davutoglu (2014) Önsöz. Available at: http://www.kalkinma.gov.tr/Lists/Duyuru%20ve%20Haberler/Attachments/669/DOKAP%20Eylem%20Plan%C4%B1%20(2014-2018).pdf (Accessed: 13 February 2016).

12 Ministry of Development of Turkey (2014) *Bölgesel Gelişme Ulusal Stratejisi 2014-2023*. Available at: http://www.kalkinma.gov.tr/Lists/Yaynlar/Attachments/641/2014-2023%20B%C3%B6lgesel%20Geli%C5%9Fme%20Ulusal%20Stratejisi.pdf (Accessed: 13 February 2016), p. 22.

13 Garver, J. (2006) 'Development of China's Overland Transportation Links with Central, South-West and South Asia' *The China Quarterly*, (185), pp. 1-22.

ulation, according to the Turkish Statistical Institute (TUIK).[14] However, the level of development in these cities is below the average for Turkey. In regard to this project, the region's proximity to Central Asia and the South Caucasus - whose importance are increasing in terms of global trade - the economic potential of the Black Sea Cooperation Organization contributed to the establishment of DOKAP.[15] In association with the regional development targets, the Development Agency prepared an action plan in coordination with the central government. This action plan provides clues to the perspectives of local authorities and central government on the region. This enables us analyze whether there is a link between TRACECA and DOKAP.

The DOKAP Action Plan comprises five main sections: Tourism and Environment Sustainability, Economic Development, Infrastructure and Urbanization, Social Development and Improvement of Institutional Capacity at the local level. Although it seems as if that the plan prioritizes some sectors over others for economic development, we will address two sectors that are clearly relevant to TRACECA, namely agriculture and industry.

For agriculture, the action plan sets forth 21 basic steps to improve the sector, from training farmers to food control; from efficient basins for organic production to certified seed and seedling production. The plan aims to establish new investment areas and improve existing investment ones. Investment in agriculture - the main resource of Eastern Black Sea - is important to our discussion, because people in the region will benefit from the opportunity to export their agricultural products to other regions in Turkey, and indeed to other countries. TRACECA will make this possible through modern transportation lines within its network. This may be considered as the first connection between DOKAP and TRACECA.

The second link can be identified in the second sector in DOKAP, industry. The DOKAP plan determines 15 key actions. For example, the plan says that an investment island will be constructed in Arsin, a district of Trabzon that has the biggest economy among DOKAP cities. The island will be 1.8 hectares (ha) and divided to 100 parts. According to statements by the President of Chamber of Commerce and Industry of Trabzon, Suat Hacısalihoğlu,

14 For the figures follow the following steps on the TUIK website: Statistical Tables> Address Based Population Registration System Statistics> Address Based Population Registration System Statistics> Population by Province, Age Group and Sex. TUIK (2015) *Population of Province, Age Group and Sex*. Available at: http://www.turkstat.gov.tr/PreTablo.do?alt_id=1059 (Accessed: 13 February 2016).

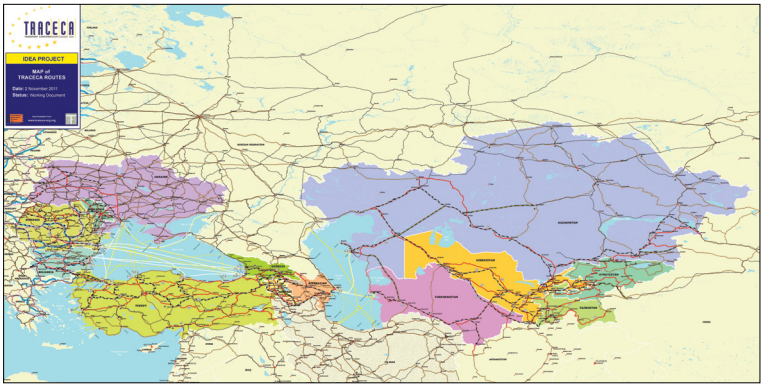
15 Davutoglu, Önsöz.

environmental impact assessment reports for the fill area have been completed.[16] In addition, an organized industry zone in Kalkandere, a district of Rize, is under construction. The industrial products of these areas will be transported to other regions in Turkey or onwards to other countries via modernized transportation developed through the TRACECA project, along with agricultural products.

The link between TRACECA and DOKAP

The link between TRACECA and DOKAP can be seen more clearly by comparing Figure 2 and Figure 3. The former shows a map of TRACECA, while the latter shows one of the recommended projects for DOKAP. The proximity between TRACECA's routes and the recommended project indicates the possible connection between TRACECA and DOKAP. Beyond proximity, however, we will focus on the economic dynamics of this linkage. Economic dynamics consist of two aspects: economic relations between the sub-regions of Turkey, and economic relations with other countries. We will start with East Anatolia and the East Black Sea, two important sub-regions of Turkey, which are also relevant for TRACECA.

Transportation infrastructure of TRACECA member countries



Source: http://www.traceca-org.org/fileadmin/fm-dam/TAREP/58jh/EXPERT_GROUP_MODEL_GIS/MAP_TRACECA_ROUTES_07_11_2011_300DPI.png

East Anatolia and East Black Sea have been connected via Zigana Gate in Trabzon for years, allowing trade between the two locations. However, trade was costly for Rize and Artvin because

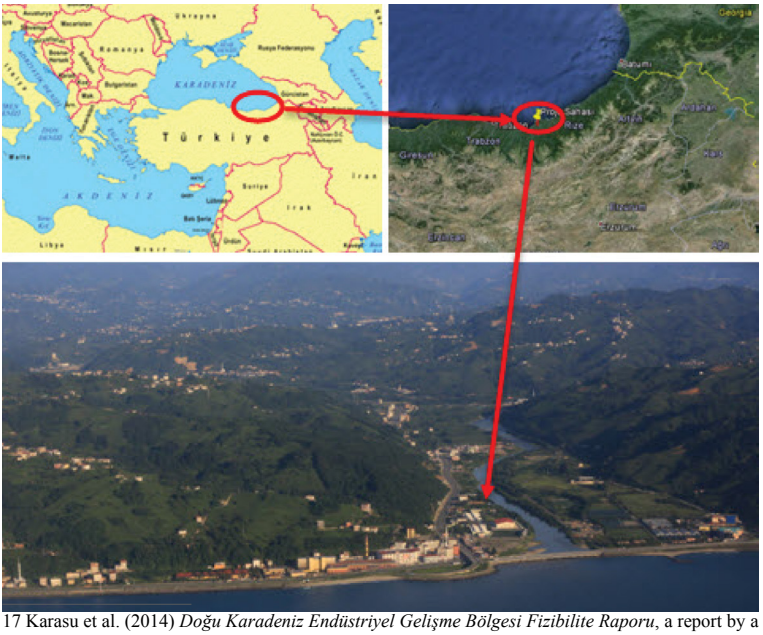
16 Milliyet (2016) *Trabzon'da Yatırım Adası ile İlgili ÇED Süreci Tamamlandı* Available at: http://www.milliyet.com.tr/trabzon-da-yatirim-adasi-ile-ilgili-trabzon-yerelhaber-1319278/(Accessed: 26.05.2016).

Geographically, the Black Sea region is separated from other regions by high mountains. The landscape has prevented linkages by road or rail. Therefore, industrial development through trade with other regions of Turkey did not take place in the regions east of Trabzon.

of the distance from Erzurum to these cities. Geographically, the Black Sea region is separated from other regions by high mountains. The landscape has prevented linkages by road or rail. Therefore, industrial development through trade with other regions of Turkey did not take place in the regions east of Trabzon. However, industrial development will be possible following the completion of the Ovit Tunnel.

There are two construction projects that are very important for the development of the Eastern Black Sea: Ovit Tunnel and the Highway between Ordu and Adana, both of which are nearing completion. 80 percent of the Ovit Tunnel has been constructed, and 70 percent of the highway is complete. According to Binali Yıldırım, former Minister of Transportation, excavation work in Ovit Tunnel will be finished in August 2016. This timeline has been echoed by the Ministry of Environment and Urbanization in the official statement to the District Municipality of Iyidere. The statement calls the Ovit Tunnel project "the most critical crossing-point which links Black Sea and Caucasus firstly to South-eastern Anatolia region of Turkey and secondly to Iran and Central Asia."[17]

Figure 3



17 Karasu et al. (2014) *Doğu Karadeniz Endüstriyel Gelişme Bölgesi Fizibilite Raporu*, a report by a project team comprised from scholars from different Turkish Universities. The project number (BAP) at Recep Tayyip Erdoğan University is 2013.101.10.2.

Ovit Tunnel is one of these most prominent projects for the local community. It will be the longest tunnel in Turkey, and aims to link the Black Sea Region and East Anatolia region, in order to reduce transportation times. On one side of the tunnel is Rize, which is one of the important cities of DOKAP, and at the other end lies Erzurum, the center of the East Anatolia region. Ovit Tunnel holds major significance for sub-regional development as well as TRACECA's linkages to the inner-regions of Turkey and other countries such as Iran. One of the targets of DOKAP and TRACECA is to connect these two regions. For DOKAP, the hope is that trade between different sub-regions will raise welfare standards. TRACECA sees opportunities to integrate the Middle East and southern countries into the transportation network between the global East and West.

Along with the infrastructure that are currently under construction, there are additional other proposed or recommended projects, including the airport in Rize. The Black Sea region has long been forced to rely exclusively on Trabzon Airport. There are no direct air links to the other cities of the East Black Sea region. As a result, commercial travel to other regional cities is harder and more expensive. The completion of the airport in Rize will make transportation to Rize and Artvin easier and probably cheaper, too.

Another proposed investment project is located in Iyidere, Rize, which involves establishing an industrial development area in Iyidere. Iyidere is at the end of the access road from Erzurum to Rize. The feasibility report for the project suggests that Rize is an important development opportunity that can contribute to the larger aims of DOKAP Action plan.[18] An organized industrial zone is already under construction in Kalkandere, which is located along the same route. However, the proposal is not limited to the construction of an industrial zone; it also suggests making Rize a logistics center in the Eastern Black Sea. This would help resolve the problem of its expensiveness, because it is expected that the logistics center will also encourage production activities in Rize and its neighboring cities. When the Ovit Tunnel is completed and if the Rize Airport is constructed, business mobilization and economic activities will be more intensive. TRACECA will contribute to the drive to develop Rize as a logistics center, because it will be one of the logistics centers for East-West trade. Neighboring cities will also benefit. On this basis, we expect that TRACECA represents a key opportunity for sub-regional devel-

18 Karasu et al, *ibid.*

opment actions in DOKAP cities.

The linkage between TRACECA and sub-regional development of Eastern Black Sea can also be explained in a different way. The proposed projects are very important not only for utilizing TRACECA's network, but also in terms of realizing the goals of TRACECA project. For example, in the original MLA agreement, one of the general principles is the development of economic relations, trade and transport communication in the regions of Europe, the Black Sea, the Caucasus, the Caspian Sea and Asia. In addition, facilitation of access to the international markets via road, air, and railway transport, as well as commercial maritime navigation, was determined as a general principle.

Through these new investments, TRACECA's main objectives will be achieved in line with its general principles. For instance, an integrated multi-modal transport system is one of the main objectives of TRACECA,[19] while development of economic relations in the Black Sea is a general target. In other words, to ensure that a proposed investment project has synergies with TRACECA, it should serve the goal of creating a multi-modal integrated transport system by aiming to develop economic relations within Black Sea. The Ovit Tunnel and the industrial zone in Iyidere are two projects that will serve these two aims of TRACECA. When these two projects are completed, then the manufactured goods in the organized industrial zone in Iyidere can be transported to the interior cities through Ovit Tunnel more cheaply than via than the Zigana Gate in Trabzon. Furthermore, through Ovit Tunnel, the transit goods that come from Central Asian countries or Asian countries can also be sold to Turkey's interior Black Sea cities, where demand has great potential to grow. These two projects may also lead to diffusion of wealth within the DOKAP cities. Right now, Trabzon is the wealthiest city among DOKAP cities because it has the biggest port and the biggest airport in the region. However, when the Ovit Tunnel and the Highway between Ordu and Adana are completed, they will provide alternative routes to Trabzon, meaning that wealth can spread.

In addition to the mutual contributions by TRACECA and DOKAP, the link between them is also expected to have transboundary effects. The Iranian market, which is now expected

19 TRACECA Intergovernmental Commission (2013) *Action Plan 2013-2015 On the Implementation of the Strategy of the Intergovernmental Commission TRACECA for development of the international transport corridor "Europe-the Caucasus-Asia" for the period up to 2015* Available at: http://www.traceca-org.org/fileadmin/fm-dam/pdfs/til_igcmeets/10th/en/Appendix_10_Action_Plan_2013-2015_eng.pdf (Accessed: 12 February 2016), p. 3.

In addition to the mutual contributions by TRACECA and DOKAP, the link between them is also expected to have trans-boundary effects.

to open up to international trade following the lifting of sanction, will also benefit from the shorter, cheaper route through Ovit Tunnel to transport its goods. Iran's imports and exports can be handled by Mersin port via road transportation. However, the transportation to Mersin port is more expensive than to Black Sea ports via Ovit Tunnel because trucks have to refuel twice to reach Mersin, as opposed to just once to Black Sea ports via Ovit Tunnel.[20] Therefore, it seems like that Ovit Tunnel will not only be an opportunity for DOKAP, but also for TRACECA, because it will also stimulate the development of the Southern Corridor from East to West via Iran.

Challenges for DOKAP and TRACECA

We argue that timing is the biggest challenge entailed by the TRACECA and DOKAP action plan: specifically, the potential for delays. There are two issues in this regard, one of which directly relates to DOKAP, and the other to TRACECA.

The Action Plan states that construction of Organized Industrial Zones (OIZ) in Giresun and Rize were finished at the end of 2015. However, the constructions are far from being finished. Therefore, 21 firms which are expected to operate in the OIZ cannot be active at the proposed time. Moreover, construction work is in the early stages. This means that companies cannot begin operating in line with the original schedule, which poses a major challenge to the DOKAP action plan.

Timing is also a key for TRACECA. However, this time the challenge is not directly related to the projects coordinated by the Permanent Secretariat of TRACECA. Rather:

> "A key issue in preparing coordinate actions when developing a large and multimodal transport system, especially considering the recent history of conflicts in the region, is to reconcile national and regional interests. Another relevant question is how to assess their contribution to the wide scope of objectives laid down to tackle the challenges of stability, cooperation and prosperity."[21]

In these statements, two important issues are set forth by the Permanent Secretariat: (i) that the recent conflicts in the region and

20 Karasu et al, *Doğu Karadeniz Endüstriyel Gelişme Bölgesi Fizibilite Raporu.*

21 TRACECA (2014) *Core Requirements of TRACECA Projects Pipeline*. Available at: http://www.traceca-org.org/fileadmin/fm-dam/Investment_Forum/2015/downloads/en/Core_requirements_of_TRACECA_projects_pipeline_final_eng.pdf (Accessed: 26 May 2016), p. 3.

(ii) cooperation is a challenge when conflicts occur. According to this, it appears that the Secretariat believes that conflicts occur when regional and national interests cannot be reconciled, preventing cooperation. However, we argue that cooperation is also impossible if different parties do not trust on another. The completion of proposed projects according to deadlines is also a very important determinant of trust. Thus if proposed projects cannot be completed to deadline, trust between TRACECA member countries can be damaged. Therefore, timing should also be considered as a challenge, not only at national level, but also at the level of the project as a whole.

Conclusion

Major projects are generally seen to have important impacts on global/regional balances, especially economic balances. However, regional impacts are just one aspect, in our opinion. We argued in this paper that the most significant effects of major projects occur at sub-regional levels. We have analyzed TRACECA as the major project aimed at connecting Europe and Asia, and its impacts on the development of Turkey's Black Sea region. We concluded that the effects of TRACECA on Turkey's Black Sea region are manifested in the reports released by the Investment Support and Promotion Agency of Turkey and in the DOKAP Action plan. Moreover, while the developmental practices such as the new investment projects like Ovit Tunnel and the Ordu to Adana Highway suggest that TRACECA positively influenced sub-regional development expectations and offered opportunities for local development initiations including DOKAP, still timing is the biggest challenge. Moreover, coordination problems between institutions within the DOKAP Action Plan continue posing a great challenge for achieving the highest benefit from TRACECA. Accordingly, in case of coordination problems between institutions and of consolidation problems with TRACECA, Turkey will be unable to achieve its goals in regard to the development of the Black Sea region.

Trans-Eurasian Energy Transportation Networks and the Necessity of Regional Cooperation

Mikhail A. Molchanov*

The Central Asia-Transcaspian region is rich in energy resources. However, these resources cannot be fully developed without fostering international cooperation. The 'pipeline wars' between competing consortia is not conducive to profit maximization. A cooperative regional regime for oil and gas exploration, extraction, and transportation could help improve the business climate and international security. The existing regional integration organizations with a degree of sway in the area – the Eurasian Economic Union and the Shanghai Cooperation Organization – still have some way to go to prove their usefulness as true promoters of multilateralism. Regional countries that do not belong to either of the two organizations prefer to cooperate on a bilateral basis – and this is also true of member states. Regional coordination is necessary to overcome self-interested, beggar-thy-neighbor behavior by business players and states alike in order to maximize regional welfare.

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Introduction

The future of the Eurasian region is connected to the development of modern transportation infrastructure, encompassing both human movement and commodity transportation. The major development of oil and gas pipelines and fields in the region only started following the collapse of the USSR. Azerbaijan led the way, signing the most production-sharing agreements (PSAs) of all the former Soviet Union countries. The 100,000 barrels of oil per day (bbl/d) capacity Baku–Novorossiysk pipeline started functioning in 1997; the 145,000 bbl/d Baku–Supsa pipeline was opened in 1999; and the 1,000,000 bbl/d Baku–Tbilisi–Ceyhan (BTC) pipeline started pumping oil in 2005. In parallel, in 2007 Azerbaijan started exporting natural gas via the South Caucasus pipeline, also known as the Baku-Tbilisi-Erzurum (BTE) pipeline. The pipeline's capacity is billion cubic feet (300 bcf) of natural gas, potentially upgradable to more than 700 bcf.

After the 1998 merger of BP and Amoco, the newly enlarged company radically increased its activities in the Caspian Sea littoral states. By 2004, BP's share in the Azeri-Chirag-Gunashli (ACG) oil field in Azerbaijan exceeded 34 percent. By late 2010, BP owned 37.4 percent of operating interest in the ACG, while the sum total of the stakes controlled by the US-headquartered Chevron, Exxon and Hess amounted to 22 percent. As a result, by 2010, Britain and the US accounted for more than half of all foreign direct investment inflows to Azerbaijan's economy. While their combined share declined somewhat in subsequent years - to about 40 percent of the total volume of FDI inflows - the United Kingdom remains the largest source of foreign direct investment for the Azerbaijani economy. Among all of the UK-headquartered transnational corporations, BP stands out as the single most important business partner and investor in Azerbaijan's petroleum sector. Following its entrance into the local market in 1992, the company has emerged as the country's largest foreign investor.

The pipeline wars

The BP-led consortium, which includes Azerbaijan's state oil company SOCAR (25% stake) built the Baku-Tbilisi-Ceyhan (BTC) export pipeline at an estimated cost of $4 billion, 70 percent of which was covered by public money. BP is the largest shareholder (30.1%), followed by SOCAR, Chevron (8.9%), Statoil (8.7%), TPAO (6.5%), ENI (5%), Total (5%), and others. The pipeline with the planned capacity of 50 million tons of oil

per year was opened in 2005 and pumped 790,000 bbl/d on average in 2009. Although the pipeline capacity was expanded to 1.2 million barrels per day, nearly 53 million tons per year, the actual volumes stayed at or near the 2009 level. In 2014, the BTC carried about 28.5 million tons of oil, and in 2015, 28.8 million tons, 5.5 million of which came from Kazakhstan and Turkmenistan.[1] In less than ten years of exploitation, BTC has supplied almost 300 million tons of oil to world markets.[2]

The situation regarding the northern route has been much more dramatic. In 2013 the Russian government annulled the 1996 contract on transportation of Azerbaijani oil via Novorossiysk due to the chronically low transit volumes. A new agreement was reached between Russia's pipeline operator Transneft and Azerbaijan's SOCAR in February 2014. Only 1.75 million tons of Azerbaijani oil flowed through the Baku-Novorossiysk pipeline in 2013, dropping to 0.9 million tons in 2014 and then increasing to 1.2 million tons in 2015. SOCAR's 2016 promise to send at least 1.4 million tons to Novorossiysk may or may not materialize. Both Russian and Azerbaijani analysts agree that whether you take a political or economic perspective, the northern route may well be heading into oblivion.

With most of the Azerbaijani oil destined for Ceyhan, Russia had refocused its attention on Kazakhstan and the eastern shore of the Caspian. In 1992, the government of Kazakhstan entered into negotiations with the Sultanate of Oman to establish the Caspian Pipeline Consortium (CPC). The Russian government soon joined the deal, becoming the third member of the CPC. The project connected the western Kazakhstan oil field of Tengiz with the port of Novorossiysk – Russia's main Black Sea coast oil terminal.

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In 1996, half of the consortium shares were sold to producing companies, which included Rosneft and Lukoil, Russia's first joint stock oil company. Other investors were Kazakhstan's national oil company (currently, KazMunayGas), the US-based Chevron and Mobil, British Gas, Agip S.p.A. of Italy and Oryx Energy (Qatar). The pipeline was commissioned in 2001, with a capacity of 684,000 bbl/d. After a series of consolidations, 31

1 Mamedova, N. (2016) 'V 2015 godu po truboprovodu "Baku-Tbilisi-Ceyhan" prokacheno 5.55 mln ton nefti tretyih stran'. *BNews.kz*, 21 January. Available at: http://bnews.kz/ru/news/politika/vnutrennyaya_i_vneshnyaya_politika/v_2015_godu_truboprovodu_bakutbilisidzheihan_prokacheno_555_mln_tonn_nefti_tretih_stran-2016_01_21-1246991 (Accessed: 10 February 2016).

2 ABC.az (2016) 'Transportirovka azerbaidzhanskoi nefti po BTC v ianvare snizilas na 7%'. *Fineko/abc.az*, 4 February. Available at: http://abc.az/rus/news/main/93943.html (Accessed: 10 February 2016).

percent of its shares ended up with the Russian government (24 percent managed by the oil transportation monopoly Transneft and 7 percent by the CPC Company). Producing companies controlled by Russian interests hold a further 20 percent. Kazakhstan's KazMunayGas controls 19 percent of the stock. The largest international investors are Chevron, with 15 percent, and Mobil Caspian Pipeline Company, with 7.5 percent.

In 2011, CPC partners began the expansion of the pipeline capacity to 1.4 million bbl/d, or 67 million tons a year; the work will be finished in 2016.[3] The CPC ended up as an important instrument of Russia's economic and political influence in the region - even as another Caspian-Black Sea oil transportation artery under Russia's partial control, the Baku-Novorossiysk pipeline, fell into relative neglect because of disagreement between its Russian and Azerbaijani operators.

Of course, Russian Gazprom still controls the 2800 bcf capacity Central Asia – Center (CAC) natural gas pipeline, commissioned more than 40 years ago. However, after many years of operation, its capacity dropped by nearly 50 percent, to 44 billion cubic meters (bcm), or approximately 1550 bcf, by 2009. By 2012 it had fallen even further, to roughly one-tenth of its original throughput capacity.[4] As Azerbaijan steadily worked to overcome its former reliance on Russia's technological inputs and infrastructure in oil production and transportation, so did Turkmenistan, seeking to wean itself off overreliance on the Russia-controlled natural gas transportation network.

Parallel to the decline of the Russia-controlled infrastructure, the newly built oil and gas pipelines bypass Russia altogether, further undermining its previously unchallenged position as Eurasia's number one energy giant.

Parallel to the decline of the Russia-controlled infrastructure, the newly built oil and gas pipelines bypass Russia altogether, further undermining its previously unchallenged position as Eurasia's number one energy giant. The steady growth in the independent export capabilities of such countries as Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan have eroded Russia's positions as principal exporter and transit operator for Eurasian hydrocarbons exports on world market. Russia seems to be losing what industry analysts describe as the 'pipeline war" with

3 KazMunayGas (2016) 'Caspian Pipeline Consortium'. *KMG*, January 2016. Available at: http://www.kmg.kz/en/manufacturing/oil/ktk/ (Accessed: 10 February 2016).

4 Alexander's Gas & Oil Connections (2009) 'Basic information on the CAC network', *An Institute for Global Energy Research*, 2 September. Available at: http://www.gasandoil.com/news/russia/17c466d32b4875bf0b6929fe29c329ed (Accessed: 12 February 2016); Mammadov, Q. (2015) 'Turkmenistan positions itself as Eurasian natural gas power'. *Oil & Gas Journal*, 12 July. Available at: http://www.ogj.com/articles/print/volume-113/issue-12/transportation/turkmenistan-positions-itself-as-eurasian-natural-gas-power.html (Accessed: 12 February 2016).

the West and China alike – the 'war' over who gets to control the primary export routes for the Transcaspian energy resources. While the Kazakhstan-Russia CPC pipeline is still leading, having transported 42.8 million tons of oil in 2015, BTC pumped 29 million tons to Ceyhan during the same period, while the Kazakhstan-China pipeline carried 11 million tons to China. Thus, the volumes are now roughly comparable, while in the future the other post-Soviet countries may start outpacing Russia's oil and gas exports from the Central Asia-Transcaspian area.

The only country among the major oil and gas producers in the region that managed to maintain extensive cooperation ties with Russia, particularly via joint usage of major pipelines and oil refining facilities, is Kazakhstan. Its case is quite illustrative, in terms of both the benefits and challenges of such cooperation.

Is economic integration viable? The case of Kazakhstan

By 2000, Kazakhstan produced 30 million tons of oil and oil condensates per year, while Azerbaijan produced less than half this amount.[5] Although the gap between the two narrowed somewhat during 2007-2010, it increased again in 2011-2015. Kazakhstan remains by far the largest energy producer after Russia in the post-Soviet space, with a total of 1.72 million bbl/d in liquids production in 2015, according to the US Energy Information Administration. By comparison, Azerbaijan's average in 2015-2016 has been projected at 880,000 bbl/d.[6]

However, Kazakhstan's growth has been handicapped by historical limitations, namely its reliance on transportation networks and refinery facilities located in Russia.

However, Kazakhstan's growth has been handicapped by historical limitations, namely its reliance on transportation networks and refinery facilities located in Russia. For the first few years after independence, all of the new republics' energy exports were heading north and north-west, to Russia; there was simply no other way to reach the world market. Throughout the first decade of independence, the Uzen-Atyrau-Samara pipeline, with a throughput capacity of 17.5 million tons, was Kazakhstan's major export route to the world. It linked to Russia's Transneft distribution system, which delivered Kazakh oil to the Russian Black Sea port of Novorossiysk, or went through the Druzhba pipeline, across western Russia, Belarus or Ukraine. The Black

5 Shoemaker, M. W. (2013) *Russia and the Commonwealth of Independent States 2013*. Lanham, Md: Rowman & Littlefield, p. 255; Today.Az (2005) 'Estimated oil reserves in Azerbaijan comprise 1 bn tons'. June 23. Available at: http://www.today.az/news/business/19716.html (Accessed: 21 January 2016).

6 US Energy Information Administration (2016) 'Short-Term Energy Outlook'. 9 February. Available at: https://www.eia.gov/forecasts/steo/report/global_oil.cfm (Accessed: 24 January 2016).

Sea route has faced regulation and even challenges on environmental and safety grounds by Turkey. The Druzhba route has seen periodic disputes with Ukraine over transit fees. Finally, the loss of the Kazakh oil as a result of theft en route became a problem with the rise of criminal activity in the Samara oblast', where the Transneft security recorded 1322 illegal siphoning incidents over ten years.[7]

Kazakhstan was forced to seek diversification of its export routes. Because of its inherited dependency on Russia's transit network, it had to proceed decisively, yet diplomatically, without antagonizing its northern neighbor. The construction and operation of the CPC (Tengiz-Novorossiysk) pipeline is illustrative. At the same time, Kazakhstan's official strategy has long sought to overcome the one-sided reliance on a single export route. As early as 1995, speaking to the attendees of the World Economic Forum in Davos, Switzerland, Kazakhstan's President Nursultan Nazarbayev emphasized that his country, possessing huge natural resources and qualified labor force, was considering exporting energy carriers both to the West and to the East. In his 1997 Address to the People of Kazakhstan, Nazarbayev specifically stressed that "only a large number of independent export routes can prevent dependence on one neighbor and the monopolistic price dependence on one customer."[8]

And this is how the country proceeded. In 1997, an agreement with the Chinese oil major CNPC provided for the joint development of oil fields and construction of an export pipeline to China. By 2003, Phase 1 of the future Kazakhstan-China pipeline, the Kenkiyak-Atyrau segment, was completed. By the end of 2005, the Atasu-Alashankou trunk had crossed the Chinese border, becoming Kazakhstan's first independently built export pipeline. Thus, Phase 2 was completed. Phase 3 connected the Kenkiyak oil field to the Kumkol oil field in the southern part of central Kazakhstan in 2009. Connecting all three sections with the Soviet-built Kumkol-Atasu line and reversing the flow of oil in the Kenkiyak-Atyrau segment from its original east-west direction heralded the next stage of the Kazakhstan-China project.

7 Kazantseva, M. (2013) 'Samara obognala Dagestan po ob'emam hishcheniia nefti [Samara beat Dagestan in the amount of stolen oil]'. *Izvestiia*, 24 January. Available at: http://izvestia.ru/news/543568 (Accessed: 5 February 2016).

8 Nazarbayev, N. (1997) 'Poslanie Prezidenta Respubliki Kazakhstan N.A. Nazarbayeva narodu Kazakhstana'. 16 Oktyabr 1997 g. *Ofitsialnyi sait Prezidenta Respubliki Kazakhstan*. Available at: http://www.akorda.kz/ru/addresses/addresses_of_president/page_poslanie-prezidenta-respubliki-kazakhstan-n-a-nazarbaeva-narodu-kazakhstana-oktyabr-1997-g_1343986436 (Accessed: 14 February 2016).

This doubled the pipeline's original capacity to 20 million tons a year, or 400,000 bbl/d.

The loss of Kazakhstan's oil, now channeled eastwards, means that transportation networks to Europe may remain underutilized. Significantly, the starting point of the Kazakhstan-China pipeline is essentially the same as the starting point of the Atyrau-Samara pipeline, which brings up to 15 million tons of oil into the Russian Transneft network annually. Hence, Russia is now competing with China over Kazakh oil. The Chinese are not happy that the 20 million ton capacity Atyrau-Alashankou pipeline pumped less than 5 million tons of crude in 2015.[9] Russia is concerned that the lifting of sanctions against Iran will further suppress crude oil prices, causing Kazakhstan to roll back production and lower the volumes of oil channeled via the CPC pipeline. Azerbaijan has been arguing for some time that the best route for the Kazakh oil to reach international markets is across the Caspian and via Baku's Sangachal Terminal, continuing to the Black Sea or the Mediterranean coast by the Baku-Tbilisi-Ceyhan pipeline.

The North Caspian Operating Company (NCOC) consortium, which operates the Kashagan field, does not include Russian participants. Its members are Kazakhstan's KazMunayGas (16.87%), transnational oil majors Exxon Mobil (16.81%) and Royal Dutch Shell (16.81%), the Italian ENI (16.81%), the French Total (16.81%), China's CNPC (8.4%), and Japanese Inpex (7.56%). Recently, they have agreed on an export strategy that would combine sales to the European Union and China. Given the fact that oil prices hit twelve-year low in January 2016 against the sluggish demand in Europe and elsewhere, the Chinese market is increasingly attractive – to the extent that Russian producers are increasing the supply through Kazakhstan's transit networks to China, taking away from Russia's own Transneft system.

In both Kazakhstan itself and in the West voices have been raised doubting the economic rationale of its participation in the Eurasian Economic Union (EEU), where western sanctions against Russia reverberated throughout the whole common economic space. The ruble's devaluation affected intraregional trade and currencies of other EEU member states. As a result, the trade between the core countries of the EEU – Russia, Belarus and

9 Delovoi Kazakhstan (2016) 'Kazakhstan dolzhen bolee chem vdvoe narastit eksport nefti v KNR, polagayut kitajskie eksperty'. 20 January. Available at: http://dknews.kz/kazahstan-dolzhen-bolee-chem-vdvoe-narastit-e-ksport-nefti-v-knr-polagayut-kitajskie-e-ksperty/ (Accessed: 14 February 2016).

Kazakhstan – shrank by roughly one-third in the first year since the Union's inauguration.

Nonetheless, the EEU's prospects are not necessarily bleak. In fact, Kazakhstan's economists noted certain improvements in the structure of trade, e.g. growth in the machine-building share of exports.[10] The World Economic Situation and Prospects 2016 report, published by the UN Department of Economic and Social Affairs (UN/DESA), notes that the establishment of the Eurasian Economic Union "opens new possibilities for increased trade and investment in the region, although many aspects of the regional integration still have to be negotiated."[11]

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The very model of Eurasian regional economic integration also has to be negotiated. At the moment, it appears too politicized, due to Russia's precarious situation in international politics. However, once the situation in Ukraine normalizes and western sanctions against Russia are removed, the EEU is poised to take off. As US Principal Deputy Assistant Secretary of State for South and Central Asian Affairs Richard E. Hoagland has noted, "the Eurasian Economic Union should be trade-liberalizing rather than trade-restricting, should not become overly politicized, and should not impose conditions or restrictions on its members' ties with other countries."[12]

Russia's trade war with the West and the worsening of economic and trade relations with Turkey have a serious impact on Kazakhstan, creating political and economic dilemmas that Astana would rather not face. One way to ensure that the EEU will not evolve along the path of self-imposed isolationism is to combine the membership in its structures with participation in multilateral trade regimes. From this point of view, Kazakhstan's accession to the WTO is a step in the right direction. Parallel to that, inter-regional, transcontinental linkages should be developed and strengthened. EEU's ties to the Shanghai Cooperation Organization, Economic Cooperation Organization and, of course, the European Union, will help cast aside misconceptions as to the

10 Trotsenko, P. (2016) 'God soyuza: pervye itogi i perspektivy EAES'. *Vlast'*, 6 January Available at: https://vlast.kz/jekonomika/15071-god-souza-pervye-itogi-i-perspektivy-eaes.html (Accessed: 14 February 2016).

11 United Nations (2016) *World Economic Situation and Prospects 2016*. New York: United Nations, p. 127. Available at: http://www.un.org/en/development/desa/policy/wesp/ (Accessed: 14 February 2016).

12 Hoagland, R.E. (2015) 'Central Asia: What's Next?', *US Department of State*, 30 March. Available at: http://www.state.gov/p/sca/rls/rmks/2015/240014.htm (Accessed: 15 February 2016).

organization's purpose and future. A cooperative trade regime making full use of the region's central location at the intersection of trade routes from the east to the west and from the north to the south will boost trade and maximize the participants' welfare.

Toward a cooperative network regime

There are two ways to deal with competition among Eurasian energy exporters: positive and negative. The first one entails actions through which "a seller tries to make his product cheaper, bigger, better, or more appealing to the buyer." The negative response to competition includes "efforts to reduce the saleability or availability of competitors' products."[13] The Western, and more specifically, Anglo-American efforts to undermine Russia's position in the hydrocarbons export markets under the pretext of "diversification of supply" is the prime example of this negative tactic, insofar as these efforts attempt to reduce the availability of Russian oil and gas in the European market in particular.

The positive approach to competition would require energy producers and energy infrastructure operators in the Central Asia-Transcaspian area to work together to enable joint usage of the existing transportation networks, thus replacing the 'pipeline wars' with regional economic cooperation and integration.

As I argue here, the region's oil and gas reserves and the transportation networks can be seen as either a locus of conflict or a common resource shared by all the states of the region. For the sake of both consumers and exporters, it is important to construct a multilateral cooperative regime in the area. Such a regime, implemented in the form of a socioeconomic network, would enable the region to benefit from the economies of scale, as well as generating positive spillover effects for other sectors.[14]

Meanwhile, a cooperative regime in the energy sector of the Central Asia-Caspian region could promote knowledge sharing and technological transfers between the national oil and gas industries of participating countries, as well as harmonization with international standards via engagement with foreign investors.

Until a cooperative international regime for the development of the region's energy resources is created, self-serving interests of the individual actors – national governments and transnational corporations – will stall collective welfare maximization. Bilateralism will undermine multilateralism. Meanwhile, a cooperative regime in the energy sector of the Central Asia-Caspian region

13 Machlup, F. (1952) *The economics of sellers' competition: Model analysis of sellers' conduct*. Baltimore: The Johns Hopkins Press, p. 83.

14 Molchanov, M.A., Yevdokimov, Y. (2004) 'Regime building as a prime mover of technological progress: The energy sector in the Central Asia-Caspian region'. *Perspectives on Global Development and Technology 3*(4), pp. 417-435.

could promote knowledge sharing and technological transfers between the national oil and gas industries of participating countries, as well as harmonization with international standards via engagement with foreign investors. Such a regime would reduce transaction costs and initiate economies of scale in the energy sector, while helping to strengthen security and sustainability in the area. While stopping short of cartelization, it could also improve profit margins of the national energy champions and transnational oil and gas companies currently engaged in a winner-takes-all competition for the market share.

Regional coordination is necessary to transcend the inbound, self-interested behavior of individual business players and governments in order to achieve welfare maximization on a transnational, regional level. It is widely acknowledged that cooperation brings greater collective benefits than any form of strategic competition that seeks to maximize benefits of one player at the expense of the others. Competition policy experts argue that "a change from inbound-, national-welfare-focused competition policies to such pursuing supranational and suprajurisdictional welfare goals, as well as cooperation on concrete, specified cases, is necessary from an economic perspective. However, both topics are hardly compatible with the contemporary governance principles…"[15]

In the absence of regional coordination, market development proceeds under conditions of anarchy. Large-scale infrastructure projects, such as the construction of transcontinental oil and gas pipelines, require massive investments of money, labor, technology, and knowledge, and can only be successful with at least some cross-border, international cooperation. Any project of such scale and type should be based on a comprehensive preliminary assessment, scrupulous planning, and purposeful self-organization among producer groups to limit potential market anarchy and reduce any attendant risks.[16]

One way to reduce the uncertainty is through the harmonization, or approximation of policies; creating a more or less uniform international policy regime under the aegis of an authorized international agency. The WTO regime is one example of this model.

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15 Budzinski, O. (2015) 'International antitrust institutions', in Blair R.D. and Sokol D.D. (eds.), *The Oxford handbook of international antitrust economics, Volume 1* (pp. 119-146). New York: Oxford University Press, p. 141.

16 Jessop, B. (2015) 'The course, contradictions, and consequences of extending competition as a mode of (meta-) governance: towards a sociology of competition and its limits'. *Distinktion: Scandinavian Journal of Social Theory, 16*(2), pp. 167-185.

Another approach is policy coordination, or the establishment of a functioning regime of systematic multilateral cooperation based on mutually agreed-upon rules of behavior "around which expectations converge."[17] Such rules must be voluntarily upheld by all participants, and without any one party acting as the enforcer. This is a path of soft regulation by means of joint elaboration of standards, their voluntary acceptance and implementation, negotiations of individually tailored modifications of policy and/or partial exceptions as necessary, and implementation agreements based on the principle of fair treatment of all participants.

Challenges of cooperation

One specific economic integration instrument at the disposal of most of the Central Asia-Transcaspian countries is the abundance of natural resources, oil and gas in particular. Russia is the world's largest exporter of natural gas and the second-largest exporter of oil. Kazakhstan ranks among the world's top 20 largest petroleum and other liquids producers, while Azerbaijan is in the top 25. Kazakhstan is also the world's largest producer of uranium. Turkmenistan is number 33 in the world ranking of petroleum producers, according to the US Energy Information Administration. It is also the sixth largest natural gas reserve holder in the world, according to the *Oil and Gas Journal*, and was among the top 15 dry natural gas producers in 2014.

Of course, countries of the Eurasian hinterland are vastly different in terms of size, economic potential and geographic location. For most Central Asian states today, China is more important than Russia. The transportation potential of these countries also varies greatly. Belarus, Kyrgyzstan and Tajikistan are landlocked; Azerbaijan, Kazakhstan and Turkmenistan have direct access only to the inland Caspian Sea; India, Iran, Pakistan and Turkey are all maritime powers, and Russia has access to three oceans. Rail density, according to World Bank data, varies from 2.2 km of rail line per 1,000 square kilometres of territory in Kyrgyzstan to 4.4 in Tajikistan, 5.2 in Russia, 5.4 in Kazakhstan, 9.85 in Uzbekistan, 22.7 in Georgia, 25 in Azerbaijan and nearly 27 in Belarus.

In short, some countries stand to benefit from regional and trans-regional cooperation more than the others. Azerbaijan in particular is very well positioned to develop as a major transportation hub for both energy and

Azerbaijan in particular is very well positioned to develop as a major transportation hub for both energy and cargo traffic.

17 Young, O.R. (1980) 'International regimes: problems of concept formation'. *World Politics, 32*(3), pp. 331-356.

cargo traffic. The Baku-Tbilisi-Kars (BTK) railway project, due to open for rail cargo transport in 2017, will become the shortest route connecting Asia to Europe. Adding to the existing Trans-Caspian transport route, the BTK serves China's ambitions of resurrecting the ancient Silk Road under Beijing's current One Belt, One Road initiative. The $40 billion Silk Road Fund that China has established to finance infrastructure projects in Central Asia will further improve the east-west transportation links.

Azerbaijan is also a key member of the International North–South Transport Corridor (INSTC), which connects northern Europe to India via Russia and Iran. Other INSTC members include Belarus, Kazakhstan, Kyrgyzstan, Oman, Syria, Tajikistan, Turkey, and Ukraine. Bulgaria has observer status. The corridor is expected to help connect India to Russia within 16 to 21 days at competitive freight rates. At the January 2016 meeting in Baku four countries – Azerbaijan, Georgia, Iran and Ukraine – signed a memorandum of understanding on implementing the INSTC project along the third, western route via Georgian Black Sea ports of Batumi and Poti, in addition to the already tested Caspian shore routes via Russia.

Energy production, transportation and trade have emerged as one industrial cluster that can help bring all of these countries together. Energy cooperation could become the backbone of regional integration initiatives, extending well beyond the energy sector.

Energy production, transportation and trade have emerged as one industrial cluster that can help bring all of these countries together. Energy cooperation could become the backbone of regional integration initiatives, extending well beyond the energy sector. The benefits that such multilateral cooperation could bring to all the countries of the region, including energy producers and energy transit countries, are obvious.

And yet, most energy cooperation initiatives so far have been conceived and implemented as bilateral undertakings. The Customs Union bodies had little say over the scope and direction of energy deals between Kazakhstan and China, or Russia and the EU countries. The Eurasian Economic Community was not consulted in the bilateral negotiations between the Russian energy companies and their Central Asian counterparts. The Eurasian Economic Union still needs to demonstrate its independence from the overwhelming Russian influence and its ability to act as a truly multilateral regional entity, working to support the interests of all its members.

Another regional organization with huge economic potential is the Shanghai Cooperation Organization, which unites China and Russia with the Central Asian states of Kazakhstan, Kyrgyzstan,

Tajikistan and Uzbekistan. Afghanistan, Belarus, India, Iran, Mongolia, and Pakistan have observer status, and the process of admitting India and Pakistan as full members started in July 2015. Armenia, Azerbaijan, Cambodia, Nepal, Sri Lanka and Turkey are dialogue partners. Even the current member states, according to expert estimates, hold more than 50 percent of the world deposits of natural gas and nearly one-quarter of the world's oil. Moreover, these states also control 35 percent of the world's coal deposits and close to half of all the uranium found on the planet.[18] Some of the lengthiest and most important oil and gas pipelines in the world traverse the territories of these countries: notably the CPC, the Kazakhstan-China, the East Siberia – Pacific Ocean (ESPO) oil pipelines and the Central Asia–China gas pipeline.

The idea of the SCO Energy Club was proposed by Moscow back in 2006. However, the proposal has, to date, remained unrealized. One reason for this is the general preference that regional players have shown for bilateralism over multilateralism in the energy sector. The fact that the energy sector in some of the post-Soviet countries is, according to some estimates, one of the most non-transparent industrial sectors within the region is an additional impediment. Finally, the national priorities are divergent. Even though all of the SCO member states subscribe to the notion of energy security, security of energy suppliers (Russia, Kazakhstan, Uzbekistan) is different to the security of energy consumers (China, Tajikistan, Kyrgyzstan). Energy exporters implicitly compete with one another, and so do energy importers. Diversification of energy transportation routes, presumably a good thing for all, is not embraced by dominant transit countries such as Russia or Kazakhstan with the same degree of enthusiasm as by their partners.

As a major energy importer, China is interested in promoting regional energy cooperation in Eurasia. Chinese bilateral ties with energy-producing SCO member states have been strengthened through more active promotion of multilateralism following the formal institutionalization of the SCO Energy Club in 2013. If successful, the Energy Club could pave the way for the creation of a common energy space for the participant countries, which would require an agreement on price liberalization, standardization of energy transportation tariffs, development of a unified approach to taxation, and coordination of supply in order to avoid unnecessary competition between suppliers. Essentially, if the

18 Bushuyev, V., and Pervukhin, V. (2012) 'Energeticheskii klub ShOS: kakim emu byt?' *The SCO Central Internet Portal*. Available at: http://infoshos.ru/ru/?idn=9616 (Accessed: 16 February 2016).

Energy Club is to become more than a platform for Russia-China dialogue with few other countries watching, a multilateral regulatory body may be required.

At present, no such body exists, and the Energy Club itself remains more or less an empty shell, a concept waiting for practical implementation. Among the SCO member states, Kyrgyzstan and Uzbekistan have not yet signed a memorandum on its creation. While Turkey is participating, neither Azerbaijan nor Turkmenistan has shown much interest to date. It is illustrative that two year after its establishment, Vladimir Putin had to use the SCO 2015 Ufa summit platform to plead with participants to develop 'concrete tasks' for the Energy Club agenda. Even more telling is that a recent decision to start the construction of a major, 33 bcm a year Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline was reached without any involvement of the SCO structures. Similarly, the construction of the 16 bcm Trans-Anatolian natural gas pipeline (TANAP) and the work on the South Caucasus Pipeline Expansion (SCPX) project started following an agreement between Azerbaijan and Turkey. Once again, third power preferences did not played a major part in the outcome of the bilateral negotiations.

Conclusion

Trans-Eurasian energy transportation routes connecting the Central Asia-Transcaspian region, the member states of the Eurasian Economic Union, and the broader Shanghai Cooperation Organization community could become the region-building instrument that unites wider Eurasia on primarily economic grounds. However, existing geopolitical divisions and distrust between the West and the majority of 'non-Western' Eurasia prevent this unification. Without a cooperative energy production and transportation regime, strategic competition (beggar-thy-neighbor) policies will prevail. Moreover, economic competition may spill over into other areas with negative effects, potentially affecting areas such as international security. This should be prevented.

Although the political-economic interests of the Eurasian countries essentially coincide in regard to the improvement of their transportation options, concrete ways to implement particular projects may differ and even operate at cross purposes. Rather than being complementary, these countries' economic policies are frequently at odds. While Russia would like to consolidate oil

and gas transportation infrastructure on a regional basis, others are much more interested in diversifying export-import routes. China and India are competing for the Caspian oil and gas supplies, while Iran is competing with other petroleum-exporting nations as a major supplier. The cooperative development of the SCO Energy Club could help resolve some of these issues, yet its multilateral potential remains underutilized. The same is true of the EEU. The need to consolidate the region without reducing national welfare of any single state requires the creation of a cooperative energy transportation regime on a truly multilateral basis.

The Armenia-Azerbaijan Nagorno-Karabakh Conflict as the Key Threat to Peace and Cooperation in the South Caucasus

Farhad Mammadov*

Among the conflicts in the South Caucasus, the Armenia-Azerbaijan Nagorno-Karabakh conflict is undoubtedly the most complex, as well as the most dangerous conflict. It holds the most serious security and humanitarian implications not only for the South Caucasus, but also for the whole Eurasian region. The 23-year-old peace process, led by the OSCE Minsk Group, has so far failed to deliver peace and stability to the region. Impeded by problems such as lack of commitment, focus on conflict management instead of conflict resolutions, intergovernmental nature and rotating chairmanship of the organization, the OSCE is failing to address the resurgence of violence in this simmering conflict. Taking advantage of the shortcoming of OSCE Minsk Group's peace efforts, Armenia has refused to make any compromises for the sake of peace. During the recent negotiations in Vienna and St. Petersburg, the presidents of Azerbaijan and Armenia agreed on the phased resolution of the conflict, creating hope that the deadlock would be broken and the peace process would be reactivated. However, the danger remains that if the peace process fails again, the resumption of violence will become inevitable and renewed war will have serious regional and global repercussions.

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Introduction

The conflict between Armenia and Azerbaijan over Azerbaijan's Nagorno-Karabakh region is the longest running and the bloodiest conflict in the post-Soviet space. The conflict is widely accepted as the most significant obstacle to peace, cooperation and stability in the Caucasus region as a whole. The conflict has introduced an element of fragility to the stability of the region as well as that of the parties directly involved, through waves of refugees and humanitarian and social crises. Despite the 1994 ceasefire agreement, hostilities have continued, taking the lives of dozens of soldiers each year. The OSCE Minsk Group, which is tasked with conflict resolution, has so far failed to deliver peace to the region. The latest escalation of hostilities on the line of contact between the Armenian and Azerbaijani armed forces at the beginning of April 2016 demonstrated once again the danger of this protracted conflict and the continuation of the 'no peace, no war' situation. The escalation also brought renewed dynamism to international mediation efforts, underlining the importance of genuine conflict resolution efforts in order to prevent the resumption of full-scale war. The presidents of Azerbaijan and Armenia have recently met in Vienna and Moscow, and the ceasefire has largely been adhered on the line of contact. However, any failure in the renewed peace negotiations risks causing a new round of escalations. Such a failure might also leave resort to military power as the only viable option for Azerbaijan in regard to the restoration of its territorial integrity.

The conflict is widely accepted as the most significant obstacle to peace, cooperation and stability in the Caucasus region as a whole.

What are the reasons for the apparent failure of the Nagorno-Karabakh peace process, and what are the implications for regional peace, stability and cooperation? The article argues that negligence on the part of the international community, the ineffectiveness of OSCE Minsk Group, and finally the uncompromising position of Armenia has led to the failure of the peace process. This situation leaves military intervention as the sole means for Azerbaijan to restore its territorial integrity, the violation of which has been affirmed by numerous international documents, including UN Security Council resolutions. In a protracted conflict such as this one, even in the absence of planned a military operation, provocations and unintended escalations along the heavily militarized line of contact can easily lead to the renewal of full-scale warfare. This entails serious security implications for all the regional countries as well as global powers.

The article is divided into three chapters. The first chapter examines the Armenia-Azerbaijan Nagorno-Karabakh conflict as the key obstacle to regional stability and cooperation in the South Caucasus. The second chapter illuminates why the conflict has remained unresolved and examines the rising threat of renewed warfare in the context of failed peace efforts. The third and final chapter focuses on the regional and global security implications entailed by the protraction of the conflict, in order to highlight the importance of increasing international efforts towards sustainable conflict resolution.

Impact of the Nagorno-Karabakh conflict on regional cooperation and development in the South Caucasus

After the dissolution of the Soviet Union all three countries of the South Caucasus region became involved in inter- and intra-state conflicts, almost all of which remain unresolved. These conflicts blocked progress towards inclusive peace and cooperation, preventing the emergence of a cooperative regional environment or a security community in the South Caucasus. This context has also paved the way for foreign influence in region.[1]

Among the conflicts in the South Caucasus, the Armenia-Azerbaijan Nagorno-Karabakh conflict is undoubtedly the most complex, as well as the most dangerous conflict. It holds the most serious security and humanitarian implications not only for the South Caucasus, but also for the whole Eurasian region. The conflict started at the end of the 1980s, when Armenia, seizing the opportunity created by the collapse of the Soviet Union, orchestrated and sponsored violent separatism in the Nagorno-Karabakh Autonomous Oblast of Azerbaijan (NKAO), with the aim of annexing the region. The conflict gradually evolved into a full-scale war between Armenia and Azerbaijan as they both gained independence. Despite the adoption of four UN Security Council resolutions (822, 853, 874, and 884) demanding the unconditional and immediate withdrawal of troops from Nagorno-Karabakh and the other occupied regions of Azerbaijan, Armenia extended the theater of military action well beyond the borders of the former NKAO. Along with occupying Nagorno-Karabakh and its adjacent regions and expelling the indigenous Azerbaijani population (around 700,000 people) to realize the idea of 'miatsum' – the annexation of Nagorno-Karabakh – Yerevan also implemented the ethnic cleansing of 250,000 Azerbaijanis

1 Garibov, A (December 2015) 'Alignment and Alliance Policies in the South Caucasus Regional Security Complex', *SAM Comments*, Baku, Volume XV, p.5

The war left the NKAO and seven other regions – roughly 20 percent of Azerbaijan's internationally recognized territory – under Armenian occupation. It also resulted in over 30,000 military and civilian deaths and made about a million Azerbaijanis IDPs and refugees.

from the Republic of Armenia, turning the country into a mono-ethnic state.[2] The active phase of the conflict ended in 1994 with the signing of a ceasefire agreement in Bishkek. The war left the NKAO and seven other regions – roughly 20 percent of Azerbaijan's internationally recognized territory – under Armenian occupation. It also resulted in over 30,000 military and civilian deaths and made about a million Azerbaijanis IDPs and refugees.[3]

Currently, the Nagorno-Karabakh conflict, along with being the most serious threat to peace, is also the main obstacle to inclusive economic and political cooperation in the region. In contrast to the other separatist conflicts in the region, this is a clearly an interstate war, where one regional country has occupied a significant portion of another's territory, with tremendous investments by both sides in terms of manpower and arms to the war efforts. The conflict has resulted in the securitization of almost all aspects of bilateral relations; consequently, anything that is seen as posing an advantage to Azerbaijan is perceived detrimental to Armenia, and vice versa, leading to a zero-sum bilateral relationship.[4] In fact, the line of contact between the armed forces of Armenia and Azerbaijan around Nagorno-Karabakh has become the most militarized area in the whole post-Soviet space.

Azerbaijan has stated its preference for resolving the conflict through diplomacy and negotiations, but the continued failure of peace efforts threatens to leave military means as the only option for restoring territorial integrity.

As noted above, the Nagorno-Karabakh conflict represents Azerbaijan's key security concern. The conflict has dominated foreign policy and national security discourse in Baku ever since independence. The restoration of territorial integrity is repeatedly declared as the top national priority by the leadership.[5] Azerbaijan has stated its preference for resolving the conflict through diplomacy and negotiations, but the continued failure of peace efforts threatens to leave military means as the only option for restoring territorial integrity.

At the result of the conflict, Armenia has been excluded from the

2 Ministry of Foreign Affairs of Azerbaijan (2013) Refugees and IDPs, available at: http://www.mfa.gov.az/en/content/117 (accessed: 10.05.2016)

3 Azad Garibov (2015) 'OSCE and Conflict Resolution in the Post-Soviet Area: The Case of the Armenia-Azerbaijan Nagorno-Karabakh Conflict', *Caucasus International*, Istanbul, Vol. 5, No: 2, p: 76, Available at: http://cijournal.az/post/osce-and-conflict-resolution-in-the-post-soviet-area-the-case-of- the-armenia-azerbaijan-nagorno-karabakh-conflict-azad-garibov-98 (accessed 10 May 2015)

4 Svante Cornel (2001), *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus,* RoutledgeCurzon, p. 385

5 Garibov, A (December 2015) 'Alignment and Alliance Policies in the South Caucasus Regional Security Complex', *SAM Comments*, Baku, Volume XV, p.19

regional infrastructure projects initiated by Azerbaijan, such as the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, the Baku-Tbilisi-Erzurum gas pipeline, and the Baku-Tbilisi-Kars railway – all of which have transformed the economic landscape of the region. In the absence of this conflict, Armenia would offer the most economic route for these large-scale oil, gas and rail transportation projects.[6] Azerbaijan, and Turkey have also imposed trade embargoes, closing their borders with Armenia until the resolution of the conflict, or at least until there is a significant progress in the peace process.

Azerbaijan also cooperates with other regional countries via trilateral partnerships, all of which involve Armenia's neighbors. Currently, these include Azerbaijan-Georgia-Turkey, Azerbaijan-Iran-Turkey, and Azerbaijan-Turkmenistan-Turkey frameworks. Almost all of the large-scale region-wide economic projects are being realized through these frameworks, excluding Armenia due to its aggression against Azerbaijan. While Georgia and Iran have kept their borders with Armenia open for trade and transit, these two countries' economic lifelines also run in the East-West direction due to the attractiveness and reliability of partnerships with Azerbaijan and Turkey. Consequently, Armenia is excluded from the major economic projects and processes in the region.

Similar to Azerbaijan, the conflict has also dominated and shaped Armenian foreign and security policy since the collapse of the USSR. In its quest for military and economic support, Armenia joined the Moscow-led Commonwealth of Independent States (CIS) and its military wing, the Collective Security Treaty Organization (CSTO) in 1992. Yerevan's reliance on Russia and the CSTO for its security has only increased since 1994. Armenia's isolation due to its occupation of Azerbaijani territories has intensified its dependence on Moscow. Currently, Armenian borders with Iran and Turkey are patrolled by Russian troops, and Russia has one of its largest military bases abroad in the Armenian city of Gyumri. Russia is Armenia's sole provider of natural gas, and controls the country's railway network, electricity distribution and production facilities, as well as many other strategic sectors of the national economy.[7] When after lengthy negotiations with the EU on the signature of an Association Agreement, Armenia unexpectedly declared its intention to join the Russia-led Eur-

6 Ibid, p.22

7 Vladimir Socor (10 December 2013) 'Armenia's Economic Dependence on Russia Insurmountable by the European Union', *Eurasia Daily Monitor Volume*: 10 Issue: 221, available at: http://www.jamestown.org/regions/russia/single/?tx_ttnews%5Btt_news%5D=41740&tx_ttnews%5BbackPid%5D=48&cHash=408a5840473a1f08b45f64b8178116ba#.VrgpN_nhDIV (accessed 30 December 2015)

asian Economic Union (EEU) in 2013, the government sought to placate citizens by claiming that the move would reinforce national security.[8] "When you are part of one system of military security it is impossible and ineffective to isolate yourself from a corresponding economic space," declared President Sargisyan in a news conference, attempting to justify his government's U-turn.[9]

The war that Armenia started and the consequently resulted in its isolation have turned the country into one of the poorest states in the CIS. It is highly dependent on foreign aid and the remittances sent home by labor migrants working abroad, mainly in Russia.

The war that Armenia started and the consequently resulted in its isolation have turned the country into one of the poorest states in the CIS. It is highly dependent on foreign aid and the remittances sent home by labor migrants working abroad, mainly in Russia. Remittances account for 21 percent Armenia's GDP, $2 billion out of a total $10 billion.[10] According to World Bank data, the same figure is 12 percent in Georgia, and just 2.9 percent in Azerbaijan.

The conflict and consequent economic decline also resulted in mass emigration and depopulation of Armenia. Recently, annual migration has reached about 60,000 people,[11] and during 2008-2015, according to official statistics, the country lost 330,000 people - more than 10% of total population.[12] Although Armenian government attempts to conceal the data on the population decline, reduced birth rates clearly reveal this trend. While Armenia had 87,000 births in 1988, only 41,000 babies were born in 2013.[13] The country has experienced negative population growth ever since it initiated the Nagorno-Karabakh war, and consequently the population has fallen from 3.5 million in 1990 to 3 million in 2016.[14] For comparison, Azerbaijan had a population of 7.2 million in 1990, which by mid-2016 had increased to 9.8 million.[15]

8 Marianna Grigoryan (October 21, 2015) 'Armenia: Pondering the Limits of Russia's Security Commitments', *Eurasianet*, available at: http://www.eurasianet.org/node/75641 (accessed: 11.05.2016)

9 RFERL (September 03, 2013) 'Armenia To Join Russian-Led Customs Union', available at: http://www.rferl.org/content/armenia-customs-union/25094560.html (accessed: 11.05.2016)

10 Mushvig Mehdiyev (April 2015) 'Remittances "enslave" Armenia's economy', *Azernews.az*, available at: http://www.azernews.az/aggression/79835.html (accessed: 12.05.2016)

11 Millli.az (June 19, 2012) 'Fərhad Məmmədov: "Azərbaycan postkonflikt dövründə də regionun lider dövləti olaraq qalacaq"', available at: http://news.milli.az/politics/121712.html(accessed: 14.05.2016)

12 Mushvig Mehdiyev (April 3 2015) 'Armenia faces dangerous migration problem, says economist', *Azernews*, available at: http://www.azernews.az/aggression/79927.html (accessed: 14.05.2016)

13 Ramiz Mehtiyev (2014) Nagorno-Karabakh: History read through sources, Moscow: Akvarius Publishing, p. 15

14 Worldpopulationreview, country profile', available at: http://worldpopulationreview.com/countries/armenia-population/ (accessed: 14.06.2016)

15 Worldpopulationreview, 'Azerbaijan country profile', available at: http://worldpopulationreview.

For its part, Georgia has been put in a difficult position by the Armenian-Azerbaijani zero-sum relationship. While Georgia has an interest in maintaining good relations with both states, it has for a number of reasons developed better relations with Azerbaijan than Armenia. First of all, Baku is without question the economic hub of the Caucasus, and arguably the economic center of the entire southern rim of post-Soviet states.[16] By virtue of its oil resources and its location on the shore of the Caspian, Azerbaijan holds a central position in the various transport corridor arrangements, as well as acts as one of the largest investors in Georgia. Georgia, on the other hand, is one of the two options for routes linking Azerbaijan to Turkey and with the West; the other is Armenia. Due to the impossibility of any Armenian-Azerbaijani cooperation, Georgia's role in oil and gas transportation, TRACECA, and other projects has been dramatically expanded. In this sense, Georgia has a vested interest in Armenia's economic isolation.[17]

For its part, Georgia has been put in a difficult position by the Armenian-Azerbaijani zero-sum relationship. While Georgia has an interest in maintaining good relations with both states, it has for a number of reasons developed better relations with Azerbaijan than Armenia.

Though Georgia supports the principle of territorial integrity in conflict resolution (due to its own conflicts too) which is also championed by Azerbaijan, Tbilisi has officially maintained a neutral position with regard to the Nagorno-Karabakh conflict, since partisanship would risk serious challenges. Tbilisi fears Armenian irredentism in its southern Javakheti province, which is home to a significant Armenian minority, some of whom hold Russian passports. Thus, aware of Yerevan's strong ties with and influence over Javakheti 'nationalists', Tbilisi has to maneuver and neutralize possible backlash from Armenia in case of support for Azerbaijan.

Reasons of protraction of the conflict and rising possibility of renewed warfare while peace efforts fail

The Organization for Security and Co-operation in Europe (OSCE) Minsk Group was created in 1992 to deal with the peaceful resolution of the Armenia-Azerbaijan Nagorno-Karabakh conflict. Initially, OSCE aimed to convene a conference to resolve the conflict in Belarusian capital Minsk (hence its name). That conference was never realized, but the Minsk Group de-

com/countries/azerbaijan-population/ (accessed: 14.06.2016)

16 Svante Cornell (1999) 'Geopolitics and strategic alignments in the Caucasus and Central Asia', Perception, June - August , Volume IV – Number 2, available at: http://sam.gov.tr/wp-content/uploads/2012/01/SVANTE-E.-CORNELL.pdf (accessed 11 January 2015)

17 Svante Cornel (2001), *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus,* RoutledgeCurzon, p. 388

veloped certain institutional capacities, and the co-chairmanship structure (with Russia, France, and the United States co-chairing since 1997) was introduced in 1994 in order to mediate between Armenia and Azerbaijan and negotiate the peaceful settlement of the conflict.

However, despite more than two decades of negotiations, OSCE mediation has failed to deliver peace to the region. Similar to other conflicts in the post-Soviet area where the OSCE has also deployed peacemaking and peacekeeping missions, the Armenian-Azerbaijani peace process appears to be a failure.[18] Armenia's maximalist and uncompromising position – which rejects any solution short of independence for Nagorno-Karabakh – is the key reason for the failure of the peace process. Having escaped significant damage as a result of the continued conflict, Armenia has demonstrated a rigid position, aimed at prolonging the conflict resolution process and preserving the status quo. Yerevan favors the status quo in hopes of gradually achieving international recognition of the self-proclaimed 'Nagorno-Karabakh Republic.'

While Armenia's uncompromising position is the single most important obstacle to the peaceful resolution of the conflict, it must be emphasized that the passive and ineffective approach by the international community, especially the OSCE, has encouraged Yerevan to do so.

While Armenia's uncompromising position is the single most important obstacle to the peaceful resolution of the conflict, it must be emphasized that the passive and ineffective approach by the international community, especially the OSCE, has encouraged Yerevan to do so. This position prevents the mobilization of international efforts and the galvanization of the peace process. As Novruz Mammadov, Deputy Head of Presidential Administration of Azerbaijan pointed out, the OSCE Minsk group monopolized the resolution process of the conflict[19], but lacks the commitment needed to push the process forward.

Besides its lack of commitment and low level of involvement, OSCE Minsk Group is engaged in conflict management in Nagorno-Karabakh rather than genuine conflict resolution. Instead of calling for the resolution of the conflict and pushing forward on the peace process, they call upon both sides to obey the ceasefire regime and make statements about the unacceptability of resorting to military power. As the escalation of hostilities in early

18 Azad Garibov (May 11, 2016) 'Why the OSCE Keeps Failing to Make Peace in Nagorno-Karabakh', The National Interest,, available at: http://nationalinterest.org/blog/the-buzz/why-the-osce-keeps-failing-make-peace-nagorno-karabakh-16161?page=2 (accessed: 17.05.2016)

19 NewTimes (April 29 2015) 'Top official: Pressure constantly exerted on Azerbaijan', available at: http://newtimes.az/en/processestrends/3557 (accessed 15.05.2016)

April (2-5 April 2016) clearly demonstrated, the preservation of status quo is no longer sustainable, and working in this direction is futile. The April escalation altered the long-held myth about the 'frozen' nature of the conflict. There is now a consensus that the conflict is not frozen and there is no practical mechanism for responding to possible outbreaks of armed conflict.[20] Tens of thousands of fully armed troops are separated by just a few hundred meters of 'no man's land' and there are only few unarmed OSCE monitors to monitor the line of contact. Thus the intended or unintended escalations can never be prevented and they could lead to full-blown war in the South Caucasus region.[21] Both armies have invested massive amounts of resources in rearmament over the last 20 years. At any moment a single provocation could inflame tensions and result in severe consequences. Therefore, increased commitment and a change of focus from conflict management and the preservation of the status quo to genuine conflict resolution effort is the first task for the OSCE. This is crucial for achieving sustainable peace and stability in the region.

Besides its lack of commitment and low level of involvement, OSCE Minsk Group is engaged in conflict management in Nagorno-Karabakh rather than genuine conflict resolution.

Furthermore, if initially the OSCE's involvement as a mediator was intended to represent impartial international involvement, today the OSCE Minsk Group's approach is a troika-based approach rather than a genuine and inclusive OSCE approach. The OSCE seems to have little influence over the Minsk Group; three national chairs are in a full control of the process. On top of that, the three members of the 'troika' have their own divergent positions on the peace process, which further hampers the prospect of successful negotiations. The failure of the talks to achieve tangible results over so long period has inevitably led to suspicions in the Azerbaijani public that the three co-chairs of the Minsk Group – Russia, France and the US, all of whose populations contain large numbers of the Armenian Diaspora – are either satisfied with the status quo or their governments have concluded that it is better to pursue their own domestic and foreign interests in the conflict resolution process rather

Furthermore, if initially the OSCE's involvement as a mediator was intended to represent impartial international involvement, today the OSCE Minsk Group's approach is a troika-based approach rather than a genuine and inclusive OSCE approach.

20 Farhad Mammadov (April 19 2016) 'К вопросу о сценариях урегулирования армяно-азербайджанского нагорно-карабахского конфликта', Rossiya *v Qlobalnoy Politike*, available at: http://www.globalaffairs.ru/global-processes/K-voprosu-o-stcenariyakh-uregulirovaniya-armyano-azerbaidzhanskogo-nagorno-karabakhskogo-konflikta-1 (accessed: 16.05.2016)

21 Valdaiclub (April 19 2016) 'Как удалось достичь договорённости о прекращении огня в нагорном карабахе?', available at: http://ru.valdaiclub.com/a/highlights/prekrashchenie-ognya-v-nk/ (accessed: 17.05.2016)

than providing impartial mediation.[22]

Above all, it should be noted that the OSCE is an intergovernmental organization with no supranational powers, a key obstacle to hammering out an effective policy.

Along with the weaknesses and shortcoming peculiar to the OSCE Minsk Group, there are also weaknesses that relate directly to the OSCE more broadly. Above all, it should be noted that the OSCE is an intergovernmental organization with no supranational powers, a key obstacle to hammering out an effective policy. The same can be said about OSCE's efforts on the Nagorno-Karabakh conflict. This intergovernmentalism means that any OSCE activity in any member country, and any mission deployed on behalf of the organization, requires unanimous approval from all member states, and particularly the country to which the activity or mission pertains. Thus, every country in the organization has an effective veto power on any decision.

Moreover, OSCE relies on the rotating chairmanship structure, and the every year a new country chairs the organization, with its foreign minister serving as a Chairman-in-Office. The rotating chairmanship means that the chairman in office lacks institutional memory on the issue. Every new chairman starts with little knowledge about the conflict and the state of the negotiations process; they approach the conflict resolution process with varying levels of commitment and varying strategies. Thus rotating chairmanship also to a certain degree contributes to the ineffectiveness of the OSCE peace efforts in Armenia-Azerbaijan Nagorno-Karabakh conflict.

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Regional and global security implications of a renewed war between Armenia and Azerbaijan

As argued in the previous sections, the Nagorno-Karabakh conflict is the biggest threat to peace and stability in the South Caucasus. The status quo can no longer be maintained, and the outbreak of a full-blown war cannot be contained. In fact, the conflict has never been truly 'frozen'. Aside from the recent escalation, which attracted international attention, ceasefire violations have always been fairly commonplace along the line of contact. Dozens of people die every year as a result of ceasefire violations. For example, 73 soldiers (31 Azerbaijani and 42 Armenian) and

22 Caspain Information Center (November 2012) 'Nagorno-Karabakh: An Unresolved Conflict Whose War Games Threaten Western Energy Security', *Occasional Paper No. 22*, available at: http://www.caspianinfo.com/wp-content/uploads/2012/11/OP-22-Nagorno-Karabakh-An-Unresolved-Conflict-Whose-War-Games-Threaten-Western-Energy-Security.pdf (accessed: 17.05.2016)

tens of civilians on both sides died in skirmishes in 2015 alone.[23] If the OSCE Minsk Group does not move away from its current passive approach, the international community risks the renewal of full-scale war in Nagorno-Karabakh. This new war would certainly be much costlier than its predecessor in 1991-94. The new war would not only pose grave security threats for the parties, but would also have serious regional and global repercussions. Thus, all the regional countries including Georgia, Russia, Iran, and Turkey as well as Europe will directly or indirectly share the costs of the renewed war in the South Caucasus.

For Russia, who has cultivated a formal alliance with Armenia and strategic cooperation with Azerbaijan, the outbreak of hostilities represents a serious risk. In case of a full-blown war, Russia would face the dilemma of either supporting Armenia, and losing everything that it has built with Azerbaijan, or maintaining a neutral approach and devaluing its security guarantees to its allies. A new war would also bring more international attention and consequent international involvement in the South Caucasus which is not a desired outcome for Moscow. Moreover, Russia does not want to see more instability on its southern flank, in addition to the already unstable Northern Caucasus. Therefore, Russia cannot afford the risk of a new war in the South Caucasus. Consequently, Moscow seems to be investing more heavily in conflict resolution, which is surely a better option than the much more costly alternative of dealing with a new conflict, with all its strategic, security and economic implications.

In case of a full-blown war, Russia would face the dilemma of either supporting Armenia, and losing everything that it has built with Azerbaijan, or maintaining a neutral approach and devaluing its security guarantees to its allies.

Another negative implication for Russia is that the conflict and its renewal prospects adversely impact the credibility and integrity of the Moscow-led organizations such as Collective Security Treaty Organization (CSTO) and Eurasian Economic Union (EEU). As observed in early April escalation, when violence erupted in Nagorno-Karabakh, no CSTO or EEU member voiced open support for Armenia, either during the conflict or afterwards. On the contrary, two members of these organizations, namely Belarus and Kazakhstan, openly supported Azerbaijan's position. This gave rise to serious public distrust in Armenia in regard to Yerevan's Russia-oriented for-

Another negative implication for Russia is that the conflict and its renewal prospects adversely impact the credibility and integrity of the Moscow-led organizations such as Collective Security Treaty Organization (CSTO) and Eurasian Economic Union (EEU).

23 Emil Sanamyan (January 14, 2016) 'Armenian-Azerbaijani Attrition War Escalates', *Armenianweekly*, available at: http://armenianweekly.com/2016/01/14/attrition-war-escalates/ (accessed: 19.05.2016)

eign policy and membership of Moscow-led organizations.[24]

The resumption of full scale war between Azerbaijan and Armenia, with whom Georgia not only shares a common border, but also a long history of cohabitation and a tradition of close cultural and economic ties, would also lead to detrimental consequences for Georgia.[25] Regardless of the victor in the possible war between Armenia and Azerbaijan, Georgia would likely end up losing out. During the latest escalation the Armenian leadership threatened to strike Azerbaijani energy export pipelines[26], almost all of which pass through Georgian territory and generate significant transit income for Tbilisi. This scenario could bring serious economic implications for Georgia. Moreover, in the event of intense fighting, Georgia could face serious dilemmas in terms of deciding how the conflicting sides can use its air space, the passage of military cargo, opening of ports for the conflicting sides, and how to respond to various resolutions by international organizations.[27]

Regardless of the victor in the possible war between Armenia and Azerbaijan, Georgia would likely end up losing out.

Iran also shares a border with both Armenia and Azerbaijan, including the occupied territories of the latter, and thus the line of contact is close to the Iranian border. Due to the economic, social and humanitarian ties Iran has with both Armenia and Azerbaijan, an escalation of the conflict between the two could pose challenges for Tehran.[28] It is worth mentioning that during the four days of fighting in April, Iranian territory was hit by several mortar shells fired by Armenian troops.[29] After the eruption of clashes Tehran urged the two sides to show restraint

Due to the economic, social and humanitarian ties Iran has with both Armenia and Azerbaijan, an escalation of the conflict between the two could pose challenges for Tehran.

24 Farhad Mammadov and Azad Garibov (January 14, 2016) 'Why Armenia's Allies Are Letting It Down', *The National Interest*, available at: http://nationalinterest.org/feature/why-armenias-allies-are-letting-it-down-16455?page=show (accessed: 19.05.2016)

25 Giorgi Menabde (April 20, 2016) 'Georgia Fears Resumption of Armenian-Azerbaijani Conflict', Eurasia Daily Monitor, Volume: 13 Issue: 77, available at: http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=45342&cHash=933175b9831c94e753039864eff98ffa#.V3JZt_mLTIV (accessed: 20.05.2016)

26 Newsarmenia (April 5, 2016) 'Карабах готов нанести удар по нефтяным коммуникациям Азербайджана', available at: http://newsarmenia.am/news/nagorno_karabakh/srochno-karabakh-gotov-nanesti-udar-po-neftyanym-kommunikatsiyam-azerbaydzhana-/ (accessed: 21.05.2016)

27 Giorgi Menabde (April 20, 2016) 'Georgia Fears Resumption of Armenian-Azerbaijani Conflict', Eurasia Daily Monitor, Volume: 13 Issue: 77, available at: http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=45342&cHash=933175b9831c94e753039864eff98ffa#.V3JZt_mLTIV (accessed: 20.05.2016)

28 Hamidreza Azizi (April 14, 2016) 'Will Iran and Russia join forces on Azerbaijani-Armenian conflict?', *Al-Monitor*, available at: http://www.al-monitor.com/pulse/originals/2016/04/iran-azerbaijan-armenia-nagorno-karabach-mediator.html#ixzz4783uf9Pd/ (accessed: 22.05.2016)

29 Sputnik (April 03, 2016) 'Iranian Village Hit By Shells Fired in Nagorno-Karabakh Fighting', available at: http://sputniknews.com/world/20160403/1037418940/conflict-village-shelling.html#ixzz4787BRwDP (accessed: 22.05.2016)

and refrain from further escalation.[30] Foreign Minister Mohammed Javad Zarif has offered to serve as a mediator. [31]

Moreover, Armenia's statement on the possibility of strikes on globally important energy infrastructure such as the BTC pipeline and Southern Gas Corridor in the event of war constitutes a serious threat for the interests of Turkey and the EU; for the former as the key project partner and the latter as the key consumer. On April 5, 2016 the self-styled defense ministry of Nagorno-Karabakh warned that it could hit oil infrastructure in Azerbaijan during any future hostilities, using the Iskander, Scud-B and Tochka-U systems.[32] Though Azerbaijan has developed strong air and missile defense system and possesses S300 surface to air missiles to counter this threat, even minor possibility of such strike poses a serious challenge for Europe, who attaches particular importance to energy security issues and diversification of supply routes. Thus, potential instability and military action in the South Caucasus – a critical access route bringing Caspian energy resources to Europe - could impede the continued flow of oil, and undermine the development of new energy infrastructure and the construction of the gas pipelines that are crucial for the EU and Azerbaijan's regional neighbors Georgia and Turkey.[33] In addition to energy transportation routes, cargo transit routes via Azerbaijan are also critical for Europe, Central Asia and China. These routes would be threatened by the resumption of full-scale warfare too.

Moreover, Armenia's statement on the possibility of strikes on globally important energy infrastructure such as the BTC pipeline and Southern Gas Corridor in the event of war constitutes a serious threat for the interests of Turkey and the EU; for the former as the key project partner and the latter as the key consumer.

Furthermore, there are already conflicts on Europe's peripheries such as Syria and Ukraine which place a heavy burden on the EU and the US, creating negative implications for their security. If the Nagorno-Karabakh conflict turns violent again it will create further economic, security and humanitarian problems for Europe and the US, as well as introducing new complications to their relations with Russia.

30 Hamidreza Azizi (April 14, 2016) 'Will Iran and Russia join forces on Azerbaijani-Armenian conflict?', *Al-Monitor*, available at: http://www.al-monitor.com/pulse/originals/2016/04/iran-azerbaijan-armenia-nagorno-karabach-mediator.html#ixzz4783uf9Pd/ (accessed: 22.05.2016)

31 Brenda Shaffer (April 7, 2016) 'Fighting in the Caucasus: Implications for the Wider Region', *The Washington Institute*, available at: http://www.washingtoninstitute.org/policy-analysis/view/fighting-in-the-caucasus-implications-for-the-wider-region (accessed: 24.05.2016)

32 Ilgar Gurbanov (May 16, 2016) 'The Frozen War that Threatens Energy in the Caucasus', *Natural Gas Europe*, available at: http://www.naturalgaseurope.com/the-frozen-war-that-threatens-energy-in-the-caucasus-29573 (accessed: 23.05.2016)

33 Ibid

Conclusion

The Armenia-Azerbaijan Nagorno-Karabakh conflict is the biggest threat to peace and security and the most significant obstacle to region-wide cooperation and development in the South Caucasus. Although the conflict has dominated foreign and security policy in both Azerbaijan and Armenia ever since independence, the international community has largely neglected the conflict and misleadingly labeled it as frozen. However, the renewed hostilities at the beginning of April, 2016 demonstrated, this not a frozen conflict that can be ignored, but a dangerous 'no war nor peace' situation. April escalation also proved once again that the continuation of the status quo is no longer tenable, and that there is a price to pay for protraction of the conflict. The conflict may flare up again at any time, and such escalations may lead to all-out war that will destabilize the entire region, brining about serious global security implications.

The escalation, despite widespread pessimism during the immediate aftermath of the fighting, also contributed to increased international attention and resulted in renewed conflict resolution efforts by OSCE Minsk Group co-chairs. The presidential meetings in Vienna, Austria on May 16, 2016 and in St. Petersburg, Russia on June 20, 2016 led to hopes that this dangerous impasse would be broken. In St. Petersburg, the presidents agreed on a phased settlement of the conflict. This envisions the liberation of the five occupied regions of Azerbaijan in the first phase, to be followed by liberation of two more regions and the delineation of a corridor between Armenia and Nagorno-Karabakh. The final status of Nagorno-Karabakh will be decided later. However, the peace process is still very fragile. The failure of this new round of negotiations will bury the last remaining hopes for peace and create every possibility for the resurgence full-scale war on the line contact. The stagnation of the peace process also threatens to leave resort to military means as the only solution for Azerbaijan to restore its territorial integrity.

The key problem with the Minsk Group-led peace process is that the OSCE does not seem sufficiently committed, and it wrongly focuses on conflict management rather than conflict resolution. Other problems related to Minsk Group include the narrow troika-based approach, along with issues pertaining to the OSCE as whole - such as intergovernmentalism and the rotating chairmanship. The only visible result of the long and fruitless mediation efforts to date is the 'monopolization' of the conflict resolution

by the OSCE and the 'privatization' of the Minsk process by the so-called troika. Although the Minsk Group troika has the necessary power and influence in the region to advance the peace process, the shortcomings mentioned above are preventing them from utilizing their capacity to resolve the conflict.

Taking advantage of the shortcoming of the OSCE Minsk Group's peace efforts, Armenia has remained intransigent in negotiations, refusing to compromise for the sake of peace. Just as Armenia must change its attitude towards the resolution process, the OSCE Minsk Group must put an end to its passive approach and try its best to mobilize international efforts to bring about the long overdue resolution to the conflict. The only way to achieve sustainable and peaceful conflict settlement in Nagorno-Karabakh is to resolve the conflict based on mutual compromises and respect for international law, including commitment to the principles of territorial integrity, sovereignty, and inviolability of international borders.

Book Review*

The New Arab Wars: Uprisings and Anarchy in the Middle East

Marc Lynch

* The Book Review was prepared by Dr. Özgür Tüfekçi Ph.D., Senior Editor of Caucasus International

Marc Lynch
The New Arab Wars: Uprisings and Anarchy in the Middle East
Public Affairs: New York, 2016, 304 pp

The New Arab Wars: Uprisings and Anarchy in the Middle East is a comprehensive and in-depth analysis of the causes of the Arab uprisings. The book opens with a quotation: "We are coming tonight. There won't be any mercy", a warning issued by the late Muammar Qaddafi to rebel leaders to show the reason of the international action. In this sense, while Lynch supports international intervention when necessary, he also condemns that intervention when it stokes violence. To this end, Lynch assesses the popular movements in the Arab world and the international response, both as it was and it should have been.

The author first deals with Obama's decision regarding the uprisings in Libya. The Obama administration's decision to join NATO and its Arab allies to intervene militarily in Libya stands today as a crucial turning point in the Arab uprisings - one with effects far beyond that country's borders. According to Lynch, the lessons of that intervention remain deeply contested. The intervention succeeded in its short-term goal of protecting Libyan civilians by preventing a near-certain massacre, and helped to remove one of the nastier of the Arab dictators. He also deduces that had Obama not acted, America would certainly have been blamed for allowing the uprising to end in bloodshed. But acting, in turn, caused a whole set of other unintended problematic outcomes.

The author starts with Libya, rather than with the crisis in Syria or the Islamic State, because Libya was a decisive turning point, signalling the transformation of the Arab uprisings from peaceful domestic uprisings into a regional proxy war. Marc Lynch claims that Libya's war offered the first violently cautionary tale against seeking democratic change after the dizzying success of protest movements in Tunisia and Egypt. He proffers two conclusions in this regard. Firstly, the NATO intervention showed Arab protestors and autocrats alike that armed insurrection could succeed by attracting external assistance. Secondly, it showed Arab powers that they could convince the West to back their ambitions with military might, but led Russia to block further such United Nations resolutions. He uses the case of the Libyan war to bolster his own argument that in general, international interference does

not produce peaceful outcomes. He points out that the uprising first collapsed into civil war, and then became an object lesson in the dangers of intervention and state failure.

When it comes to what conclusion we draw from the Arab Spring, the author emphasizes that one thing we most certainly did not get wrong was the epochal and fundamentally transformative nature of the uprisings. The five years since that historic eruption have been cruel to those who hoped for positive change in the Middle East. The entire regional order appears to be in freefall. He warns the reader that, "…these struggles should lead to sober reflections, but we must not take away the wrong lessons since many wrong lessons currently dominate the conventional wisdom," (p. 12).

For Lynch, the failure of the transitions does not prove that Arabs are not ready for democracy. In his own words, "Obama could not have saved Mubarak or stopped the Arab uprising if he had tried. There is no monarchical exception protecting the Gulf regimes from popular discontent. The resurgence of jihadist groups does not mean they were the real, hidden face of the uprising all along," (p. 13). However, we should not forget that stronger states are not the solution to the region's woes. As Lynch points out, autocratic regimes, in their single-minded pursuit of survival, are the root cause of the instability and have fuelled the region's extremism and conflicts. Moreover, the region's autocrats, from Damascus to Riyadh, are the problem not the solution.

This book ranges widely over the greater Middle East, from the tortured transitions in Egypt and Tunisia to the wars of Syria, Iraq, Libya, and Yemen. The author provides a framework for understanding the new politics of the region, explaining what went wrong and suggesting what to expect, rather than offering deeply detailed narratives of each individual country. He argues that these countries have become the central site of a regional proxy war. Those proxy wars and interventions have manifestly changed the dynamics of regional international relations, mostly in destructive and counterproductive ways.

This book's account of the new Arab wars offers a different way of making sense of the current regional situation. Lynch summarizes it thus: "the Arab uprisings have not failed; the Arab regimes have not restabilized and are not the solution; more forceful intervention would not have saved Syria; the failure of the

Muslim Brotherhood does not validate anti-Islamist views; and the Islamic State does not represent real Islam, but the challenge of jihadism will persist long after its state is destroyed," (p. 245).

It is not certain whether Lynch's claims will be borne out. We know that while autocrats may have clawed back their power in most Arab countries, none of the underlying problems have been solved, and most have gotten worse. Just as Lynch puts it, "We might not know exactly when and where the next eruption of mass protest appears, but another wave is almost certainly coming," (p. 13).

OZGUR TUFEKCI, Ph.D.
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CAUCASUS UNDER REVIEW* - RECENTLY PUBLISHED BOOKS

While the Caucasus is a region of enormous diversity and potential, it is also a region about which relatively little is known. However, during the last decade, numerous publications on the region have expanded both regional and international understanding of this diversity and potential. This overview of recent publications provides an up-to-date reading list for anyone interested in the region.

* The Book Review was prepared by Dr. Özgür Tüfekçi Ph.D., Senior Editor of Caucasus International

This issue presents eight recently published books offering a deeper understanding of key topics including Gumilev's vision of the structure of Eurasian nationhood, ethno-political and cultural history of Karabakh, the application of international legal principles in regional conflicts, European policies towards the region, Russian geopolitics, and energy security in Eurasia.

The first book, **The Gumilev Mystique: Biopolitics, Eurasianism, and the Construction of Community in Modern Russia** has been deemed by far the most authoritative account in English on the ideas and life of a scholar whose star is still rising in Eurasia. Mark Bassin, Baltic Sea Professor of the History of Ideas at Södertörn University in Stockholm, explains the popularity of Gumilev and explores the process by which a somewhat repressed figure in the Stalinist period became a guru of the post-Soviet period.

The second book, **Ethno-Political and Cultural History of Karabakh in the Light of Armenian Claims** is a newly released book co-written by Dr. Eldar Amirov, Azerbaijani scholar who has authored numerous researches on history and political anthropology of Azerbaijan during Middle Ages, and Maxim Mayorov, Ukrainian scholar and expert on political history of XX century. The book, which is the first volume of the three-volume research is an excellent account of historical development in the Karabakh region of Azerbaijan which thoroughly examines questions regarding the political history, culture, as well as the ethnic picture of the region against the background of Armenian claims to the Albanian heritage.

The third book, **Territorial Integrity of States: Firm Basis of International law. Examination in the Context of the Nagorno-Karabakh Conflict between Armenia and Azerbaijan** is a cogent account of territorial integrity by Hans-Joachim Heintze**,** Professor of International Law and the Head of the Institute for International Law of Peace and Armed Conflict at the University of Bochum. Published in the German language the book consists of theoretical and empirical parts, in which the author comprehensively examines the application of the legal principle of territorial integrity in the context of inter-state armed conflict in the South Caucasus.

The European Neighbourhood Policy – Values and Principles is collection of essays, edited by Sara Poli, Associate Professor and Jean Monnet Chair of European Union Law at the University of Pisa, Italy. Coming at a crucial juncture, the various contri-

butions critically examine the principles underpinning the ENP – such as conditionality, differentiation and coherence – and the way they have evolved.

Stefan Engert divides his book, **EU Enlargement and Socialization: Turkey and Cyprus,** into two main sections: EU enlargement, and the socialization of Turkey and Cyprus. The first half of the study deals with the dual questions of EU enlargement and membership, first considering "Why expand?" from the perspective of international organizations. It then asks the question 'Why join?', this time from the applicants' perspective. The second half of the book focuses on international socialization and compliance. From the specific viewpoint of the candidate states, Engert asks, "Why comply?". Here he considers the different aspects of adapting to the EU's fundamental norms and rules.

The next book is **Euro-Atlantic Discourse in Georgia: The Making of Georgian Foreign and Domestic Policy After the Rose Revolution**, by *Frederik Coene*, currently Head of Operations Section in the Delegation of the European Union to Belarus. He has previously worked in Chechnya, Abkhazia, Tajikistan, Georgia and Belgium for different non-governmental organizations and EU institutions. The book is a very timely, scholarly contribution on the 'Europeanness' of Georgia, and as such is of the utmost importance to both Georgia and the European Union itself. It provides valuable insights into the under-explored dynamics behind the Euro-Atlantic discourse in terms of its impact on Georgian identity and on the constantly evolving geopolitical challenges of the region.

Eurasia 2.0: Russian Geopolitics in the Age of New Media deals with Russian geopolitics. This wide-ranging and challenging collection brings together some of the world's leading scholars to provide a series of powerful insights into contemporary Russia and Eurasia. Edited by *Mikhail Suslov* and *Mark Bassin*, the first section of the volume deals with representations of space and power in the post-Soviet context. The second part discusses the contemporary geopolitical ideologies that less well known than those of prominent ideologues such as Aleksandr Dugin and Vladimir Zhirinovsky. The third part elaborates on the concept of 'great-powerness' in geopolitical discourses, while the fourth section addresses the migration of geopolitical ideologies onto digital media platforms, including social networks.

The last book, **Energy Security and Cooperation in Eurasia,** is written by Ekaterina Svyatets, a lecturer at the University of Southern California, US. The book offers a systematic approach that incorporates three main aspects of energy security decisions: economic potential, geopolitical rivalry, and the interests of domestic groups. This study concludes that if the economic potential is very high, states can overcome geopolitical rivalries and historical enmities in favor of energy cooperation. However, if the economic potential is relatively low, then geopolitics prevails.

The Gumilev Mystique: Biopolitics, Eurasianism, and the Construction of Community in Modern Russia

By Mark Bassin

Since the collapse of the Soviet Union, the legacy of the historian, ethnographer, and geographer Lev Nikolaevich Gumilev (1912–1992) has attracted extraordinary interest, not only within Russia but also more widely. The son of two of modern Russia's greatest poets, Nikolai Gumilev and Anna Akhmatova, Gumilev spent thirteen years in Stalinist prison camps, and after his release in 1956 remained officially outcast and professionally shunned. Out of the tumult of perestroika, however, his writings began to attract attention and he himself became a well-known and popular figure.

Despite his highly controversial (and often contradictory) views about the meaning of Russian history, the nature of ethnicity, and the dynamics of interethnic relations, Gumilev now enjoys a degree of admiration and adulation matched by few - if any - other public intellectual figures in the former Soviet Union. He is freely compared to Albert Einstein and Karl Marx, and his works now sell millions of copies and have been adopted as official textbooks in Russian high schools. Universities and mountain peaks are named in his honor, and a statue of him adorns a prominent thoroughfare in a major city. Leading politicians, President Vladimir Putin very much included, are unstinting in their deep appreciation for his legacy, and one of Moscow's most important foreign policy projects is clearly inspired by his particular vision of how the Eurasian peoples formed a historical community.

In *The Gumilev Mystique*, Mark Bassin presents an analysis of this remarkable phenomenon. He investigates the complex structure of Gumilev's theories, revealing how they reflected and helped shape a variety of academic as well as political and social discourses in the USSR, tracing how his authority has grown even greater throughout the former Soviet Union. The themes he highlights while untangling Gumilev's complicated web of influence are critical to understanding the political, intellectual, and ethno-national dynamics of Russian society from the age of Stalin to the present day.

Ethno-Political and Cultural History of Karabakh in the Light of Armenian Claims

By Eldar Amirov and Maxim Mayorov

In the first volume of the three-volumes historical research (published in the Russian language) the authors examine questions regarding the political history, culture, as well as the ethnic picture of the Karabakh region of Azerbaijan during the era of Caucasus Albania - the first state formation emerged in the territory of the Republic of Azerbaijan. The questions are examined against the background of multiple claims by Armenian ideologists and historians to the heritage of ancient Albanians. In this context, authors pay special attention to the crucial issues of Azerbaijani history such as the history of the emergence of the first civilizations and cultures in the territory of Karabakh, spread of Christianity, formation of Albanian Apostolic Church and the role of Karabakh region in establishment and strengthening of Albanian statehood. Wide range of archive documents, a number of first hand resources, as well as the works of well-known Azerbaijani, Armenian, Russian, Georgian, Turkish and Western scholars have been used for uncovering the answers to the questions put forward in the research. The book also includes various historical maps and photo materials to give the better understanding to readership about the historical development of Karabakh region of Azerbaijan.

Territorial Integrity of States: Firm Basis of International law. Examination in the Context of the Nagorno-Karabakh Conflict between Armenia and Azerbaijan

By Hans-Joachim Heintze

The application of the legal principles of territorial integrity of states and right to self-determination of peoples has long been a topic of hot political and legal debates in the context of 'frozen' conflicts in the post-Soviet area. The book sets forth the key tenets of the debate, and comprehensively analyzes the abovementioned international legal principles together with relevant judgments and opinions by international bodies. Heintze then states that Russia's annexation of Crimea in spring 2014 has made it clear that 'frozen' conflicts pose a very serious threat to international peace and order, as they can flare up at any moment,

with increased levels of violence and third party involvement. Given that the prohibition of violence is a basic norm of modern international law, the international community must concern itself with these conflicts, and take all possible measures to reach a sustainable solution within the international legal framework.

By examining of the legality of the principle of territorial integrity and the right to self-determination in relation to the Nagorno-Karabakh province of Azerbaijan, the author concludes that based on international law, Karabakhi Armenians do not have the right to self-determination in the broader sense. This is due to the fact that they are not a separate 'people' but a rather national minority in Azerbaijan, and their 'nation' (people) has already exercised the right to self-determination in their own territory, i.e. the Republic of Armenia. The author also notes that Azerbaijan's right to territorial integrity has been repeatedly supported by the international community, including Europe and the United Nations. It is now time to ensure the practical implementation of this right.

The European Neighbourhood Policy – Values and Principles
Edited by Sara Poli

The European Neighbourhood Policy (ENP) is a key part of the foreign policy of the European Union (EU). It is through the ENP that the EU works with its southern and eastern neighbors, with a view to furthering its interests and achieving the closest possible degree of political association and economic integration. The policy is underpinned by a set of values and principles that the EU seeks to promote.

The European Neighbourhood Policy – Values and Principles provides a legal analysis of the values and principles that form the basis of the European Neighbourhood Policy: respect for human dignity; freedom; democracy; equality; the rule of law; and respect for human rights (including the rights of minorities); together with the principles of conditionality; differentiation; and coherence.

This collection explores the instruments that the EU has deployed within the ENP in order to spread its values and secure its interests. It assesses the extent to which the EU has been (and is) con-

sistent in upholding its values in its relations with neighboring countries, and examines how those values have been received. The book looks in particular at EU-Russia relations, seeking to identify areas of common interest as well as those of actual and potential disagreement.

EU Enlargement and Socialization: Turkey and Cyprus

By Stefan Engert

The European Union's enlargement has been considered a success story – apart from Cyprus and Turkey. This book looks at the EU's expansion and examines its effectiveness in terms of international socialization and compliance, focusing specifically on the socialization of Turkey and Cyprus into the Western community. Although NATO-member Turkey submitted its membership application long before the end of the Cold War, the Kemalist state is still struggling to become the first Muslim EU member state. Cyprus was allowed to join the organization in 2004, but the island remains politically and territorially divided.

Providing a comprehensive theoretical perspective, the book is divided into three parts and investigates three questions:

- Why expand? From the perspective of the EU / international organizations.
- Why join? From the applicants' perspective.
- Why comply? Exploring why a state would choose to adapt to the EU's fundamental norms and rules, from the perspective of candidates.

Countering the impression that the latest round of EU enlargement has been a model of smooth and effective socialization from top to bottom, this book will be of interest to students and scholars of the EU, European politics, international relations and particularly those interested in Turkey and Cyprus.

Euro-Atlantic Discourse in Georgia: The Making of Georgian Foreign and Domestic Policy After the Rose Revolution
By Frederik Coene

How have discourses of Euro-Atlanticism been used in domestic and international affairs by the political elite in Georgia? After the 2003 Rose Revolution, as relations with Russia soured, Euro-Atlantic orientation was portrayed as a single and coherent strategy, becoming the cornerstone of Georgian foreign policy as well as a model for domestic reforms. This promise of a prosperous future offered new hope to the Georgian population.

Skepticism or critical thinking in regard to President Saakashvili and his government were equated to pro-Russian sentiment (treason), while pro-Western orientation and impressive reforms emerged, accompanied by outspoken rhetoric and active symbolism. References to Europe and the Euro-Atlantic structures became ubiquitous.

Addressing a gap in the existing literature, the author examines a large volume of data extracted from news items from 20 different Georgian and international media outlets over a ten-year period. Through this comprehensive analysis he identifies patterns in the discourse to explain the intentions of the Georgian elite, and examines the effectiveness of the rhetoric.

Eurasia 2.0: Russian Geopolitics in the Age of New Media
Edited by Mikhail Suslov and Mark Bassin

This book discusses the return of geopolitical ideas and doctrines to the post-Soviet space with special focus on the phenomenon of digital geopolitics, which is used as an overarching term for different political practices, including the dissemination of geopolitical ideas online, use of the internet by political figures and diplomats for legitimation and outreach activity, and the viral spread of geopolitical memes.

The book's different chapters explore the new possibilities and threats associated with this digitalization of geopolitical knowledge and practice. The authors consider new spatial sensibilities and new identities of global as well as local Selves, the emergence of which is facilitated by the internet. They explore recent

reconfigurations of the traditional imperial conundrum of center versus periphery. Developing Manuel Castells' argument that social activism in the digital era is organized around cultural values, the essays discuss new geopolitical ideologies aimed at reinforcing Russia's spiritual sovereignty as a unique civilization, while at the same time seeking to rebrand Russia as a greater soft power by utilizing the Russian-speaking diaspora or employing traditionalist rhetoric.

Great Power imagery, enemy-making, and visual mappings of future Russia are traditional means for the manipulation of great power pleasures and geopolitical fears. In the age of new media, however, this is being done with greater subtlety by mobilizing the grassroots, contracting private information channels, and de-politicizing geopolitics. Given the political events of recent years, it is logical that the Ukrainian crisis provides the thematic backdrop for most of the contributors.

Energy Security and Cooperation in Eurasia
By Ekaterina Svyatets

Why are bilateral relations, especially in the area of energy security, so different in the cases of US-Russia, US-Azerbaijan, and Russia-Germany energy deals? Why do some states find common ground despite differences, while others, despite apparently favorable conditions, are sinking into animosity?

Energy Security and Cooperation in Eurasia explores the varying outcomes of energy cooperation, defined as diplomatic relations, bilateral trade, and investment in oil and natural gas. The book explores economic potential, geopolitical rivalry, and interest groups in the cases of US-Russia, US-Azerbaijan, and Russia-Germany energy ties. It looks at major projects in each case (Sakhalin and Arctic oil and gas production, Baku-Tbilisi-Ceyhan and Nord Stream pipelines) and the activities of international oil companies. The book also provides a detailed analysis of the situation in Ukraine since 2014 and Russia's annexation of Crimea, and the impact on European energy security. *Svyatets* takes an innovative approach, exploring the dyads of states (bilateral relations) along the economic, geopolitical, and domestic lobbying dimensions.

This book is a valuable resource for graduate and undergraduate students, academics and researchers in the areas of Security, Political Economy, Comparative Politics, post-Soviet studies, as well as the general public.

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