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Geoeconomics in Central Asia

Infrastructure and transit projects offer new opportunity for the region.

By Michał Romanowski

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Twenty-five years after the dissolution of the Soviet Union, Central Asia is a region of relative stability. There are, of course, security, economic, and social challenges, which give local leaders sleepless nights; however, the narrative shift – from a troublesome region to an area of opportunity – is producing some surprising results.

The countries of Central Asia are increasingly independent and their political outreach stretches beyond their borders. A marketing whiz could even have a crack at a slogan that captures the situation adequately: Ask not what you can do for Central Asia – ask what Central Asia can do for you.

Situated between Europe and Asia – the two most energy-consuming markets today – Central Asia offers more than just considerable hydrocarbon assets. Its focal, albeit landlocked, location in the heart of Eurasia positions the region as a land bridge connecting cultures, societies, and – importantly – economies.

Being linked to global markets through their neighbors is a top priority for the Central Asian authorities. The region is not forced to exclusively sell raw materials. It could be – and indeed is

gradually becoming – a transit channel for goods moving from East Asia to the European Union and vice versa.

Trade, Not Integration

The development of infrastructure to transport domestic and international products is therefore a foundation of Central Asia's sovereignty. In addition, keeping the trade routes opened is key to the economic prosperity of the region. Steadily improving the capacity of transit corridors could boost trade over the long term. This would be a scenario welcomed by all – the Central Asia states as well as the major global players.

The level of regional cooperation – a prerequisite for upgrading Central Asian connectivity – does leave much to be desired. The economic potential, strategic interests, and political leverage of the countries of the region are greatly divergent. Hence, their integration, often enforced by external actors, merely scratches the surface.

Kazakhstan – the largest landlocked country in the world – pursues very much its own regional policy. Over the years it has developed a certain international brand. Astana, attracting most of Central Asia's trade and investment, wants to be perceived both as a political and a transit hub. Turkmenistan and Uzbekistan, like Kazakhstan boasting rich energy deposits, are not willing to give up the leader's seat without a fight. The two smallest and least developed states of the region – Kyrgyzstan and Tajikistan – are only passive recipients of the ongoing historical processes, being too weak to impose their own agendas.

Throughout the Soviet Union, the road and rail skeletons as well as oil and gas pipeline networks in Central Asia were built northward. At that time all roads literally led to Moscow. The breakup of the USSR opened up a new chapter in the region's short history. The recently established countries, after a period of state consolidation, realized they had no choice but to maintain neighborly relations along their borders in order to unlock the regional transport arteries.

Energy Outreach

Energy came first. The first Western company to enter Central Asia in 1991 was Chevron. Today, the two main hydrocarbon exporters are Kazakhstan and Turkmenistan. Central Asia's evident energy reorientation toward China has not obstructed the development of a multi-directional projects. The Turkmenistan–Afghanistan–Pakistan–India pipeline is among the most crucial initiatives. Officially initiated in 2011, TAPI would supply the Turkmen gas to the three partner states. Construction is supposed to be completed by the end of this decade.

Although the Caspian Sea status is still unresolved, the idea of linking the Central Asian pipeline system to Europe has lately been revived. With the Trans-Anatolian gas corridor in construction, Ashgabat – supported strongly by the EU – seeks an alternative way to overcome the impasse. The main obstacle, apart from the Russian and Iranian objections, is an estimated cost of \$20 billion to build a gas pipeline across the Caspian Sea. Turkmenistan is, however, determined to secure new markets. Ashgabat wants to see its gas output hit 250 bcm per year by 2030. If

executed, both TAPI and the Trans-Caspian linkages would fully diversify the Turkmen gas policy.

The cross-border energy transit within Central Asia is not limited to just raw materials. The region's states – and here Tajikistan and Uzbekistan take the lead – share their summer electricity surpluses with neighbors in need. In 2013, the total electric power delivered from Central Asia to Afghanistan amounted to nearly 3000 gigawatt hours. It is also expected that by 2016 more than 750 kilometers of transmission lines in the region will be installed or rehabilitated.

That could contribute to the CASA-1000 project, which aims to deliver Kyrgyz and Tajik hydropower energy to Afghanistan and Pakistan. Most likely, CASA-1000 will not be finalized by 2018. But if and when it is inaugurated, it would be a landmark in enhancing regional cooperation and connectivity. A high-risk project, it would promote stability in Afghanistan, the soft underbelly of Central Asia.

Eurasian Land Bridge

Another sector in which Central Asia sees great transit and commercial opportunities is rail and road transport. The region occupies a vast territory, but is sparsely populated. Upgrading the system of rail lines and roads would have dual meanings. It will improve the everyday life of citizens and reduce international transit costs, which can be twice as high as they are in Europe.

Distance remains the most expensive component of trade. It works against Central Asia in particular. Distances of thousands of kilometers to key global outlets provides some daunting context for the region's economic expansion. The overwhelming majority of goods from East Asia to Europe are shipped by sea. It will remain a major mode of transport, yet overland transit through Central Asia should grow in importance in the coming years.

The cake is small and there are many mouths to feed. As with energy trade, the stronger you are the bigger your share. Kazakhstan and Uzbekistan possess the most developed rail and road systems in Central Asia, and Astana has a significant edge. There are more than 100,000 kilometers of roads and 20,000 kilometers of railways in Kazakhstan, which generates the bulk of the rail traffic in the region and has the largest network of logistics centers. Kyrgyzstan, with just 450 kilometers of tracks, brings up the rear. Moreover, both Dushanbe and Bishkek are highly dependent on the transport infrastructure of their neighbors, especially Uzbekistan.

Central Asia's freight transport is dominated by rail. The trucking industry is modest and roads are mainly used to move goods from China to the region's bazaars. Even though Kazakhstan appears to be a local hegemon, transit transportation accounts for only 6 percent of Astana's total traffic. Finally, all five countries score poorly on the logistics performance index. A suitable remedy for these shortcomings are the currently devised international projects, the prime objective of which is to advance Central Asian connectivity.

The final section of the Kazakhstan-Turkmenistan-Iran railway opened in December 2014. Tehran and Ashgabat thus expect to double their trade in 2015. Turkmenistan, along with

Afghanistan and Tajikistan, continues also the work on the TAT rail link, which could have a profound impact on the economies in the latter two countries. The link will also reduce Tajik transport dependence. China and Kyrgyzstan have already declared their interest in connecting to the soon-to-be-opened TAT rail channel. For its part, Bishkek is actively lobbying to create a joint railway with Beijing, which can then pass through the territories of Tajikistan, Afghanistan, and Iran, connecting Central Asia to the Persian Gulf.

Foreign Contestants

Investments in energy and transport infrastructure are perceived in Central Asia as a way to revitalize the regional economies. For superpowers engaged in the new Great Game, security and stability is equally important. China has already donated billions of dollars to develop regional transit corridors and offers an additional support packages for countries along the Silk Road Economic Belt.

For Russia, Central Asia was once its political backyard. Moscow is slowly accepting Beijing's economic might in the region. The Eurasian Economic Union, which brings together Kazakhstan, Kyrgyzstan, and in the future Tajikistan, is the Kremlin's attempt to save face. However, it could have – through customs and trade facilitation – a positive impact on the region.

Other players, like the United States and Europe, are on the margins in Central Asia. Except for the security aid provided to the local authorities, Washington's regional involvement is limited. Its support chiefly goes to projects that directly engage Afghanistan. The European Union on the other hand is torn between doing business – Kazakhstan is the key partner here – and being the only one to promote, often inconsequentially, human rights.

As far as infrastructure and transit projects are concerned, there is one more entity, this time with no political agenda, which has Central Asia's connectivity very much in mind. Between 2001 and 2014 the Central Asia Regional Economic Cooperation Program dedicated nearly \$25 billion to infrastructure projects in the region. Under CAREC auspices, the first railway from Afghanistan to Uzbekistan was built and almost 8,000 kilometers of roads were constructed or upgraded.

Hewlett Packard, BMW, and Asus already operate in Central Asia and use it as an overland transit region. It is only natural that these countries, with the rejuvenation of an ancient corridor linking Eastern and Western civilizations, seek a chance to transform their economies. Yet the ruling regimes too often focus on trying to gain as much as possible at minimum cost. There are a multiple challenges, including commodity-oriented exports, undeveloped logistics, lagging integration, or security concerns, which can undermine the free flow of goods and capital. Central Asia needs to stay connected, but truly seizing this opportunity will require a considerable effort.