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Analysis

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Kazakhstan: A Pivotal Player in Eurasian Trade Links

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In the 25 years since Kazakhstan became an independent state, the country's economy has expanded rapidly. In 2014, the country's G.D.P. stood at $218 billion, up from a record low of $17 billion in 1999. Much of its economic growth has come on the back of exports of natural resources to East Asia and European markets. Among the five Central Asian states, Kazakhstan has successfully become the largest economy. In fact, its economy is bigger than the other four countries combined (Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan).

To preserve Kazakhstan's role as the economic engine of Central Asia and maintain high-level growth, the government in Astana identifies additional export markets and enhanced trade links to the outside world as priorities. These policy imperatives, however, have more than an economic rationale. Kazakhstan's desire to implement a multi-vector foreign policy also necessitates less reliance on traditional trading partners and routes. The Kazakhstani leadership ultimately wants to see its large landlocked country in the heart of Eurasia become the principal hub for trade between Europe, Russia, China, and the rest of East Asia.

Accordingly, in 2014 Kazakhstan launched a five-year plan—Bright Path—to build new roads and a railway network. The plan is reported to come at a $33 billion cost, with 85 percent of the capital coming from private and foreign investors. Not only will the project better connect the country to its immediate neighbors and new markets further afield, but it is also expected to result in significant job creation at times of domestic economic instability due to low energy prices.

Kazakhstan has notably pushed for more trade in all directions. In December 2014, Astana and Beijing signed a number of deals amounting to $14 billion in value. Energy and mineral exploration and the infrastructure needed to bring Kazakhstani output to the Chinese market were key in the accords. Only two months earlier, President Nursultan Nazarbayev had visited Brussels to push ahead with talks on an "Enhanced Partnership and Cooperation Agreement" with the European Union, aimed mostly at deepening trade ties.

But in all its efforts toward the East and the West, Kazakhstan has been careful not to neglect its historic economic partner, Russia. In 2014, Kazakhstan became a member of the Eurasian Economic Union (E.E.U.), a new economic bloc comprising

Kazakhstan, Kyrgyzstan, Russia, Belarus, and Armenia. The E.E.U. had been launched in May 2014. Contrary to a general perception that the initiative had been forced on other members by Russia, the E.E.U. was in fact an idea originally conceived by Nazarbayev.

And yet, to this date, the E.E.U. has remained a largely political association of sorts and failed to make progress toward implementing an economic framework. This has come as a disappointment to Astana, which had from the outset insisted the principal goal behind the E.E.U. was the development of economic linkages among member states and beyond to the outside world.

According to Russian President Vladimir Putin, the E.E.U. has the potential to become a global transportation hub linking the trade flows between Asia and Europe. Still, while Russia sees itself as the inevitable linchpin in the E.E.U., Astana has been careful to prevent Moscow from dominating the east-west trade corridors. Moreover, all Russian attempts to deepen the E.E.U., including implementation of a common passport and currency, a collective parliament, and a common border force, have been rejected by Astana.

In order to mitigate against Moscow politicizing or dominating the E.E.U., Astana has simultaneously pursued alternative trade route options, which will help reduce Russian domination of the Eurasian trade network. One recent example is the trans-Caspian rail route, which was launched in August 2015. This new 3,500km rail network connects China to Azerbaijan via Kazakhstan. The rail connection is designed to eventually reduce the time of surface transportation of goods from China to Europe to about 15-17 days.

In fact, Kazakhstan and Azerbaijan have been at the forefront of developing alternative trade routes from Central Asia to Europe via the Caspian Sea. This renewed leadership on the part of Astana and Baku has plenty of economic reasons, including the collection of transit fees. However, it rests also on a broader disappointment among former Soviet republics in a lack of Western resolve to spearhead efforts to link Europe with East Asia through the Caucasus and Central Asia. The simple truth is that since 1991 the concept of linking East Asia and Europe has had many false starts.

To this day, the United States periodically touts the idea of the New Silk Road initiative launched by Washington in 2011. But the plan was from the outset structurally hampered and limited in its vision, as it was above all aimed at reducing Afghanistan's isolation through the establishment of a north-south trade corridor. But such a route, even if implemented, was always destined to be a marginal factor in the big picture of Eurasian trade. The vast majority of the cargo traffic is between China and the European Union, a trade that has experienced a five-fold increase in the last decade. And about 90 percent of cargo from China to the European Union is transported by ships and via the Suez Canal.

Given these realities, it is unsurprising that the countries in the Caucasus and Central Asia, specifically Azerbaijan and Kazakhstan, have been contemplating ways to play a bigger role in the Eurasian transshipment industry. Besides practical steps toward developing the necessary physical infrastructure, such as the trans-Caspian rail network, Astana and Baku have also pushed ahead with finding ways to harmonize customs and cross-border procedures in order to become commercially more attractive against the much larger shipping industry. Nor are they opposed to any other arrangements that can foster increased Eurasian trade. China's One Belt, One Road initiative, launched in 2013 and aimed to improve transportation options, has in fact been welcomed by both Kazakhstan and Azerbaijan.

What matters most is to create new trade routes that cannot be dominated by one actor alone, and which can enable states such as Kazakhstan to grow economically on the back of a multitude of export market options and acting as transit hubs for Eurasian trade. President Nazarbayev has publicly stated that he would like to see cargo that travels through his country double to about 50 million tons by 2020.

In this effort, Astana will probably find many willing collaborators, including Azerbaijan and Georgia. More trade, which additional roads and rail connections will enable, can go a long way to reduce the cost and time of transportation. The infrastructure needed, as called for by Astana's Bright Path initiative, will at the same time produce new economic opportunities for transit states and lead to job creation and enhanced social stability in the transit countries. These are important objectives, and if implemented successfully, an array of states on the path of emerging trade routes in Eurasia will find themselves to be among the principal beneficiaries.

Assertions and opinions in this Commentary are solely those of the above-mentioned author and do not necessarily reflect the views of the Middle East Institute, which expressly does not take positions on Middle East policy.

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