

COMMONWEALTH OF INDEPENDENT STATES: TRANS-ASIAN DEVELOPMENT CORRIDOR

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The current importance of developing investment activity in the economic space of the CIS states is determined by the complicated problems that have arisen in mutual economic relations in connection with the breakup of the U.S.S.R. and the establishment of a Commonwealth of Independent States by 12 FSU republics. The disruption of their former technological-cooperation, infrastructural, trade, social and technological-information ties has led to the emergence of totally new political and economic realities in the post-Soviet space.

The establishment of the CIS resulted from an awareness of the need to continue cooperation in order to preserve at the transition stage the economic, technological and infrastructural potentials of the newly independent states. The development of interstate (cross-border) investment activity could become a key aspect of their effective interaction designed to end the economic crisis and to stabilize and boost their national economies.

The protracted investment crisis in the CIS is the main obstacle in the way of transition to a new

stage, the stage of economic growth and fundamental structural changes in the Commonwealth countries.

Investment activity in each CIS state crucially depends on the possibilities and behavior of domestic investors. At the same time, the potential annual demand for foreign direct investment in these countries is estimated at over \$45 billion.

The attempts to pull out of the deep and systemic economic crisis by means of a policy of financial stabilization alone as pursued in some CIS republics for a number of years did not lead to any

positive results. The decline in production and investment activity continued. In the current situation, it is necessary to change the conceptual approach to the methods required to overcome this crisis. The main line of effective economic policy should be investment support for pilot sectors and projects of the real economy aimed at a general stabilization and revival of industry and agriculture. These problems are strategic and common to all the CIS countries, even though each of them has its own peculiarities requiring different tactical approaches and adjustment to concrete conditions.

The CIS Economy in 1991-2004

In the 1990s, the economic situation in the Commonwealth countries was nonuniform. At the initial stage, the similarities and dissimilarities in their socioeconomic conditions gave a multipolar shape to market reforms in the CIS. The staggered start and inconsistent implementation of these reforms very quickly fragmented the single economic mechanism of the planned economy into national economic mechanisms. Socioeconomic transformations assumed a sovereign character. The CIS countries took different-level paths of economic reform and creation of market-based economic mechanisms, and this was the decisive factor behind the sluggish economic integration of these states and a serious obstacle in the way of active multilateral cooperation between them.

At the initial stage of economic reforms (1991-1994), proper institutional conditions for a market economy did not take shape in any Commonwealth country, although these reforms were modeled on the best world standards. Their efforts proved to be insufficient to destroy overnight the decades-old system of state administration of socioeconomic processes and to introduce market relations. In effect, the systemic reforms projected for that stage did not materialize. The newly created market institutions were unable to assume regulatory functions or provide an adequate alternative to the state economic agencies of the CIS countries.

The second stage of reforms (1995-1997) was characterized by anti-recession measures in the real economy and monetary relations, by attempts to curb inflation. A specific feature of macroeconomic stabilization was that the decisions being taken at that stage introduced new, market rules and conditions into society's economic practice and life in general. The governments of most Commonwealth states concentrated their efforts on adapting their national economies to the scaledown of the systemic interrepublican economic ties that had existed in the U.S.S.R. and on a go-it-alone push into world financial and commodity markets. There was evidence of a trend toward a general stabilization and an incipient recovery in the real sector of the economy. Among the positive results of that stage of reforms and integration development one should include a convergence of the main lines of market transformations and socioeconomic policy under the impact of similar approaches to the anti-recession challenges. Virtually all the Commonwealth countries were gradually going over to reforms based on indicative planning of socioeconomic development and implementation of medium-term government programs.

Toward the end of 1997, inflation in the CIS countries was virtually suppressed, and this gave them a chance to move on to economic growth and expanded reproduction. The priorities in economic reform began to shift to the sphere of institutional transformations, reform of the market infrastructure, structural adjustment of production and reorganization of enterprises, an expansion of the export potential and an increase in foreign investment sources. The idea was to compensate the inadequate inter-

nal capacity for economic growth by attracting large-scale and targeted foreign investment for the development and implementation of strategic government programs and projects designed to modernize traditional sectors and to create new industries and innovative technologies oriented toward integration into the world economy.

In Russia, the new-found economic stabilization was overshadowed by indirect signs of an impending crisis, and in 1998 the situation erupted in a financial collapse entailing a crash of the securities market, a paralysis of the banking system, a steep plunge in the exchange rate of the ruble, a jump in inflation, a fall in the purchasing power of households, and a withdrawal of many foreign investors from the Russian market. In 1997-1998, Russian foreign trade suffered from a sharp drop in world energy prices. All these negative processes in the country had an adverse effect on the economy of a number of other CIS states, primarily those most closely connected with Russia: Belarus, Kazakhstan and Ukraine. At the same time, the financial crisis of the fall of 1998 was a turning point in the decade of reforms, creating favorable conditions for national producers.

The differences between the CIS countries in the scale and structure of investment are most significant, but there are common features as well: insufficient financial savings, a scaling down of capital renewal, and minimization of national investment programs and projects. Investments in agriculture and light industry have declined in virtually all the Commonwealth countries, while an investment recovery has been recorded mostly in the oil, gas and electric power industries. Investment activity is shifting from life-supporting sectors of the economy such as agriculture, the medical and light industry, and also from innovative areas to oil and gas production and development of natural resources with a distinct export orientation.

The present stage of economic reforms, which began in 1999, is characterized by some degree of stability, economic growth and restructuring of the real sector of the economy in the CIS. The development of most Commonwealth countries is determined by the goals and purposes of medium and long-term government programs of macroeconomic stabilization and deepening economic transformations. According to analysts' forecasts, the results for 2004 in most of these countries could be the best for the entire period of reform.

However, cross-border investment in the CIS economy is still at the initial stage and is very inadequate. For example, investments in the Russian economy from other CIS countries in 2003 amounted to \$890 million (the largest inflows from the countries of Central Asia were \$195 million from Kazakhstan and \$89 million from Uzbekistan), compared to \$29,699 million from non-CIS countries (33 times more). Similarly, Russian investments in the economy of other CIS republics (primarily Kazakhstan) in 2003 totaled \$544 million, or just over half of their investments in Russia, whereas Russian investments in non-CIS countries added up to \$23,264 million, or 43 times more than in its Commonwealth partners. Evidently, real integration within the CIS can only be activated by large cross-border investment projects.

Trans-Asian Development Corridor Project

On 19 November, 2004, an international conference "On the Development of International Scientific and Technical Cooperation under the Trans-Asian Development Corridor Project" was held at the City Hall in Moscow. Its main organizers were the Moscow government headed by Mayor Yuri Luzhkov and the government of the Khanty-Mansi Autonomous Area (Yugra) headed by Governor Alexander Filippenko. The conference was attended by representatives of legislative and executive bodies, economic and scientific organizations of Russia and the Central Asian countries of the CIS.

Considering that investment cooperation between Russia and other CIS republics is in a critical state, what we need is a breakthrough in this area. The first real and most significant step in this direction could be the Trans-Asian Development Corridor, an international investment project with the participation of

Russia, Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan. Preliminary studies have shown a real need for socioeconomic cooperation between the Central Asian countries of the CIS and the Urals Federal District of Russia based on a pooling of key resources.

In accordance with the new geopolitical realities, Russia's sustainable development in the future can hardly be ensured without cooperation throughout this territory. The meridian corridor (55 to 65 degrees east) running from the Kara Sea to the Arabian Sea has a vast and largely untapped natural and human potential. The economic development of these resources, including the establishment of joint ventures and a social infrastructure, is to begin with the creation of an economic activity zone. When this "vertical" development corridor is duly settled and provided with the necessary infrastructure facilities, it will eventually turn into a single socioeconomic area of free enterprise, ensuring safe and effective functioning within the framework of international global cooperation.

The material and technical basis for the development corridor is to be provided by territorial benchmark projects: transport, construction, industrial, agroindustrial, fuel and energy, and water supply. Evidently, the best way to launch this strategically important project is to set up an international consortium in the form of a transnational corporation in which the Commonwealth states would have a controlling interest.

The investment attractiveness of this project consists in the following: a significant reduction in transportation costs throughout the Eurasian continent; better utilization of the Northern Sea Route and the Trans-Siberian Railway; access to new markets earlier inaccessible because of transport limitations; a reduction in dependence on the ports of the Baltic countries, Finland and the Far East; the eventual establishment of a free economic zone and a free trade area within the boundaries of the development corridor stretching from the Northern Sea Route to Iran.

The Mayor of Moscow, Yuri Luzhkov, emphasized in his report: "Our analysis shows that if the potential of this region is used with due regard for the interests of all the countries that are interested in one way or another in settling and developing these lands, this will undoubtedly result in powerful synergistic effects which can never be achieved by these countries if each of them continues to lie in its own 'manger.'

"This philosophy and these preliminary estimates have convinced us that in this region it is possible to launch a socioeconomic and political process similar to that initiated in Europe over 50 years ago, at the time of the establishment of the European Coal and Steel Community. As the world knows from practical experience, the synergy of mutually beneficial, good faith cooperation between the European countries has gone far beyond the framework of concerted use of iron ore and coal deposits. It is quite reasonable to suppose that the Trans-Asian Project, having started, so to speak, as a Russo-Central Asian water and sunlight community, will be the driving force behind similar socioeconomic and political processes for the benefit of our peoples. With this aim in view, we should display foresight and statesmanship so that at least in this area the long-term interests of our countries and peoples would take precedence over short-term political or commercial gain. We have to initiate a socioeconomic process that would steadily, albeit slowly, carry us toward this noble goal.

"We are convinced that the promotion of the Trans-Asian Development Corridor project will serve as a strategic bridge from the difficult present to a decent future and will make a tangible contribution to the development of the productive forces of all the countries taking part in the project. We hope that the reports and speeches at the conference will reflect a general recognition of the importance of developing equitable and mutually beneficial cooperation. This will undoubtedly help to get adequate answers to many questions connected with the efforts to overcome development barriers."

It is very important that RF President Vladimir Putin regards the following as the most promising areas of economic contacts in Central Asia: development of industrial production, creation of a common transport space, promotion of border trade, water use and hydropower engineering.

First of all, we have to address the strategic problem of joint formation of legal and economic cooperation mechanisms. The effective performance of any national economy today depends in large part on the scale and nature of its involvement in globalization processes. The central idea of economic integration between Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan under the Trans-

Asian Project is to ensure a balance of interests of all parties with due regard for the synergistic effects of the development of mutual ties. A solution of this problem implies the need to create an adequate institutional framework for the optimal interaction of national economic systems.

Unfortunately, the policy pursued in this region by international financial institutions is geared to support survival and not development. Many experts working in the region openly admit that their aim is to teach people how to live in poverty instead of teaching them to overcome poverty. Naturally, this creates additional security threats, primarily social instability, criminalization of the economy, corruption, drug trafficking and high migration, mostly illegal and unorganized.

Moscow's contribution to promoting the package of business projects at the pre-investment stage is most significant. This includes the preparation of analytical-information and conceptual documents, institutional and intellectual support for the creation of a management structure, business relations, public opinion monitoring, contacts with the mass media, and arrangement of public meetings and discussions.

A working group set up by the Moscow government will analyze all constructive proposals within a short period in order to use this material at subsequent, joint stages of research and project planning.

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This project will obviously be of interest not only to domestic, but also to foreign investors from Europe and Asia, primarily from Iran and India.

Special mention should be made of our West European partners. On 11 November, 2004, a day of the economy of Frankfurt am Main was held in Moscow. Its Mayor Petra Roth said that in view of an investment slowdown in Germany the business community of Frankfurt am Main and of the Rhine-Main region is particularly interested in investment and cooperation ties with Moscow.

One of the main investors in the project is to be the CIS Interstate Bank, set up by the Commonwealth countries primarily for the purpose of implementing interstate investment projects.

Work on the Trans-Asian Development Corridor project can help the CIS states to regain self-confidence and to pull out of the prolonged economic crisis, a crisis as deep as the Great Depression in America.

When that depression raised the question of a choice between the well-being of the individual and free market dogmas, U.S. President Franklin D. Roosevelt chose the individual, shattering numerous dogmas previously believed to be inviolable. Within a very short period Roosevelt convinced his nation that the crisis could be overcome and formulated the task of mobilizing as many people as possible in order to bring them back to constructive activity, to help them find a new ideal and invest their life with meaning and purpose.

The president of the United States said: "Happiness lies not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort. The joy and moral stimulation of work no longer must be forgotten in the mad chase of evanescent profits. These dark days will be worth all they cost us if they teach us that our true destiny is not to be ministered unto but to minister to ourselves and to our fellow men."

The main elements of Roosevelt's New Deal policies aimed at intensifying investment activity in the crisis period included the government's greater role in creating new jobs; an increase in government planning and control over various kinds of transport, communications and other public services; measures to stimulate and reorganize the use of natural resources through industrial employment; control over the national currency in order to ensure its recovery; aid to those hardest hit by the depression and the collapse of the banking system; and tight control over bank lending and investment.

Clearly, we should borrow some useful elements of the mechanism that enabled the Americans to overcome their troubles within a fairly short time. The Trans-Asian Development Corridor project is one of the basic elements of this kind.

Legal Framework for Investment and Construction Activities in the CIS

The implementation of this project will be greatly facilitated by the legal framework for cross-border investment, leasing and construction activities that already exists in the CIS. The main documents here are as follows:

- Agreement on Cooperation in the Field of Investment Activity (24 December, 1993), which provides for cooperation in the development and implementation of investment policy and which specifies, among other things, the forms and methods of capital investment in the territory of the Commonwealth countries.
- Convention on the Protection of Investor Rights (28 March, 1997), whose purpose is the creation of a common guaranteed investment area, free attraction of capital and protection of investors putting their money in the economy of these states.
- Convention on Cross-Border Leasing (25 November, 1998), which is a code of rules and regulations for the development of cross-border leasing activities in the CIS countries. It is designed to assist producers in the real sector of the economy, enabling them to reduce to a fraction the amount of startup capital required to launch a business, and also to involve the financial sector in constructive work. The vital necessity of this document is evident from the fact that within the legal framework of cross-border leasing the respective national associations of Belarus (BelLeasing), Russia (RosLeasing) and Ukraine (UkrLeasing) jointly with the CIS Executive Committee have established a Leasing Confederation of the Commonwealth of Independent States (CIS Leasing).
- Agreement on Cooperation in Construction Activity (9 September, 1994), designed to promote mutually beneficial integration in the use of raw material resources and industrial facilities in construction, and investment cooperation in this area.
- Agreement on Mutual Recognition of Licenses to Engage in Construction Activity Issued by Licensing Agencies of the CIS Member States (27 March, 1997).
- Agreement on Interstate Expert Review of Construction Projects of Mutual Interest to the CIS Member States (13 January, 1999).
- Convention on Transnational Corporations in the CIS (6 March, 1998).

CIS and MERCOSUR

In the context of world analogies, Russia and other CIS states could benefit from the experience of the regional association MERCOSUR, which includes Latin American and Caribbean countries: Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members. This integration grouping is also known as the Southern Cone Common Market.

MERCOSUR is one of the biggest regional economic groupings in the world. Today it is a large integrated market in Latin America with 45% of its population (over 200 million), 50% of its total GDP (over \$1 trillion) and 40% of foreign direct investment. On a global scale, MERCOSUR ranks second behind the EU as a customs union (in terms of size and potential) and third behind the EU and NAFTA (North American Free Trade Agreement) as an economic structure.

MERCOSUR is of interest to us in that its establishment (by the Asuncion Treaty in 1991) coincided with the establishment of the CIS and that the starting conditions were in large part identical. In January 1994, the MERCOSUR states adopted a Protocol on the Reciprocal Protection and Promotion of

Investments, which gave a powerful impetus to processes of “physical” integration between the Southern Cone countries. The importance and feasibility of the Trans-Asian Development Corridor project is borne out by the parallel implementation by MERCOSUR of interstate strategic projects in the real economy. For example, several large-scale investment projects in the field of the infrastructure, energy and transport are at different stages of implementation. These include such major projects as the construction of a 2,100 km superhighway between São Paulo and Buenos Aires (the cost of the first stage is \$3 billion) and the construction of a 51 km bridge linking Colonia and Buenos Aires (at a cost of around \$1 billion).

Of special interest is a project known as the Paraguay-Parana Waterway stretching over 3,440 km at a cost of \$1.3 billion. Its correspondence to the Trans-Asian Development Corridor project is so close that its implementation should be studied and put to use.

The governments of the MERCOSUR countries regard integration as a strategic national development priority that stimulates technological modernization and economic restructuring, enabling them to adapt to the international division of labor, to compete successfully with other regional groupings and to find a fitting place in the world economy.

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Investment has been and remains the only factor that can guarantee the economy’s ability to operate in the mode of expanded reproduction. The economic crisis in the CIS can be overcome based on the development and implementation of a doctrine pivoted on a strategy for rationalizing the use of available resources through an intensification of intellectual and innovative investment activities.

The Trans-Asian Development Corridor happily combines the efficiency of its initiators, who can rely on actually implemented projects, organizational structures, high prestige and a solid industrial base, with the financial resources of leading Russian regions headed by Moscow and its Mayor Yuri Luzhkov. All of this turns the Trans-Asian Development Corridor into a credible project that could become a connecting, coupling link in the CIS economic space.

The project will help to create optimal conditions for enhancing the investment image of Russia and other Commonwealth countries in the eyes of domestic and foreign investors and to intensify cross-country investment and leasing activities in order to promote real integration in the CIS, ensure effective economic development and raise living standards in the Commonwealth countries.