

## UKRAINE AND KAZAKHSTAN: TOGETHER IN THE GREAT SILK ROAD PROJECT

Roza NURTAZINA

*D.Sc. (Political Science), Professor,  
Lev Gumilev Eurasian National University  
(Astana, Kazakhstan)*

Petr TOKAR

*Ph.D. (Sociol.), guest lecturer,  
Lev Gumilev Eurasian National University  
(Astana, Kazakhstan)*

Sviatoslav RUBAN

*Doctoral candidate, Lev Gumilev Eurasian National University  
(Astana, Kazakhstan)*

### ABSTRACT

The authors discuss the role the Silk Road transportation corridor will play in the East-West relationship, outline the prospects and specify the problems that arise in the course of cooperation between Ukraine and Kazakhstan within the project.

**KEYWORDS:** *Kazakhstan, Ukraine, Silk Road, TRACECA, cooperation in transportation.*

### *Introduction*

Today, it has become especially important to find new ways and means to shake up cooperation between Ukraine and Kazakhstan in the transportation sphere, with regard to the geopolitical and geo-economic processes unfolding in the world. Both have a good chance of improving their indices of economic cooperation and identifying the priorities of bilateral cooperation, the One Belt, One Road project that China initiated in 2013 being one of them.

The relations between Ukraine and Kazakhstan have not yet attracted the attention of the Ukrainian and Kazakhstan academic communities, yet Iu. Tavrovskiy<sup>1</sup> and V. Povoroznik<sup>2</sup> have written

<sup>1</sup> See: Iu. V. Tavrovskiy, *Novy Shelkovy put*, Eksmo, Moscow, 2017.

<sup>2</sup> See: V. Povoroznik, V. Perebiynis, "Proekt 'Odin poias—odin shliakh': mozhlivosti dlia Ukraini," Mizhnarodniy tsentr perspektivnikh doslidzhen (MTsPD) za pidtrimki Tsentru suchasnogo Kitaiu "TIANSIA LINK", 2015 (V. Povoroznik,

about the subject, while A. Nurseitov,<sup>3</sup> A. Amrebaev,<sup>4</sup> R. Zhangozha<sup>5</sup> and S. Rudenko<sup>6</sup> have several scholarly articles on the subject to their names.

We have posed ourselves with the task of analyzing the implementation specifics of the One Belt, One Road project and assessing the future of cooperation of Kazakhstan and Ukraine within it.

## Revival of the Great Silk Road as an Economic and Political Project in Contemporary Realities

The year 1992 can be described as a starting point in the diplomatic relationship between Ukraine and Kazakhstan. Disintegration of the Soviet Union inspired them to seek, develop and upgrade cooperation in different spheres, the transportation sphere and possible cooperation within the Great Silk Road project being one of the central points.

The Great Silk Road was a unique system of trade caravan roads (up to 12,000 km long) that had taken shape in the 2nd century B.C. and remained functional until the 16th century A.D. as a link that joined the vast space stretching from China to the Mediterranean. It was along the Great Silk Road that peoples exchanged technologies, ideas and handicrafts and learned more about their neighbors' cultures; trade as its main function being an important development factor of the great civilizations of China, India, Egypt, the Arab world, Rome and Byzantium that served as the foundation of the contemporary world. In China it was known as the Jade Road: its eastern part was used to export jade, which was commonly believed to bring luck, hence its value, which was practically equal to that of gold and silver.

The Great Silk Road, which played the main role in developing the relationships between China and European countries, was the symbol of East-West relationships. The term itself was coined in 1877 by Baron von Richthofen, a prominent German geographer and geologist, to describe the routes between the Far East and Western Europe.

Ukraine and Kazakhstan were the two main components of the Great Silk Road. President of Kazakhstan Nursultan Nazarbayev has written in his book *V serdtse Evrazii* (In the Heart of Eurasia): "According to numerous historical chronicles, the Great Silk Road that connected the West and the East of Eurasia in the middle of the first millennium A.D. ran across the steppes of Central Kazakhstan. As one of the most important phenomena in human history, it took shape amid the developing and consolidating trade contacts between the states of Europe and Asia. It was along its routes that a unique and highly distinctive steppe civilization finally took shape, a fantastic combination of nomadic and settled lifestyles."<sup>7</sup>

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V. Perebinyos, "One Belt, One Road: Ukraine's Opportunities," International Center for Advanced Studies under the Center for Contemporary China Tianxia Link, 2015).

<sup>3</sup> See: A. Nurseitov, "Ekonomichesky poias Shelkovogo puti: vozmozhnosti i perspektivy," available at [<https://yvision.kz/post/520219>].

<sup>4</sup> See: A. Amrebaev, "Ekonomicheskiy poias Velikogo Shelkovogo puti: ot idei k realnosti," *Kazakhstan v globalnykh protsessakh*, No. 3, 2014, pp. 30-39.

<sup>5</sup> See: R. Zhangozha, "Proekt 'Noviy shovkoviy shliakh' iak chinnik diversifikatsii transnatsionalnykh torgovelo-ekonomichnikh stosunkiv," *Ukraina: podii, fakti, komentari*, No. 10, 2017, pp. 38-42 (R. Dzhanguzhin, "The Project New Silk Road as the Diversification Factor of the Trade and Economic Relations," *Ukraine: Events, Facts, and Comments*, No. 10, 2017, pp. 38-42).

<sup>6</sup> See: S.V. Rudenko, O.V. Akimova, "Obosnovanie skhemy perevozki gruzov mezhdru Evropoy i Kitaem cherez porty Ukrainy," available at [<https://www.sworld.com.ua/konfer-vuz3/2.pdf>].

<sup>7</sup> N.A. Nazarbayev, *V serdtse Evrazii*, Atamura, Almaty, 2005, p. 77.

On 16 September, 2013, during a visit to China, Chairman Xi Jinping formulated the Belt and Road initiative, a strategy of intensified international trade intended to encourage economic cooperation between the countries along the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, free movement of raw materials, capitals and workforce, more efficient distribution of resources and more efficient regional economic cooperation. A vast free trade area that will finally appear, stretching from the northwestern provinces of China to Central and Eastern Europe and having the population of about three billion, will become a huge potential market.

“The Belt and Road Initiative aims to ... establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries.”<sup>8</sup>

The list of cooperation priorities include:

- (1) enhancing policy coordination ... should promote intergovernmental cooperation, build a multi-level intergovernmental macro-policy exchange and communication mechanisms, expand shared interests, enhance mutual political trust, and reach a new cooperation consensus;
- (2) giving priority to linking up unconnected road sections, improving road network connectivity;
- (3) removing investment and trade barriers for the creation of a sound business environment; establishing free trade areas so as to unleash the potential for expanded cooperation;
- (4) increasing financial integration and money flows and transfer to national currencies;
- (5) carrying forward the spirit of friendly cooperation of the Silk Road by promoting extensive cultural and academic exchange, tourism, and media cooperation.<sup>9</sup>

In late March 2015, the National Development and Reform Commission, Foreign Ministry and Ministry of Commerce of China adopted the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, which specified that the project intended to connect Asia, Europe and Africa via five routes. The Silk Road Economic Belt will bring closer together

- (1) China and Europe via Central Asia and Russia;
  - (2) China and the Middle East via Central Asia;
  - (3) China and Southeast Asia, South Asia and the Indian Ocean. The 21st-Century Maritime Silk Road will rely on the existing sea ports of China to connect:
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- (4) China with Europe via the South China Sea and the Indian Ocean;
  - (5) China with the southern part of the Pacific across the South China Sea.<sup>10</sup>

Having concentrated on these five routes based on the already functioning transportation infrastructure and hoping to invigorate cooperation, China intends to build up six economic corridors (see Fig. 1).

- (1) The New Eurasia land bridge—an international railway that begins in Lianyungang (the Jiangsu Province of China), via Alashankou to the Xinjiang Uyghur Autonomous Region to Rotterdam in the Netherlands.

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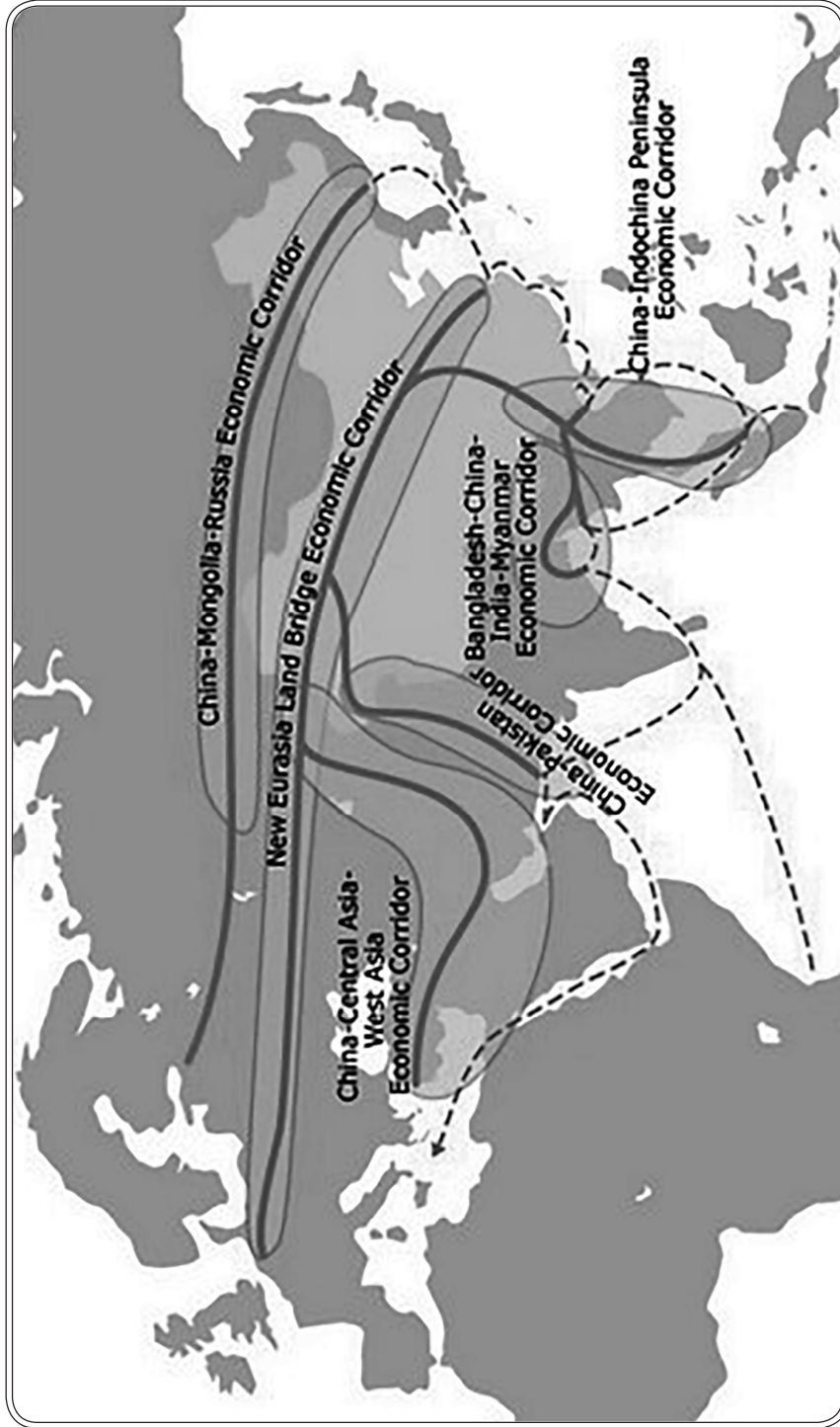
<sup>8</sup> “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road,” National Development and Reform Commission (NDRC), People’s Republic of China, available at [[http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)].

<sup>9</sup> See: *Ibidem*.

<sup>10</sup> See: *Ibidem*.

Figure 1

The Belt and Road Initiative:  
Six Economic Corridors Spanning Asia, Europe and Africa



- (2) The China-Mongolia-Russia economic corridor; the countries have been cooperating for a long time now. In 2014, at the SCO summit in Dushanbe the leaders of these countries identified the main principles and key trends of trilateral cooperation and agreed to jointly promote the Economic Belt of the Silk Road project, reconstruct the Eurasia-Russia land bridge and discussed the Mongolian Steppe Road program.<sup>11</sup>
- (3) The China-Central Asia-West Asia economic corridor runs from Xinjiang to Central and West Asia, where it will join the local railway network to reach the Mediterranean and the Arabian Peninsula. It includes five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan) and Iran and Turkey in West Asia. China has already signed bilateral agreements on the Silk Road Economic Belt with Tajikistan, Kazakhstan, Kyrgyzstan and Uzbekistan to promote mutually advantageous cooperation in trade, investments, transport and communication.
- (4) The China-Indochina economic corridor. In December 2014, speaking at the fifth meeting of the leaders of the sub-regional Greater Mekong economic cooperation project, which took place in Bangkok, the Chinese Prime Minister formulated three ideas designed to deepen the relationships between China and five Indochina countries:
  - (1) joint planning and construction of a vast transportation network and several industrial projects;
  - (2) new regime of cooperation to collect the necessary financial means;
  - (3) encouragement of sustainable and coordinated social and economic development.

Today, the countries along the Mekong River are building nine inter-national highways to connect the east with the west and the north with the south. Some of the projects have been completed. The highway that leads to the port of Dongxing (the Guangxi Province) on the Chinese-Vietnamese border has been already completed.

- (5) The idea of the China-Pakistan economic corridor was first formulated in 2013 by the Prime Minister of China during his visit to Pakistan. This corridor was expected to stretch from the Kashgar (Kashi) city in China's northwest to the port of Gwadar in the south of Pakistan. Today, the governments have agreed on a preliminary long-term plan for the construction of highways, railways, oil- and gas pipelines and fiber-optic networks.
- (6) The Bangladesh-China-India-Myanmar economic corridor will cover the territory of 1.65 million sq. km with a population of about 440 million by highways, railways, maritime and air connecting routes. This will make it easier to move commodities and workforce across borders and practically liquidate trade barriers on land; to reach the market and to increase the volume of multilateral trade.

According to the Institute for Strategic, Political, Security and Economic Consultancy (ISPSW), potentially, all countries involved in the New Silk Road project will account for 55% of world GDP; 70% of the world's total population and 75% of all energy sources.<sup>12</sup> When implemented, the Silk Road project may cause revolutionary changes along its route.

The Great Silk Road project is not only about transportation and transit routes; it is a comprehensive plan of economic and infrastructural development for many states. Industry, trade and the

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<sup>11</sup> See: J. Nikolaeva, N. Bogoliubova, V. Fokin, V. Baryshnikov, P. Klevtsov, E. Eltc, "Cultural Mega-Events as an International, Cultural, and Political Tool," *Codrul Cosminului*, No. 23 (2), 2017, pp. 293-306.

<sup>12</sup> See: "The New Silk Road—Idea and Concept," Institut für Strategie-, Politik-, Sicherheits- und Wirtschaftsberatung (ISPSW), available at [<http://tarjomefa.com/wp-content/uploads/2016/09/4973-English.pdf>].

service sphere will create a sustainable and secure environment for the western regions of China and central regions of Eurasia, helping them reveal their potentials.

This initiative is based on the country's logistic security; the Chinese, however, are not concerned with transportation corridors as much as with consolidating their influence in the countries of Chinese transit. It is a geopolitical and geo-economic plan of building up a multipolar world on the platform of open cooperation. China's economic advantages and its readiness to invest in economic projects along the entire stretch of the route are very important. Trade between China and the region's countries will bring Chinese products to South Asia, the Middle East and Europe.

The investments into the One Belt, One Road project are estimated at trillions of dollars. According to the Asian Development Bank, the infrastructure in the APR will require about \$750 billion annually. China plans to build 72 new airports, 43 thousand km of expressways and 22 thousand km of railways before 2020.<sup>13</sup>

The project of this scope required a bank; the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund were set up on China's initiative. Fifty-seven countries (France, Finland, Poland, Spain, Germany and the U.K. among them) joined the new financial organization with an authorized capital of \$100 billion and an initial capital of \$50 billion. The U.S. and Japan refused to join the new project, while critics suspect that AIIB intends to replace the World Bank and the Asian Development Bank. The European countries remain convinced that the new bank will become an important addition to the already functioning institutions, ensuring the funding of infrastructural projects in Asia. The Silk Road Fund is based on Chinese money: the foreign currency reserves, the money of the Chinese Investment Corporation, the Export-Import Bank of China and the China Development Bank, which will invest in the Silk Road Economic Belt project. China plans to invest \$40 billion; it is ready to help train 20 thousand specialists in the next five years to work on the project and its strategy.

## **Ukraine and Kazakhstan in the Great Silk Road Project**

The Great Silk Road project is seen as a chance to improve internal communication between the Eurasian countries, which will help save time required to complete any project and the money spent on workforce; simplify the movement of people; stimulate trade between China and Central and Eastern Europe.

Ukraine's involvement in the Agreement on Association and bilateral platforms along with the countries of Central and Eastern Europe and the EU has created all the required political and economic conditions of its involvement in the Great Silk Road project as a participant in its own right.

When realized, the project will supply Ukraine and Kazakhstan with considerable economic advantages created, in the first place, by the transportation corridors and movement of goods to Europe, which will undoubtedly consolidate their international positions. Due to their geo-economic advantages, developed transportation infrastructure (the railway network, ice-free ports and a system of highways) and active trade and economic relations with their neighbors and China, Ukraine and Kazakhstan have a good chance of becoming the main link that connects China, which is actively developing its trade contacts, with Eastern and even Western Europe.

The Chinese project does not contradict Ukraine's desire to increase its economic cooperation and integration with the European Union or Kazakhstan's involvement in the Eurasian Economic

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<sup>13</sup> See: Y. Chen, S. Matzinger, J. Woetzel, "Chinese Infrastructure: The Big Picture," McKinsey & Company, available at [<https://www.mckinsey.com/featured-insights/winning-in-emerging-markets/chinese-infrastructure-the-big-picture>].



Union. This project will stimulate economic growth and help remove many barriers, including political ones.

According to the experts, the Europe-Asia transportation corridor—the integral Eurasian system (Western Europe-Belarus-Russia-Kazakhstan-China)—seems preferable: it is shorter, cheaper and safer. Indeed, it traverses only three countries—Belarus, Russia and Kazakhstan that have done a lot to unify their customs procedures and tariffs.

The highly flexible nature of the Great Silk Road project and China's desire to diversify the routes has offered Ukraine a chance to be involved in it and cooperate with China. This issue is invariably present on the agenda of discussions between country leaders. In October 2015, in particular, the leaders of both countries paid a lot of attention to the problems of transportation infrastructure required to move cargo from Asia to Europe via Kazakhstan and Ukraine within the Great Silk Road project. The economic sanctions that the EU imposed on Russia because of its conflict with Ukraine and Russia's symmetrical answer made the problem of alternative routes doubly important. Russia banned the transportation of goods across its territory to third countries, thus forcing the Central Asian countries to minimize their trade with Ukraine, which negatively affected EU members' interests. Under these circumstances, Kazakhstan had no choice but increase its involvement in the Trans-Caspian Route of the Silk Road: 40% of its foreign trade involves EU countries.

The Trans-Caspian corridor is an alternative to the traditional route from China to Europe that runs across Kazakhstan, Russia and Belarus and is, in fact, a logistical chain that bypasses Russia. Cooperation between Ukraine and Kazakhstan within the TRACECA project set up by the EU to encourage trade and economic contacts between European countries across the Black Sea, the Caucasus and the Caspian, in order to reach the Central Asian countries was treated as a mandatory premise. For many years, this project and its realization remained the key issue of cooperation between Ukraine and Kazakhstan: they constructed, reconstructed, and used Caspian ports together; Central Asian companies were invited to take part in modifying Ukrainian ports to cope with export-import cargo and constructing and reconstructing highways and railways.

A new transportation network, modernization of the old infrastructure, and new trade and economic hubs along the New Silk Road, which stretches from China to the APR and Europe, can be described as the project's great benefit. The planned clusters of interconnected trans-Eurasian corridors will ensure its efficiency, security and high competitiveness.<sup>14</sup> The sides involved will be able to avoid the bans imposed by Russia on their freight traffic. Russia's embargo undermined Europe's chances to use the recently created trans-Eurasian railway network: the products that could have been moved from producers to consumers by land transportation routes are banned in Russia and cannot be moved across its territory. Europe is attempting to fully tap the trans-Caspian part of the Baku-Aktau route: on the way back it fills its containers with Chinese goods to avoid the trade blockade; today this part of the route is used more actively than before.

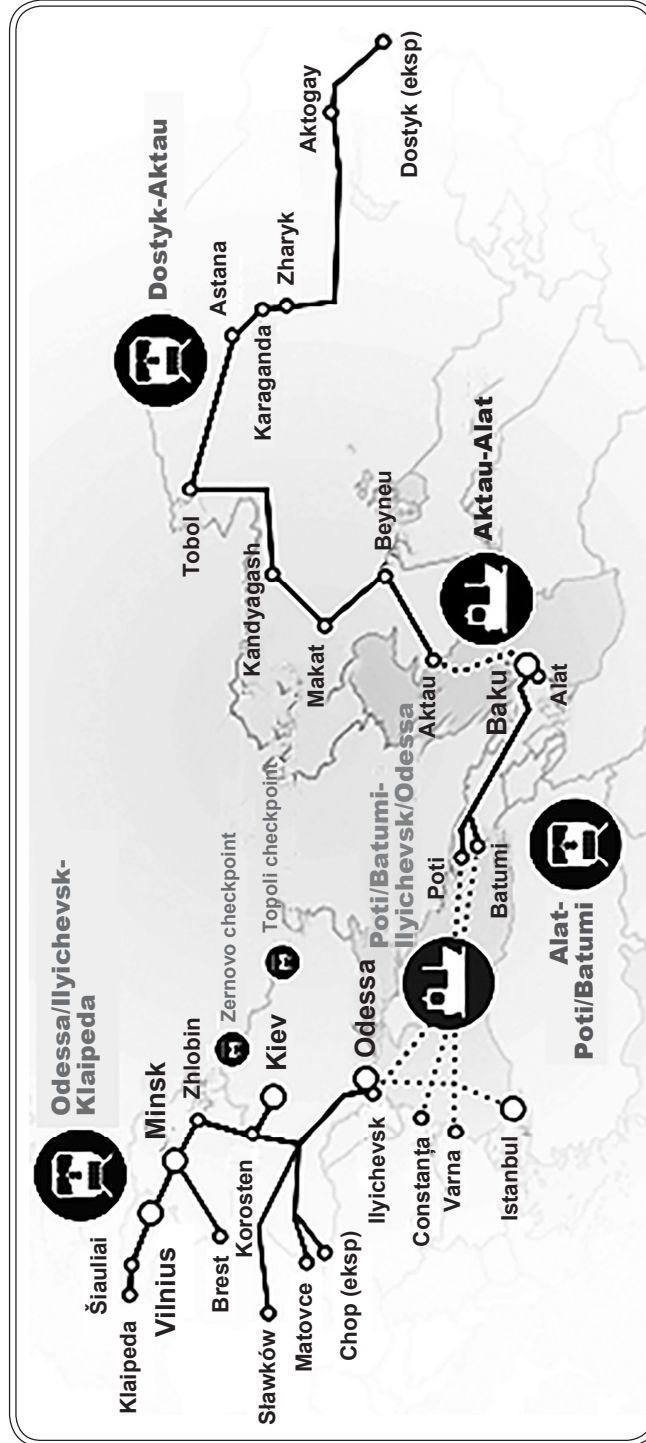
China, Kazakhstan, Azerbaijan, Georgia and Ukraine had set up a new transportation consortium, which Turkey joined in late 2014. That created a new container train route across Ukraine, Georgia, Azerbaijan, Kazakhstan and China (across the Black Sea and the Caspian), the so-called New Silk Road. The protocol on competitive preferential tariffs on freight transportation had been signed on 15 January, 2016 allowed the first container train to start from Ilyichevsk. This made it possible to ship cargo bypassing the territory of the Russian Federation. On 31 January, the train, having covered 5.5 thousand km, arrived at the Dostyk station at the Chinese border. It took the train 15.5 days (instead of expected 11-12 days) to reach the point of destination because of bad weather in the Black Sea. The new multi-modal corridor takes five times less time than the sea routes.<sup>15</sup> The first

<sup>14</sup> See: R. Zhangozha, op. cit.

<sup>15</sup> See: A. Muravskiy, "Khod konteynernym poezdom", *Porty Ukrainy*, No. 8 (50), 2015, pp. 20-22.

Figure 2

The Route of Transit Cargo Transportation in the China-EU-China through Ukrainian Ports





train has allowed to pinpoint the shortcomings of the new route: it is much more expensive than the movement along the existing route across Russia and Belarus: \$4,110 against \$7,927 along the newly created route. The sides are actively discussing the problem. Kazakhstan lowered its tariff rates for cargo movement by container trains from Dostyk to Aktau by 42%; Ukraine lowered its rates for moving cargoes between Ilyichevsk to the EU countries by 60%.<sup>16</sup>

The railway gauge of Ukraine and Kazakhstan differs from the gauge used in China (the European or world standard, to be more exact, is 1,435 mm wide); Kazakhstan and Ukraine use the Soviet gauge, which is 1,520 mm wide, which means that cargoes are moved from one train to another (or the wheelsets are changed) twice, which requires time and money.

There are no fairly big railway stations along the Kazakhstan stretch to be used to add more cargo to the train. To achieve efficiency, the cars should be completely loaded along the route, which requires several transport and logistics hubs.

The sides should promote the Trans-Caspian route to attract exporters primarily by optimizing the tariff policy.

Under the memorandum signed between Ukraine and Lithuania on the unification of the New Silk Road and the Viking container train as part of cooperation with the European Union and implementation of the free trade area, EU member countries will use the route together with Ukraine, Georgia, Azerbaijan, Kazakhstan and China (see Fig. 2).

According to preliminary calculations, freight transit along the Silk Road Economic Belt across Kazakhstan to Ukrainian ports and further on to EU countries is more attractive for the industrial centers of Western China than freight transit along the Maritime Silk Road as far as delivery time (17.8 days against 63.7 days) and the cost of moving one forty-foot container (\$7,710/FEU against \$7,750/FEU) are concerned.<sup>17</sup>

Today, according to Chairman Xi Jinping the project has already attracted about 80 countries and organizations. The Chinese side has pointed out that the Belt and Road Initiative is designed to consolidate intergovernmental cooperation, create favorable trade conditions, remove the investment and trade barriers, deepen the interaction in the sphere of transportation to arrive at an infrastructural network that will connect Asia, Europe and Africa and will improve multilateral cooperation through cultural and scholarly exchanges.<sup>18</sup>

## *Conclusion*

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Bilateral relations between Kazakhstan and Ukraine will be based, primarily, on their shared economic interests. Political support will be extended if both countries arrive at real and sustainable trade and economic contacts. Their involvement in the New Silk Road project will help realize their cooperation potential in modernization of the transportation infrastructure, agriculture, machine building and aircraft industry, in the military industrial complex and the energy sector.

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<sup>16</sup> See: V. Povoroznik, V. Perebiynis, op. cit.

<sup>17</sup> See: S.V. Rudenko, O.V. Akimova, op. cit.

<sup>18</sup> See: "Bolee 80 stran i organizatsiy stali uchastnikami 'Odnogo poiasa—odnogo puti'," *Delovoy Kazakhstan*, available at [<https://dknews.kz/silk-road/69309-bolee-80-stran-i-organizatsij-stali-uchastnikami-odnogo-poyasa-odnogo-puti.html>].