

TOWARD THE GREAT OCEAN-3 CREATING CENTRAL EURASIA

The Silk Road Economic Belt and
the priorities of the Eurasian states'
joint development

Moscow, June 2015



Valdai Discussion Club
Analytical report

(abridged version)

TOWARD THE GREAT OCEAN-3

CREATING CENTRAL EURASIA

The Silk Road Economic Belt and
the priorities of the Eurasian
states' joint development

Valdai Discussion Club
Analytical report

(abridged version)

Moscow, June 2015

CONTENT

6	Introduction. Central Eurasian Moment
8	1. China at the New Stage of Development
13	2. Russia Goes East
17	3. The Transport Component
21	Conclusion

INTRODUCTION

CENTRAL EURASIAN MOMENT

Eurasia is the cradle of many peoples and civilizations, the birthplace and triumphant battleground of the great empires – the Chinese, Persian and Mongol, the empires of Tamerlane and Alexander, as well as the Turkish and Russian empires. However, Eurasia of the twenty-first century is not a united politico-economic entity; it is “torn” between Europe and Asia, it is seeking to create its own identity, and it is often perceived from the outside as an area of competition for the world’s great powers.

The rise of China led to a re-thinking of its role in the world and the revision of domestic and foreign policy priorities. The pro-active nature of Chinese foreign policy and China’s growing willingness to promote its interests have become more noticeable since 2008, though Chinese leaders have repeatedly stressed their commitment to “peaceful development” and rightfully pointed out the absence of any expansionist intentions. At the same time, China has frequently found itself unprepared for systemic interaction in multilateral formats and with groups of states in principle, looking for ways to develop bilateral cooperation. Such tendencies should

Russia, China, Kazakhstan, the states of the former Soviet Central Asia, Iran, Mongolia and other countries face common external and, in some cases, internal challenges

However, none of the known controversies among the leading states of the Central Eurasia is deep, let alone antagonistic. Russia, China, Kazakhstan, the states of the former Soviet Central Asia, Iran, Mongolia and other countries face common external and, in some cases, internal challenges: religious extremism, environmental threats, water deficit, drug trafficking, and the negative impact of policies pursued by certain extra-regional centers of power. These states need to further improve their socio-economic stability and maintain the rates of growth they have been able to attain. They all need to pursue a more layered policy aimed at preventing the destabilization of Afghanistan. It is necessary to consolidate the developmental agenda of the countries in the region, and to strengthen their cooperation in the field of international security.



be prevented from evolving into an inability to respect the objective interests of China’s partners as well as international law.

Western China, Kazakhstan and Central Asian countries are becoming an attractive destination for foreign investment. This is primarily due to the large reserves of natural resources, and a large number of able-bodied

citizens. In terms of FDI per capita (2582 US dollars in 2013) the region has recently managed to outrank even East Asia (1788 US dollars) and Southeast Asia (2510 US dollars). The undisputed regional leader is Kazakhstan with an index of 7880 US dollars per capita, which is obviously not the limit. Turkmenistan also demonstrates high rates of growth in

high agricultural potential, including the vast areas of arable land and pastures abandoned after the collapse of the USSR.

Cost-effective and safe transport routes connecting the two colossuses of the modern global economy – Europe and East and South Asia – could go through Kazakhstan and Central Asia. The region offers huge

In 2015 we can speak on the birth of the “Central Eurasian Moment”, which is the unique confluence of international political and economic circumstances that allows for the renewed potential for cooperation and common development within the states of this region

this development indicator: 4393 US dollars per capita, with an increase of more than 4 times for the period of 2008–2013. Moreover, Kazakhstan, as well as Russian Siberia, has

opportunities in terms of development of civil air transportation hubs. Although it possesses great potential, Central Asia has nevertheless long been distant from the main

SIBERIAN FEDERAL DISTRICT





1. CHINA: AT THE NEW STAGE OF DEVELOPMENT

1.1. Three decades of rapid growth and structural changes turned China into a country with an average level of income, as well as the locomotive of the world economy. In subsequent decades, the PRC will continue this transformation aimed at the gradual reorientation from high rates of growth to the improvement of the quality of socio-economic development.

The GDP growth rates slowing down from 10.5% (average index in 1991 - 2011) to 7.4% in 2014 – is the only one of the reflections of these processes (the low base effect of the previous decades has certainly produced an impact, too).

1.2. This growth was largely based on investments (especially in the objects of infrastructure) and has led to the creation of a strong construction sector in the country, as well as to the emergence of the problem of excess capacity in this field after market saturation. To preserve employment, the Chinese authorities encourage companies to focus on foreign markets.

1.3. The PRC export enterprises, whose main competitive advantage has long been their cheap labor force, are now experiencing certain difficulties. This is happening due to the constant growth of wages, as well as the increasing pressure exerted by the labor legislation with the intention of protecting working people (Beijing is trying to tamp down growing social contradictions using this legislation). The companies that previously used the maritime provinces (especially Guangdong and Fujian) as their production base are reacting to this challenge by relocating their production sites. Some of them are moving to South-East Asia (this

centers of the global economy and politics. However, in 2015 we can speak on the birth of the “Central Eurasian Moment”, which is the unique confluence of international political and economic circumstances that allows for the renewed potential for cooperation and common development within the states of this region. The main driving forces behind the transformation of Central Eurasia into a zone of joint development will be Eurasian economic integration, led by Kazakhstan and Russia, as well as by Belarus and the Silk Road Economic Belt project.

Russia regards the increased attention paid in recent years to the southern and the eastern directions of its external and foreign economic policy as one of the most important indicators of Russia’s comeback as a global power. The twist of the economy towards the East does not mean that the Russian economy will turn its back on Europe, or that the one-sided Russian dependence on European markets will be replaced by a similar one-sided dependence on China. Therefore, an important part of the program of future joint development around the Silk Road Economic Belt would be the inclusion of the advanced regions of Siberia in the project, and its openness to European markets.

especially concerns the sectors with a low-skilled labor force, such as the textile industry). The others are relocating to Central and gradually to Western China, where the wages are still much lower. The latter corresponds to the goals pursued by the PRC leadership in an attempt to solve the problem of social instability in the Western provinces by creating certain preconditions for the industrial zones' development. Thus, the Central provinces will

respect. The PRC government plans to attract up to a half a million people there, build a high-speed railway connecting Lanzhou and Urumqi, and turn the region into a major transport and logistics hub. By 2030, the GDP of the region, according to Chinese experts, should reach 43 billion dollars.

1.5. XUAR holds a special place among the developing regions. Nowadays, the export of goods from this province makes up to 15 billion

However, solving the PRC's domestic problems invariably remains the priority for the Chinese leadership; foreign policy has become directly related to, and built in accordance with, those "internal" problems

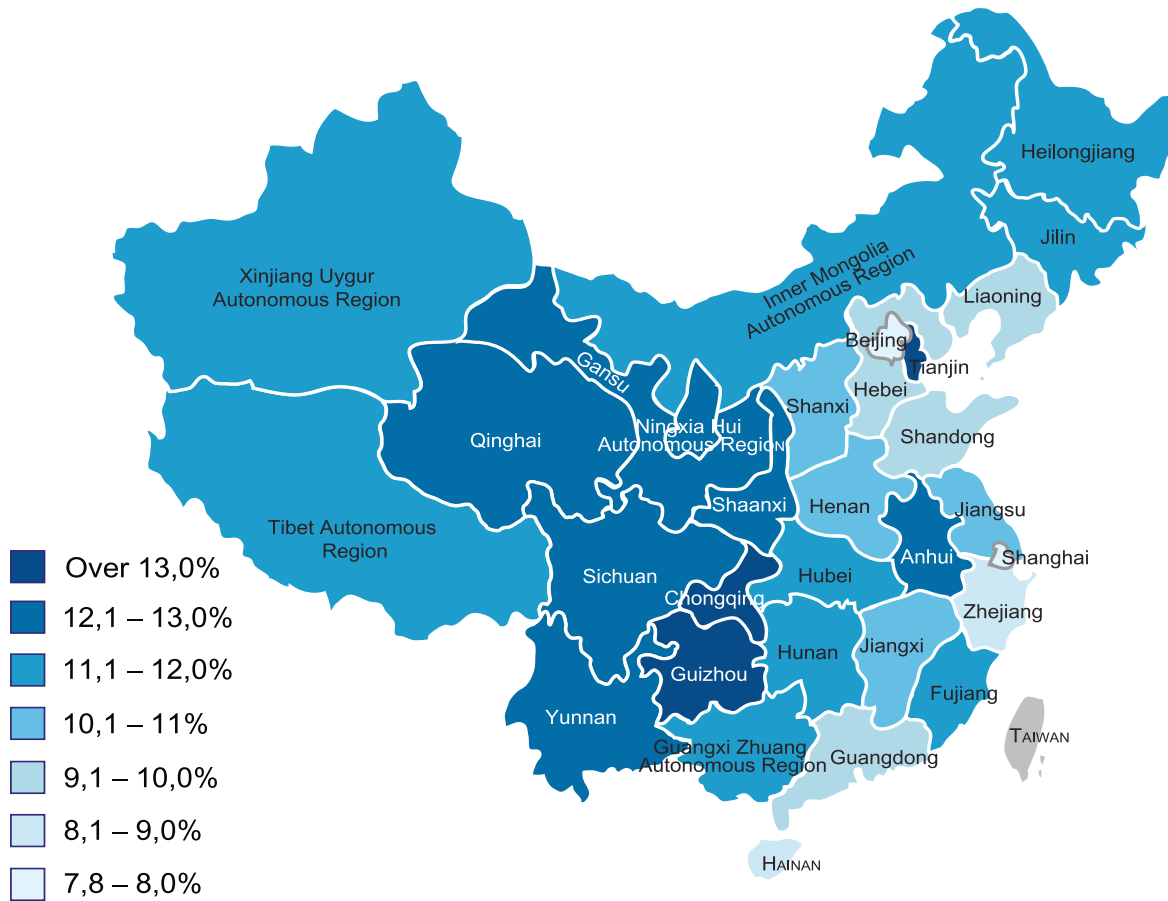
demonstrate the highest growth rates in the upcoming decade, while by the mid-2020s the Western regions of the country will become the leaders in this respect.

1.4. When analyzing the growth rates at the administrative units' level, one can single out ten potential leaders that demonstrate high growth rates, or a tendency to demonstrate them in the medium term: Sichuan and Chongqing (the South-West of the country), Anhui, Jiangsu and Hunan (the Yangtze River basin), Hebei and Henan (center of the country), and three more regions that are still relatively undeveloped, but promising – Gansu, Xinjiang Uygur (XUAR) and the Tibet Autonomous Regions. The new lands' development will be carried out by creating the appropriate transport infrastructure, as well as new economic corridors, followed by "tying" them up with large inland agglomeration hubs, each populated by 10–15 million people (similar to the modern role of Chongqing). Lanzhou is one of the most striking examples in this



dollars a year, and is carried out mainly through the eastern ports, while the goods turnover carried out through the western borders is insignificant (about 1.5 billion dollars). So far, the XUAR transportation balance is optimal, and the total volume of transportation amounts to 225 million tons, which coincides with the standard three-time transshipment of goods and cargo on the way from the mine/ production site to the final consumer. At the same time, automotive transportation is of great importance in XUAR: the total volume of transported cargo in the region amounts to 669 million tons, of which only 73 million tons of cargo are transported by railway, while 596 million tons are transported by

RATE OF GROWTH OF REGIONAL GDP IN 2012



road. The region, however, has greater transit potential, but due to the lack of direct communication channels with the consumer markets, the producers of Western China lose up to 0.5 billion dollars per year.

There are at least three vectors of SREB implementation: economic, geopolitical and security

1.6. The production of goods in XUAR is expected to grow in the short-term perspective, prompted by the development of clothing, footwear and plastic production. The implementation of other projects will begin in 3–5 years: the projects will involve the production of simple household appliances and audio-video equipment, as well as the assembly of low-cost vehicles for the budget car markets located nearby. Taking into account the suitability of the

whole transport system for local production (as well as the speed of infrastructure development on the one hand, and industrial development on the other), it becomes clear

that the volume of goods and products will be excessive for the region, and hardly in demand in the east of China.

1.7. One of the objectives of the XUAR economic development is to fight the extremism and separatism that are still considered to be one of the main threats to the PRC's national security. The number of victims of terrorist attacks and clashes associated with the Uighur faction exceeded



200 people in 2014, and the terrorist attacks took place far beyond the XUAR. Given the turmoil in Hong Kong and Macau, as well as the strengthening of radical forces in the Middle East and Central Asia in 2014, it seems that this problem will be particularly acute for the leadership of the country.

1.8. The policy that China has pursued since the late 1970s has allowed the country to increase its impact on the world stage and improve the domestic economic situation. However, solving the PRC's domestic problems invariably remains the priority for the Chinese leadership; **foreign policy has become directly related to, and built in accordance with, those "internal" problems.**

1.9. Therefore, The Silk Road Economic Belt – China's largest foreign trade project – aims to address, in the first place, the abovementioned internal problems. Besides, its implementation will allow for the strengthening of economic ties between China and the Central Asian countries; the increase in the volume of trade with Europe is considered to be less of a priority. It is possible

to single out five main objectives that China aims to achieve in its implementation of The Silk Road Economic Belt project:

- ***Strengthening of political contacts***, as they currently are relatively underdeveloped in comparison with how developed the economic ties are with the countries of the region.
- ***Strengthening of transport connectivity*** and creation of a transport network "from the Pacific Ocean to the Baltic Sea", which is to link South, East and West Asia.
- ***Strengthening of trade links*** and reducing the barriers for trade and investment, while advancing the participants' national interests.
- ***Strengthening of the system of payments in national currencies*** where the countries of the region already have successful experience of cooperation, which will reduce costs and improve the competitiveness of the region in the future.
- ***Strengthening of friendly contacts*** and mutual understanding.



1.10. The term “Silk Road Economic Belt” (hereafter referred to as the SREB) was first stated by the PRC’s President Xi Jinping in September 2013, during his speech at “Nazarbayev University” (Astana, Kazakhstan). In November 2014, the creation of an investment fund was announced, with the fund capital being 40 billion dollars. These funds are to be invested in the projects of the land and sea “Silk Roads” development.



1.11. According to experts, the SREB, along with the “Chinese Dream” initiative announced by the President of China, form the basis of an economic and political program of work, performed by the fifth generation of Chinese leaders. The analysis of the project shows that there are at least three vectors of its implementation: economic, geopolitical and security.

1.12. From the point of view of the economy, the infrastructure component of the SREB is represented by several routes (8.5–11 thousand kilometers long) that start in the western areas of the PRC and go in the direction of the key centers of economic activity in Europe and South Asia. The Northern route is supposed to go through the territory of Kazakhstan and the Trans-Siberian Railway.

The sea routes will involve the Kazakh port of Aktau, and the ports of the Caspian Sea (Makhachkala, Baku) that provide access to the Caucasus region, Turkey and the Black Sea basin. The Southern routes go through the territory of Kyrgyzstan, Uzbekistan, Turkmenistan and Iran, thus providing access to the Indian Ocean in the Persian Gulf.

1.13. The SREB lays the foundation for the rapid development of China’s western regions, by transferring there the production from the coastal regions, as well as by developing the related industries and services (logistics centers, terminals) both in the PRC and in the Central Asian states. The geopolitical vector helps China to regain its status as the “middle state”, linked with the rest of the world by not only the ocean, but also by land routes that form a common cultural co-developmental space around them. Finally, in terms of safety the SREB may become the most effective response to such modern threats as extremism, terrorism and religious fundamentalism (ISIL, Hizb ut-Tahrir), for it will undermine their social base and develop the appropriate security infrastructure.

1.14. Therefore, the SREB is **not just a transit-transport project. It is a comprehensive plan for the economic development of a number of states, including numerous projects aimed at the development of infrastructure, industry, trade and services. This plan will ensure a stable and secure environment for the development of not only the western regions of China, but also the entire center of Eurasia (thus fully revealing its potential).**

1.15. Let us note that a number of countries that will have the Silk Road going through their territories are already planning to include the project in the program of their economies' development. In particular, the "Nurly Zhol" New Economic Policy declared by the President of Kazakhstan, Nursultan Nazarbayev, in November 2014 is largely synchronized with and based on the plans for the SREB development. Moreover, Kazakhstan declared its readiness to invest about 4 billion dollars in the development of infrastructure in its territory.

The EEU is in many ways a unique association because in addition to the purely economic component, it also includes cooperation in the defense sector – the CSTO



1.16. The formation of a strong economic center in Eurasia requires the states of the region to demonstrate a high degree of activity and involvement in the SREB. The states will fill the conceptual framework of the Chinese initiative with specific economic and social projects, and the prospects of these projects' success will increase sharply upon their inclusion in the SREB framework.

2. RUSSIA GOES EAST

2.1. Eurasian integration is the flagship project of the Eurasian strategy of Russia and its partners, with Kazakhstan occupying the most important place among them, implemented within the next few years, if not decades. **The Eurasian Economic Union (EEU) that began functioning on January 1, 2015, and brings together Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia, lays the foundation for a framework of legal conditions for the joint breakthrough and creates an effective tool for the prevention and resolution of**

international disputes. The EEU was created for the purposes of comprehensive modernization, cooperation, and improvement of the national economies' competitiveness; it is aimed at creating the conditions for sustainable development so as to improve the living standards of the populations of its member states. In order to achieve this aim the EEU ensures free movement of goods, services, capital and labor, as well as working on the coordination

and synchronization of economic policies in various sectors. Thanks to the EEU, there is only one customs border between China and the European Union. The common customs and tariff space gives undeniable advantages to the project of Eurasian co-development.

2.2. The EEU is in many ways a unique association because in addition to the purely economic component, it also includes cooperation in the defense sector – the CSTO. All members of the EEU, as well as Tajikistan,



15–20%), as well as by the formation of effective mechanisms employed to protect the domestic market of the EEU countries from external economic challenges, thus dramatically increasing the member countries' negotiating capacity on various issues. This can pave the way toward the creation of a greater Eurasia, especially as this basis is largely similar to the EU law (primarily with regard to technical regulations).

are also CSTO participants. The CSTO provides the participants of Eurasian integration with military security from external threats, as well as enhancing the cooperation between them on a wide range of issues, such as counteracting internal security challenges, overcoming internal contradictions and ensuring protection from external threats and challenges.

2.4. At the same time it is important to improve the efforts of the Eurasian Economic Union member-states aimed at harmonizing international trade, rules of infrastructural projects implementation, capital and labor markets regulation, development of environmental law and employment protection rights. This would discourage external partners from cooperating with EEU

Central Eurasia and, later, a Greater Eurasia must become an example of a positive-sum game that is beneficial for everyone, as well as an example of cooperation domineering over competition

2.3. In the upcoming years, the EEU regulatory framework – pertaining to the movement of goods, services and capital – will continue its growth and efforts aimed at bringing the national legislations to a common standard. The Customs Code is to be signed by the end of 2015: it will codify more than one hundred regulations of the Customs Union. The upcoming years will be marked by further elimination of the mutual non-tariff barriers within the Union (which today, in spite of the signed agreements, are estimated at

member-states on a bilateral basis and help them understand desirability of interaction with the integration group as a whole.

2.5. This creates the necessary conditions for the interpenetration and integration of **the EEU projects and the Silk Road Economic Belt. From an economic point of view, there is no contradiction between these two formats – on the contrary, they complement each other:**

- The SREB will stimulate cooperation in the transport sector and consequently

encourage the development of general regulation of the transport and logistics segments of the market. It will also indirectly contribute to the unification of regulations and quality standards of goods and services as a means of

advancement of China into Central Asia, the EEU becomes an effective instrument of trade protection for the national market, while maintaining its investment attractiveness. It is highly probable that the EEU – SREB bond will

So far, the political and economic systems of the Central Eurasian countries are not stable enough, which leaves the possibility of them being “stirred up” from the outside in the event of a change of political leadership or some external shocks, expansion of extremism and instability from the Middle East

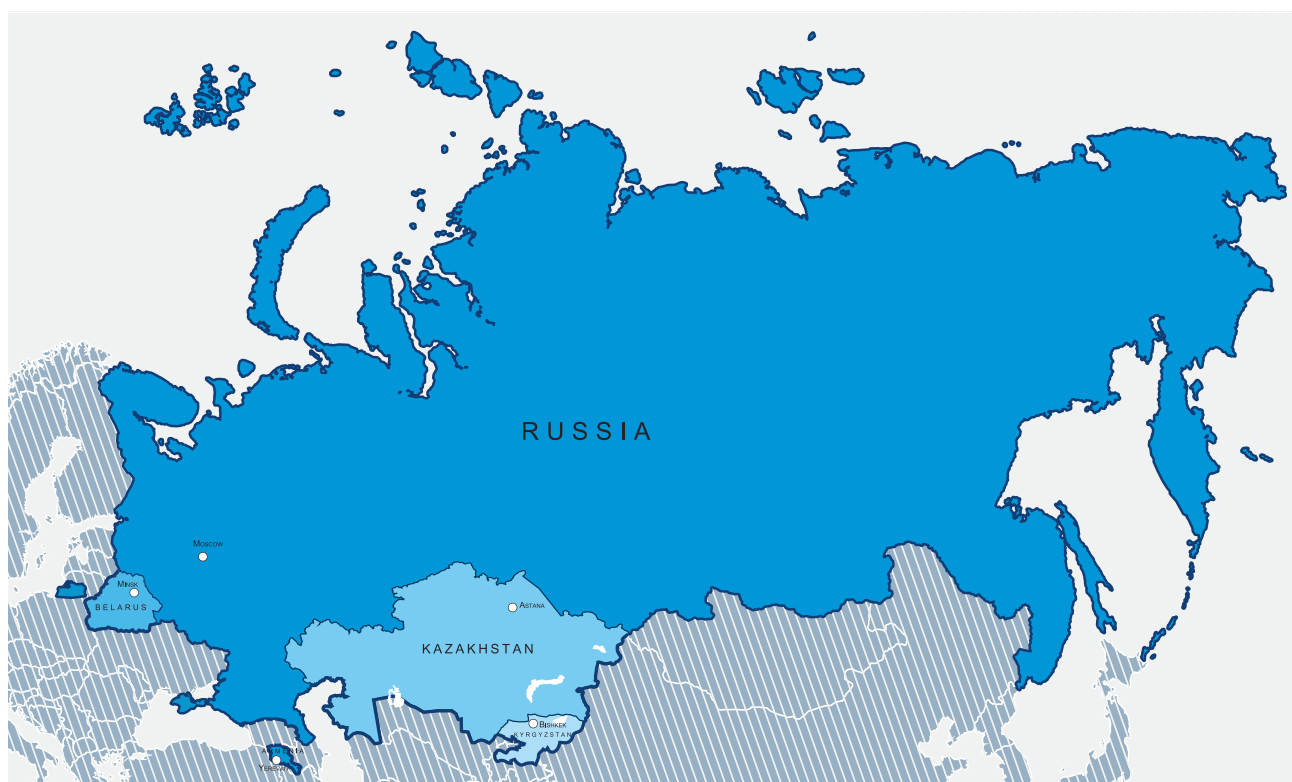
protecting the national markets of its members. The EEU countries that provided their territories for the planned implementation of major investment projects will be able to secure their interests (in terms of compliance with environmental and labor standards) much more effectively, and do it not directly, but through the all-Union regulation system.

- In the process of the inevitable (and desirable for the region) economic

become a stimulus for the expansion and strengthening of the Union, as it will strengthen the positions of the member countries vis-a-vis even most powerful external partners.

- The SREB will provide the EEU countries with an influx of new investment in transport infrastructure. Its modernization / creation will in turn strengthen mutual trade between the EEU countries, as well as enhancing their attractiveness to investors. In the long-term perspective, this may become

EURASIAN ECONOMIC UNION COUNTRIES



the key to the growth of other sectors of the economy, including industry. For the Central Asian region, such a large-scale project potentially means the creation of additional employment, which will improve the economic situation, reduce social tensions and strengthen political stability.

2.6. It is necessary to alleviate the security challenges faced by the countries of the region in the southern direction and, in some cases, on the internal level. **So far, the political**



and economic systems of the Central Eurasian countries are not stable enough, which leaves the possibility of them being “stirred up” from the outside in the event of a change of political leadership or some external shocks, expansion of extremism and instability from the Middle East. Russia and Kazakhstan, as well as China and its regional partners, must take this threat seriously and do everything possible to prevent its realization.

2.7. It is equally important to avoid the appearance of the Russia vs West model in the region like the one that prevails in the western part of the former Soviet Union. There, this logic brought about the attempt of one party to achieve a dominating position, which first caused zero-sum game and, next, to wars.

Central Eurasia and, later, a Greater Eurasia must become an example of a positive-sum game that is beneficial for everyone, as well as an example of cooperation domineering over competition. At the same time, the Russian elite should also strive to overcome the automatic suspicion (vigorously fueled from the outside) aroused by China’s strengthening its influence in the region. Regional elites need to avoid the temptation of playing on third parties’ differences. The Kiev elite’s fiasco must become a lesson for everyone.

2.8. Establishing a cooperation zone in Central Eurasia can potentially lead to another logical project – creating a community (or even a union) of cooperation, sustainable development and security for all of Eurasia, which will be open not only to the East, but also to the western extremity of Eurasia. The project should be put on the agenda as soon as possible.

2.9. The most important institution of international cooperation in the territory of Eurasia is the SCO, which creates the tools for pursuing a policy that meets common interests; the SCO also serves as a factor that intensifies the cooperation between the countries of the region. Despite the importance of the SCO as a platform for the development of cooperation in Eurasia, its role in the context of the SREB initiatives’ promotion and the Russian Trans-Urals development needs further study.

2.10. It might be beneficial to coordinate the individual SREB programs (that could be carried out under the auspices of the SCO) with the work of other international institutions that have set themselves

SILK ROAD ECONOMIC BELT MAIN POTENTIAL ROUTES



similar goals (e.g. UNDP and UNESCO). This would not only attract additional resources to the initiative's implementation, but also stimulate the economic development of the Central Asian states without any political interference by out-of-region forces. Provided energetic development SCO can become the central institute of the potential project of creating community of big Eurasia.

3. THE TRANSPORT COMPONENT

3.1. Eurasia has unique opportunities for the development of transport and logistical corridors and hubs that will connect the production and consumption potential of Europe and Asia. Therefore, the key prerequisite and direction for Central Eurasian development is the expansion of its transport and logistics infrastructure. The SREB implementation will make it possible to reduce the cargo transportation distance compared with the route via the Suez Canal. The length of the route is 8,400 km,

of which 3,400 kilometers have already been turned into roads in China, and the parts that are 2,800 and 2,200 kilometers long are currently being built or modernized in Kazakhstan and Russia, respectively. Nowadays, there are several transit corridors used for delivery of cargo from China to Europe. For the purposes of this discussion, all these routes are divided into three groups.

3.2. The first group (the Northern Route) includes the routes that run across the territories of China, Kazakhstan and Russia: **Urumqi – Dostyk – Omsk – Moscow – EU countries**. The distance from Urumqi to the western border of Russia is 7.5 thousand kilometers by railroad, and 6.9 thousand kilometers by motor road. The cost of cargo delivery via this route is very much dependent on the type of transport: the delivery by railroad will cost about 1,300 dollars per TEU, while the delivery by motor road will cost not less than 3,000 dollars per TEU. The estimated capacity of this route is one of the largest among all the presented routes and



China, and the parts that are 2,800 and 2,200 kilometers long are still being built or modernized in Kazakhstan and Russia, respectively. The idea of reconstructing this route is not new. A memorandum on the development of roads along the St. Petersburg – Kazan – Orenburg – Almaty route was signed back in 2007. However, this project was not implemented due to the lack

The SREB implementation will make it possible to reduce the cargo transportation distance compared with the route via the Suez Canal

amounts to 300 thousand TEU. So far, only 20% of the route's capacity has been used.

3.3. The most advanced version of the route is the Western China – Western Europe transport corridor, which runs through the cities of Lianyungang, Zhengzhou, Lanzhou, Urumqi, Khorgos, Almaty, Kyzylorda, Aktobe, Orenburg, Kazan, Nizhny Novgorod, Moscow and St. Petersburg, with further access to the Baltic Sea ports. This route is the only one out of all of the aforementioned routes that is already in operation, and most of the existing transit flows run along this very route. Another important advantage of this route is the need to cross only one customs border between China and Kazakhstan.

3.4. An important problem connected with this route is its limited traffic capacity: the route has to be altered significantly to achieve real competitiveness. The length of the completed road should reach 8,400 km, of which 3,400 km have already been developed in

of funding aimed at the reconstruction of roads meeting international standards. Now there is another wave of interest in this idea. In July 2014 in Beijing, the Head of the Presidential Administration, S.B. Ivanov, said that connecting the Silk Road with the Trans-Siberian Railway was an extremely promising project.

3.5. The second group (the Sea Route) includes the routes that run across the territory of Kazakhstan and use the Caspian Sea ports for transit. It is possible to single out two such routes. The first route is Urumqi – Aktau – Makhachkala –



Novorossiysk – Constanta. The cost of transportation with the transshipment onto a container carrier is currently about 4,000 dollars per TEU if the destination is in the EU, and 3,200 dollars per TEU if the destination is in the South of Russia. **The second route that belongs to this group is slightly different from the first one:** the cargo is delivered from Makhachkala to Tbilisi by road. If using this method, the cost of the cargo delivery from China to Georgia will be 3,700 dollars per TEU. The routes of the second group have less capacity than those of the first group: for example, the theoretical capacity of the Urumqi – Aktau – Makhachkala – Novorossiysk – Constanta route (taking into account the capacity of ports and unallocated fleet) is 100 thousand TEU, and that of the Urumqi – Aktau – Makhachkala – Tbilisi route (also keeping in mind the capacity of ports and unallocated fleet) is 50 thousand TEU.

3.6. The first problem that arises in connection with the possibility of developing the routes of the second group is that none of the Caspian Sea ports are ready to provide



service to them. Serious modernization of port facilities is required. The port of Olya in the Astrakhan region (its construction began immediately after the collapse of the Soviet Union so as to create a base for the Russian trade and military fleet in the Caspian Sea) currently cannot cope with the transshipment of even 1 million tons of cargo per year. The port of Makhachkala has an even smaller turnover. The construction of the Olya port is expected to be completed in the upcoming years; this will increase the turnover to the level of 8 million tons per year. Kazakhstan demonstrates much better progress: the Aktau port already has a turnover of 11 million tons of cargo per year. Nevertheless, none of the Caspian ports (Aktau, Makhachkala, Baku and

Astrakhan) work with containers or with any consumer goods in general; these ports are adapted only for bulk types of cargo. The second problem is the need for additional water transport. Special flat-bottomed container ships are needed to ensure the transportation of the containerized cargo – and they are approximately 20% more expensive than the usual container ships. The transshipment of containers





Baku – Poti – Constanta (the second option is: Urumqi – Dostyk – Almaty – Shymkent – Tashkent – Ashgabat – Tehran – Istanbul route) route, in addition to being virtually untested, is the most expensive, while at the same time being one of the aforementioned routes with the least capacity. The delivery cost of 1 TEU is up to 5,000 dollars when done by railway and up to

4,000 dollars if a truck and a ferry are used. The theoretical capacity of the route (taking into account the capacity of ports and unallocated fleet) is only 50 thousand TEU. This route will also require bigger capital investments, including the completion of container facilities in Baku and the port in Poti, the reconstruction of roads, and the construction of tunnels

from the railroad onto the water transport and back will require additional time and, most importantly, the services of duly qualified employees, of which, so far, there has been something of a shortage.

3.7. The third group (the Southern Route) includes the routes that bypass the territory of Russia. The Urumqi – Aktau –

PLANNED AND POTENTIAL MERIDIONAL INFRASTRUCTURE PROJECTS



and container logistics centers. All planned activities will require investments of not less than 8 billion dollars. This will greatly reduce the cost of transportation and make the average delivery cost about 1,500 dollars per TEU.

3.8. The Urumqi – Kazakhstan – Iran route, which is currently being launched, is much cheaper and has more capacity. The Iranian market is very promising, especially considering the realization of Iran's high potential after the sanctions have been lifted. The delivery by railroad will cost 1,700 dollars per TEU, while the delivery by truck will cost about 2,700 dollars per TEU. The potential capacity of this route is one of the largest among all of the aforementioned routes, and amounts to 300 thousand TEU; the expected volume of investments is 2 billion dollars, which will reduce the cost of the delivery by railroad and make it 1,800 dollars per TEU. The prospect of the elongation of the SREB transport routes up to India and Pakistan is also quite promising.

3.9. There is a high degree of probability that all the described “branches” of the SREB transport and logistics component will develop and be in demand because they are closely

linked to the implementation of the objective economic potential that the countries of the region possess.

3.10. These plans need to be reinforced by projects of meridional transport corridors and gas pipelines connecting Siberia to central and western China, states of Central and South Asia via Mongolia and Kazakhstan.

4. CONCLUSION

4.1. The potential of the deep interstate and interregional cooperation in the region closely related to The Silk Road Economic Belt concept lies not so much in the transport project per se, as it does in the project of co-development of Central Eurasia. This macro-region has great potential associated with the dynamics of the economy, a rich resource base, investment opportunities provided by China, and legal and institutional projects – EEU, SCO, and CSTO. All this sets the scene for the revival of the Silk Road in its original capacity as the continental belt of trade and economic and cultural interaction among the adjoining states, allowing them to achieve wealth and prosperity.

4.2 Common projects can be implemented through the already established institutional frameworks, such as the EEU. The most



important EEU achievement at the moment – the common customs – is complemented by a number of advantages brought by the existing and developing integration project (common phyto-sanitary standards, etc.). These tools can create great opportunities for cross-border trade within the Union and at its borders. There is a need, however, to urgently develop the common agenda of the EEU's relations with China, creation of a permanent forum for China – EEU dialogue. A part of the EEU Treaty is the road map of movement towards a common market. There is a plan to unify the pharmaceutical regulations by 2016, to organize a common electric power market by 2019, to create common financial mega-regulators by 2022, and to have a common market for oil, gas and petroleum products by 2024–2025. This will already facilitate the development of specialized clusters in Eurasia.

4.3. Especially promising is the prospect of the common electric power market. The large



coverage area, the number of generating capacities and their contingency provide for a more efficient market. If we also consider the solution of the problem of winter and summer energy supply in Central Asia by supporting hydropower with nuclear power, then the prospect looks very optimistic. Perhaps even at this stage it is necessary to study the possibility of connecting Western China (with its 22 million of people) to this common market. In the future, it will be possible to raise the issue of creating a circular electric power system of Central Eurasia, including Siberia, Kazakhstan, Central Asia and western regions of China.

4.4. Next in importance is the area of cooperation focused on the common cross-border and extra-regional threats. This means the volatility in the hydrocarbon markets, sanctions (as a phenomenon of a new political and economic reality), drug trafficking, environmental migration, as well as those common threats that appear due to the deteriorating





development may become ideal in 10–15 years.

4.6. Central Eurasia is home to enormous reserves of natural resources, including those that are very important: oil, natural gas, cerium- and non-ferrous metals. Most cost-effective and safe transport routes can run across this territory and connect the two giants of the world economy – Europe and East /

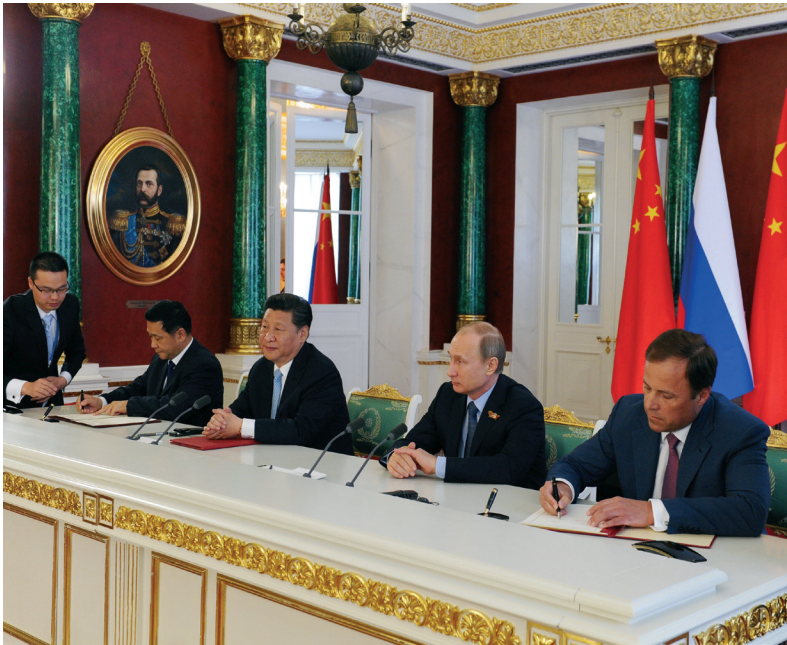
In the future, it will be possible to raise the issue of creating a circular electric power system of Central Eurasia, including Siberia, Kazakhstan, Central Asia and western regions of China

situation in Afghanistan and the common threat of Islamism (which, for China, is also fraught with separatist sentiment in XUAR). In this respect, Russia, China, and the SREB member-states could employ the existing CSTO and SCO mechanisms more actively. They could also create cross-border projects the clear target of which will be the reduction of a particular problem's severity.

4.5. However, the potential of co-development lies outside the institutional formats and is at the same time linked to the economic potential of the region and its logistical component: the regions that have already developed on their own often have no channels for trade. This could be overcome only by implementing large-scale transport-logistic and economic projects that will "sew" the macro-region together and provide a link between the resources, production sites and markets. Due to such projects, the map of Central Eurasian economic

Southeast Asia. The countries that participate in this regional cooperation (Russia, China and Kazakhstan being most dominant) view Central Eurasia as the region of cooperation and complementarity rather than competition. The strategic objective is to turn Central Eurasia into a zone of joint development not less intensive than the one that exists today among the EU member-states. The subjectivity of Eurasia in world affairs could be based primarily on the implementation of





large-scale economic projects that will link the region together.

4.7. The main objects of the primary investment (that is made by states and some specialized institutions – the Asian Infrastructure Investment Bank (AIIB), the Silk Road Development Fund, the Eurasian Development Bank etc.) will be infrastructure, construction and the resource-exploration industry. The second stage will involve them being complemented by the processing industry and other spheres of production up

could, as a first approximation, include the following priorities:

- to initiate the establishment of a Eurasian council for infrastructural investment whose mandate could include the development of a friendly legal, regulatory, and institutional environment in the Central Asia in order to implement infrastructural co-development projects (at the EEU-China level); implementation of mechanisms for financing infrastructural projects (jointly with the AIIB, the BRICS bank, the Silk Road foundation; search, support, and assistance for particular infrastructural projects;
- to establish a permanent Central Asia Dialogue forum as a political format for systemic dialogue between the institutions of Eurasian integration (both at supranational – Eurasian Economic Commission, and interstate – Supreme Eurasian Council – levels) on the one hand and regional partners (China and other states, which are still not members

Central Eurasia must become a safe and reliable home for its peoples, and a steadily developing safe common neighborhood of Russia and China

to high-tech production. It is expected that the active influx of private investments will bring about a quick economic effect caused by the high potential and as of yet low competition in the region.

4.8. In order not to miss the “Eurasian moment”, it is necessary to discuss the new strategy for the joint development in Eurasia with the key regional partners – Kazakhstan, China and Central Asian states. **This strategy**

of the EEU), on the other. Interaction and dialogue between China and the EEU member-states should not be allowed to retreat to bilateral formats;

- to develop a long-term program to strengthen the other institutions of international cooperation, such as the SCO and the CSTO, in the new context of regional cooperation;

- to reinvigorate the policy with regard to the nascent Asian Infrastructure Investment Bank in order to make it a really workable mechanism to attract investment to the regional projects of co-development and trans-border cooperation, as well as Russian projects, including in the sphere of transportation and logistics;
- to establish an EEU working group on transportation (including air transportation) and logistics infrastructure with possible participation of Kyrgyzstan;
- to establish an EEU task group that will work on the issue of transport and logistic infrastructure, and possibly include the representatives of Kyrgyzstan;
- to ensure the Eurasian Economic Commission initiates the White Book of the EEU transport and logistics strategy – a common position of the participating countries;
- to develop a long-term “Transport and logistics map of Eurasia”, that will summarize the existing and planned projects of cooperation and investment in the fields of transport and infrastructure development as a whole;
- to prepare a joint Russian - Kazakh - Chinese strategic document entitled “The energy belt of Eurasia” that will determine the long-term priorities of international cooperation in the field of energy trade and take into account the objective transformations of this market;
- to initiate an international program of co-development, named “Eurasian verticals”, that will be aimed at strengthening the North - South latitudinal trade and economic relations;
- to research the possibility of creation of 1 or 2 large air transportation hubs in the region;
- to make administrative decisions (at the governmental level) in order to resume the implementation of the Greater Altai project, which was developed in the late 1990s – early 2000s and united the border regions of China, Mongolia, Kazakhstan and Russia;
- to initiate an expert examination of the issue focused on the development of the “North Kazakhstan – South Siberia” agro-cluster;
- to initiate an expert-analytical study of the project of international cooperation on the Irtysh river (which is shared and actively used by China, Kazakhstan and Russia), based on the “common river” principle by analogy with The Mekong Initiative; this objective also involves creating an effective river basin commission and attracting a package investor;



- to develop a list of measures for the participation of Russian companies in the development of the Alatau cluster – the belt of growth that is concentrated around Alma-Ata and involves three countries – Kazakhstan, Kyrgyzstan and China.

4.9. The joint implementation of the aforementioned project (as well as other projects) of common development in Eurasia

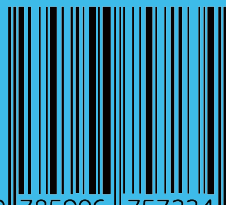
will allow Russia, China, Central Asian countries, Mongolia and, in the future, India, Turkey, Iran and South Korea to solve a number of domestic and international challenges they are currently facing, to lay the foundation for the sustainable development of the region, and to eliminate the possibility of its “ internal explosion”. Central Eurasia must become a safe and reliable home for its peoples, and a steadily developing safe common neighborhood of Russia and China.



TASS images are used in the report.

valdaicclub.com

ISBN 978-5-906757-23-4



9 785906 757234