

ENC ● ●

ENCouncil.org

European Neighbourhood Council



# ENC ANALYSIS

## **Statecraft in the Age of Connectivity: The Case of Kazakhstan's Diversified Railways Diplomacy**

---

January 2019

Authors: Dr. Nicola P. Contessi

This article was originally published in [Port Technology Ed. 80](#) (2018):

---

## ABOUT THE AUTHOR



**Dr. Nicola P. Contessi** (Ph.D. Laval) is an international affairs specialist with expertise in international transport, global governance, foreign policy and rising powers, and a regional focus on Eurasia. His op-eds have appeared in Asia-Pacific Bulletin, Euractiv, The Diplomat, The Hill Times. He can be contacted at: [ncontessi@gmail.com](mailto:ncontessi@gmail.com)

## **Statecraft in the Age of Connectivity: The Case of Kazakhstan's Diversified Railways Diplomacy**

### **Summary**

Taking advantage of the ongoing global infrastructures buzz, Astana has positioned itself at the center of both the east–west and the north–south intercontinental corridors, alleviating its dilemmas of dependence while expanding both access and transit revenues. It has done so by adopting a diversification strategy in which long-haul rail transport is divvied up into three main components: route planning, logistics hubs, and railway access. Each of these is then partitioned into as many segments as desired to engage as many partners as possible beyond its immediate more powerful neighbors.

### **Introduction**

In a world increasingly shaped by infrastructure initiatives –spearheaded by, but not limited to, the China-sponsored Belt and Road Initiative– connectivity is fast becoming a key area of statecraft. Transport infrastructures have a real structuring effect on international life. By drawing new transport corridors, these initiatives are creating new modes and patterns of access. Access determines the ways and the conditions under which A can enter B's (and vice versa) markets; how A is able to shape the attribution of contracts for the extraction of the resources contained in B's territory and how they are exported to world markets; and how A is able to use B's territory for other economic or military purposes. The degree to which a country is able to manage its own incoming and outgoing traffic without interference is a good yardstick for assessing its independence. To the extent that this can offer leverage for political manipulation, transportation is fundamentally entwined with sovereignty and national security. Hence, it matters whether or not a country's active or passive access routes—roads and railways, pipelines, flight paths and maritime approaches—are indebted to the benevolence of one, two, three countries, or none.

### **Pain or gain: The two sides of connectivity**

Dependency on a single transport corridor can expose a country to unequal transit costs or blackmail. In contrast, a wider choice of options can have the opposite effect and can enhance economic growth. For example, consider the blockade Russia imposed on Ukraine in January 2016, and quickly reciprocated by Ukraine, suspended a free trade deal and banned air, road and rail transport through Russia (unless the route crossed Belarus first). Kazakhstan leveraged similar vulnerabilities when it imposed increased controls at the Kyrgyz border in response to a spat between the presidents of the two countries in 2017. Conversely, Switzerland's many cross-border interconnections and active transport policy show how governments can use infrastructure to position their

countries as lynchpins for continental logistics. The unfolding scenario of global connectivity presents both threats and opportunities for states.

### **Less pain, more gain: The benefits of diversification**

Although geography is a significant factor in all this,<sup>i</sup> it is through foreign policy that states can manage the way they are linked to the outside world. A strategy of diversification can help mitigate some of those vulnerabilities, though not necessarily cancelling them.<sup>ii</sup> It also expands access and generates revenues. Effective diversification relies on the slicing up of a given issue-area into various components and the skillful use of diplomacy to attract a range of partners corresponding to the components for which assistance is sought. This issue-splitting mechanism introduces a market-type of logic to what are otherwise highly political, and often asymmetric, interactions. Extending the market analogy, an accomplished diversification strategy transforms a natural monopoly, which we would see if only one, and possibly the same, partner was chosen to assist in a given issue-area, into a semblance of a competitive market. Having partially depoliticised its alignment decisions, the implementing government can then be seen as if it were merely performing a quasi-regulatory role as to which partners to select for an area's different segments.

Taking advantage of the global infrastructures buzz, Astana has positioned itself at the center of both the east–west and the north–south intercontinental corridors, alleviating its dilemmas of dependence and expanding transit revenues. As an issue area, long-haul rail transport is divided up into at least three main components: route planning, logistics hubs, and railway access. Each of these is then partitioned into as many segments as desired.

### **Route planning along the East-West corridor**

Spearheaded by KTZ, the national rail company, Kazakhstan has made growing efforts to expand the range of transport routes transiting through its territory. While strongly relying on them, KTZ actively pursues new routes and transit agreements with foreign railway partners beyond China and Russia, both in Asia and wider Europe. In March 2017, KTZ began discussions with Vietnam, participated by China, set up a Europe-bound route for Vietnam and other Southeast Asian countries. This would start at Saigon Newport Corporation Cat Lai port and transit through KTZ terminals at the Chinese Port of Lianyungang and Khorgos. A similar outreach targeted Japan and South Korea using the port of Nakata, on which occasion, KTZ also inked a memorandum on cargo traffic with Nippon Express. On the Western front, KTZ has furthered contacts with a range of partners to branch out to destinations beyond Germany, which now extend to Latvia, the Netherlands, Italy, Spain, and the UK. Meanwhile, Astana worked to develop the Trans-Caspian International Transport Route as a southern spur for the corridor. One of TRACECA's original members, Astana successively established an Association with Azerbaijan, Georgia and Turkey to finally complete and coordinate the route, which today has two branches. The first reaches Turkey and the Mediterranean; the second crosses

the Black Sea to Eastern Europe with existing and planned destinations in Hungary, Moldova, Poland, Romania and Ukraine.

### **Logistical hubs**

The second pillar in the country's strategy for diversified connectivity is logistical hubs. Kazakhstan has invested robustly in two continental gateways, in addition to a string of overseas terminals in foreign ports, typically managed through joint ventures with local partners. The gateways are the Khorgos dry port at the Chinese border and the Aktau sea port on the Caspian –both managed by DP World and integrated through its Port Community System technology. Overseas, KTZ opened a terminal in the Port of Lianyungang in 2014, equipped with warehouses and a grain berth and silos, and one at Klaipėda (Lithuania) in 2015, with a capacity of 100,000 TEU/year. Kazakhstan and China plan to invest some US\$300 million for an International Logistics Park of the Shanghai Cooperation Organization at Lianyungang. KTZ has plans for other terminals in Estonia (Paldiski Northern Port) and in Russia (Central Dry Port, in Domodedovo). This web of existing and prospective domestic and overseas hubs is designed to funnel and sort transit traffic to the KTZ network through various warehousing and transshipment agreements, and enhance its integrated logistics offering, while positioning Kazakhstan as the unavoidable land bridge for Euro–Asian trade.

### **Freight partnership agreements**

The third pillar is to position KTZ at the centre of a system of partnerships with various foreign operators, where KTZ carries out transit on Kazakhstan's territory. This is consistent with a government preference for the preservation of KTZ's monopoly rather than opening up the national infrastructure to foreign operators. Currently, KTZ is a partner in the United Transport and Logistics Company formed in 2014 with the Russian and Belorussian railways, which offers door-to-door China-Europe deliveries in collaboration with DHL. In addition, KTZ Express (a subsidiary of KTZ) runs an air-rail service with DB Schenker and KLM from Chongqing to Amsterdam via Almaty. KTZE is also a key partner in the bimonthly Chang'an international cargo service between Xi'an and Almaty, and in the Silk Wind and Nomad Express services to Turkey.

### **Route planning along the North-South corridor**

With the inauguration of the Kazakhstan—Turkmenistan—Iran (KTI) railway in December 2014, Kazakhstan's territory harbors one of the two spurs of a corridor linking Russia and India via Iran. The second, across Azerbaijan, is actually shorter but was only completed in March 2018. Though the North-South Corridor is still in its infancy, Astana is replicating the same kind of approach seen above. Iran is the key partner here, leading, in 2016, to agreements between KTZ and Islamic Republic of Iran Railways and between KTZE and Islamic Republic of Iran Shipping Lines (IRISL) designed to boost traffic to 10 million tonnes/year, taking advantage of the 2015 agreement on uniform tariffs between KTI

states. Kazakhstan then hosted a meeting at its embassy in Beijing to promote traffic from China thanks to a regular service from Lianyungang to Bandar Abbas. The pair has additional discussions to organize regular trains with both China and Russia. To this effect, in 2017, KTZ signed a strategic cooperation agreement with RDZ Russian railways. With India, KTZ reached a memorandum with the Ministry of Railways in 2015 to develop freight traffic from India's ports.

### **Logistical hubs**

In February 2015, KTZ signed a memorandum with Adani Ports & Special Economic Zones to jointly build a terminal at the ports of Mundra and Mumbai on India's northwestern coast. This would help bring South Asian traffic to the corridor via the Iranian port of Bandar Abbas. The same year, at the Saint Petersburg Economic Forum, KTZ signed another memorandum with Sberbank to finance its projects in India. There has been little progress since, though interlocutory contacts were resumed in 2018. KTZ then adopted the same approach with Iran in 2016, reaching an agreement with the Social Security Investment Company to build a terminal at Bandar Abbas and logistics facilities at the Inchehborun station. This was followed by a joint venture with IRISL in February 2017 for operation of the joint terminal.

### **Freight partnership agreements**

In July 2017, KTZE signed an agreement with Sinotrans and Lanzhou Pacific Logistics for a Vietnam-China-Iran-Turkey container line. Beforehand, China-Teheran trains were launched in February 2016 thanks to a JV with China, Iran and Turkmenistan. Shortly after, Eastcomtrans Transport & Logistics, another Kazakh company, created a JV with Iran's Railway Transportation S.A.

### **Conclusions**

Whereas Kazakhstan benefits from a monopoly over the shortest route between Europe and Asia, it is through policy that the country has been able to position itself at the centre of emerging and future trade routes. Over little more than a decade, Astana has implemented a diversification strategy in the railway transport sector with significant success thanks to multiple partnerships in the areas of route planning, logistical hubs and the establishment of freight services. By the first half of 2016, this had boosted KTZ's revenues, with transit fees representing 35% of the total and a target to bring that to 50%. Additionally, though China and Russia comprise respectively two and eleven of Kazakhstan's 16 international railway links (1 each with Kyrgyzstan, Turkmenistan, and Uzbekistan), the agreements concluded with countries beyond them can add leverage as a complementary push/pull force external to the immediate bilateral relationship. This has multiple benefits: expanding access, reducing the control those two more powerful countries may exercise, and dis-enclaving the country's landlocked situation.

---

<sup>i</sup> For obvious reasons, landlocked countries like Bolivia, Kazakhstan, or Switzerland are all the more concerned and have traditionally placed a prime on transport strategies. To read about the little-known case of Bolivia, see: Laurence Blair, 'Dreams of the sea. Bolivia's battle to reclaim its lost coastline', *Financial Times*, 29 January 2016.

<sup>ii</sup> Nicola P. Contessi, 'Foreign Policy Diversification and Intercontinental Transport Corridors: The Case of Kazakhstan's Railways Diplomacy', *Europe-Asia Studies* 70, 5 (2018): 759-790.