

# GEO-ECONOMICS OF THE EURASIAN HEARTLAND





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Dear Friends!

I am happy to present you this fresh report by the SKOLKOVO Institute for Emerging Market Studies – *Geoeconomics of the Eurasian Heartland*.

I think that it is a very timely work. Chinese initiative *One Belt, One Road* righteously attracts a lot of attention these days from business, governments and international organizations from all over the world. Indeed, it is an ambition of the unprecedented scope and scale. We hear many ideas and plans about infrastructure that are to be built, investments to be made and trade to be fostered.

What is far less addressed is the fact that this largest, ever complex development initiative that can transform the Eurasian continent and the world trade altogether is planned to be build across one of the most unknown, dynamic and diverse regions – Central Asia and South Caucasus.

It is true that this region has not been often on the international business radar: for the last 25 years it has been predominately focused on internal issues. Indeed, the commonly used economic indicators hardly put the region in a privileged stratum of lucrative markets. In general, the lack of large involvement by international companies in the region is understandable. With the exception of the oil, gas and minerals

companies, of course, that are active in the region from the first days of its new history since 1991.

But now the times are changing: Central Asia and South Caucasus is becoming central to the success of *One Belt, One Road* initiative. Although we hear sometimes that *One Belt, One Road* initiative is the connection between China and Europe, we should never forget that on that path lies a region of 85 million people with their own cultures, traditions, ways of life and work, needs and aspirations and despite the fact that they have always lived at the crossroads of civilization – it would be very shortsighted to think about their land as just of the transit territory.

Russia has always been a neighbor to the region. Moreover, since 2015 it has united in economic partnership with the several of the countries of this region by the Eurasian Economic Union. SKOLKOVO has many friends in Central Asia and South Caucasus – notable alumni, partners and clients, who by doing their everyday business, contribute to the development of the region. We know how important it is to understand each other, respect the cultural differences, learn how to work and live together.

Unknown market and traditions pose a risk for doing business, but also give a promise of an opportunity to those, who are willing to discover and dare. SKOLKOVO invites you to the wonderful discovery expedition to Central Asia and South Caucasus. Come along!

We are very proud to have been working on these perspectives together with our colleagues from the Hong Kong University of Science and Technologies.

We are very grateful to EY our longstanding partner for their imperishable support.

Andrei SHARONOV,

President of the Moscow School  
of Management SKOLKOVO





Dear Friends,

I am glad to present you this report by the SKOLKOVO HKUST Institute for Emerging Market Studies on the *Geo-economics of the Eurasian Heartland*.

EY has been intensively working in the region for many years helping local and international business and public sector build a better working world. In last two decades, the region has experienced dynamic growth as well as social and economic transformation. Obviously, Belt and Road Initiative, as well as further development of the Eurasian Economic Union and other regional integration projects will not only foster improved entrepreneurial dynamics in the region but also attract more and more business from other parts of the world. In many ways, the region remains unknown for the international business community, although some countries can be particularly famous for their historical, cultural and natural legacy and heritage. Current geo-economic trends on the continent call for deeper cooperation, and it is up to the business in the region to capture the new opportunities. For businesses interested in exploring and expanding into the markets of Central Asia and South Caucasus, this report will be a window for understanding the unique potential, diversity, and dynamics of the region.

As a professional services firm, EY is committed to building a better working world. We employ hundreds of professionals in

Central Asia and Caucasus, who support business, government, and the society at large to support the conditions for economic growth. We are very pleased that our people and alumni continue to support these countries and markets. And it is an exceptional privilege for EY to support the region's leading universities in business studies, economics, and finance.

EY is a proud founding partner and a longstanding strategic partner of the Institute for Emerging Market Studies at Moscow School of Management SKOLKOVO and Hong Kong University of Science and Technology (HKUST). We are very happy to support research endeavors as this one. Research such as this is anchored in a deep understanding of the regional dynamics, enriched with both global perspectives and local insights, and aimed at discovering new markets and business opportunities for the entrepreneurs across the globe.

As a frequent visitor to this region for over 20 years, I have been impressed with the opportunity for business, the resilience of the people, and the stunning beauty across the region. The culture and history in the region are unique characteristics that makes these countries worth exploration. I hope you enjoy this report.

Jay NIBBE,

Global Vice-Chair, Tax, EY.





Dear Readers,

It gives me great pleasure to introduce you to this very informative and timely report on *Geo-Economics of the Eurasian Heartland*, which provides an outstanding review of the current political and economic situation facing the eight countries of Central Asia and the Caucasus. The report was led by the Institute for Emerging Market Studies of Moscow School of Management SKOLKOVO, with contributions from the Institute for Emerging Market Studies at Hong Kong University of Science and Technology (HKUST). The two Institutes have been working together on events and research for several years, and this engagement is now part of a larger formal collaboration between Moscow School of Management SKOLKOVO and the School of Business and Management at HKUST.

China's Belt and Road Initiative is now gaining strong momentum following the international summit hosted by Chinese President Xi Jinping in May 2017, attended by 29 heads of state including President Vladimir Putin and the Presidents of Central Asian and Caucasus states. The Initiative presents new opportunities for building infrastructure and promoting greater trade and investment in the CAC region. China, as a rapidly industrializing country, is in a unique position to support economic growth in other developing countries. Compared to US and European countries, China uses technologies better suited to the relative factor prices and capabilities of developing countries. China also has successful experience managing

infrastructure projects, establishing special economic zones, attracting FDI and promoting industrial growth and exports. With rapidly rising labor costs at home, many Chinese firms are now seeking to invest in firms in developing countries with lower labor costs. Serving as a gateway to trade and investment into and out of China, Hong Kong also has a strong stake in promoting stronger economic links with Belt and Road countries.

China's engagement with Belt and Road countries also presents opportunities for investors and trade partners in Russia and other countries. But to realize these economic opportunities requires a deep understanding of local institutions, history, demography, geography, and economic circumstances. This report makes an important contribution to facilitating just this type of understanding. It is particularly effecting in focusing on the geo-economics of the region, since current initiatives focus strongly on increasing the global economic connectedness of the region.

I hope you will enjoy reading this report, and that it will deepen your understanding of this fascinating and dynamic region of the world.

Sincerely,

Albert PARK

Director, HKUST Institute  
for Emerging Market Studies



## In ancient times,

China established a trade route for one of its most important exports – silk. What we know as the Silk Road connected China with Central Asia, the Middle East and onward to the rest of the known world. The network was used regularly from 130 BCE, when the Han dynasty officially opened trade with the west, to 1453 CE, when the Ottoman Empire took control of the routes through its territory. For 1,600 years, the Silk Road brought prosperity to the whole region.

Today, something similar is being re-established across the Eurasian continent. In 2013, China's president, Xi Jinping, proposed establishing a modern equivalent of the Silk Road, creating a network of railways, roads, pipelines, and utility grids that will link China and Central Asia, West Asia, and parts of South Asia. This initiative, called One Belt and One Road (OBOR), involves more than just physical connections. It aims to create the world's largest platform for economic cooperation, including policy coordination, trade and finance collaboration, and social and cultural interaction. Through open discussion, OBOR can create opportunities for everyone involved. The OBOR area, called the Silk Road Economic Belt, is planned to reach the Middle East and Europe through Central Asia and the South Caucasus. Billions of dollars of investment for the construction of necessary infrastructure will be allocated to one of the most mysterious parts of the world: Eurasia's center, namely Central Asia and the South Caucasus.

In this report, we give an overview of the region that we refer to as the CAC (Central Asia – Caucasus) describing the present state of knowledge of the political and economic situation, as well as the current state of infrastructure development. This is the first part of a series of reports which the Skolkovo IEMS will be preparing about the region. We believe the report will be useful for stakeholders in the region, as well as institutions and enterprises interested in participating in the Silk Road Economic Belt. It should help all interested parties improve their understanding of the region in order to mitigate their risks and discover opportunities.



# Introduction

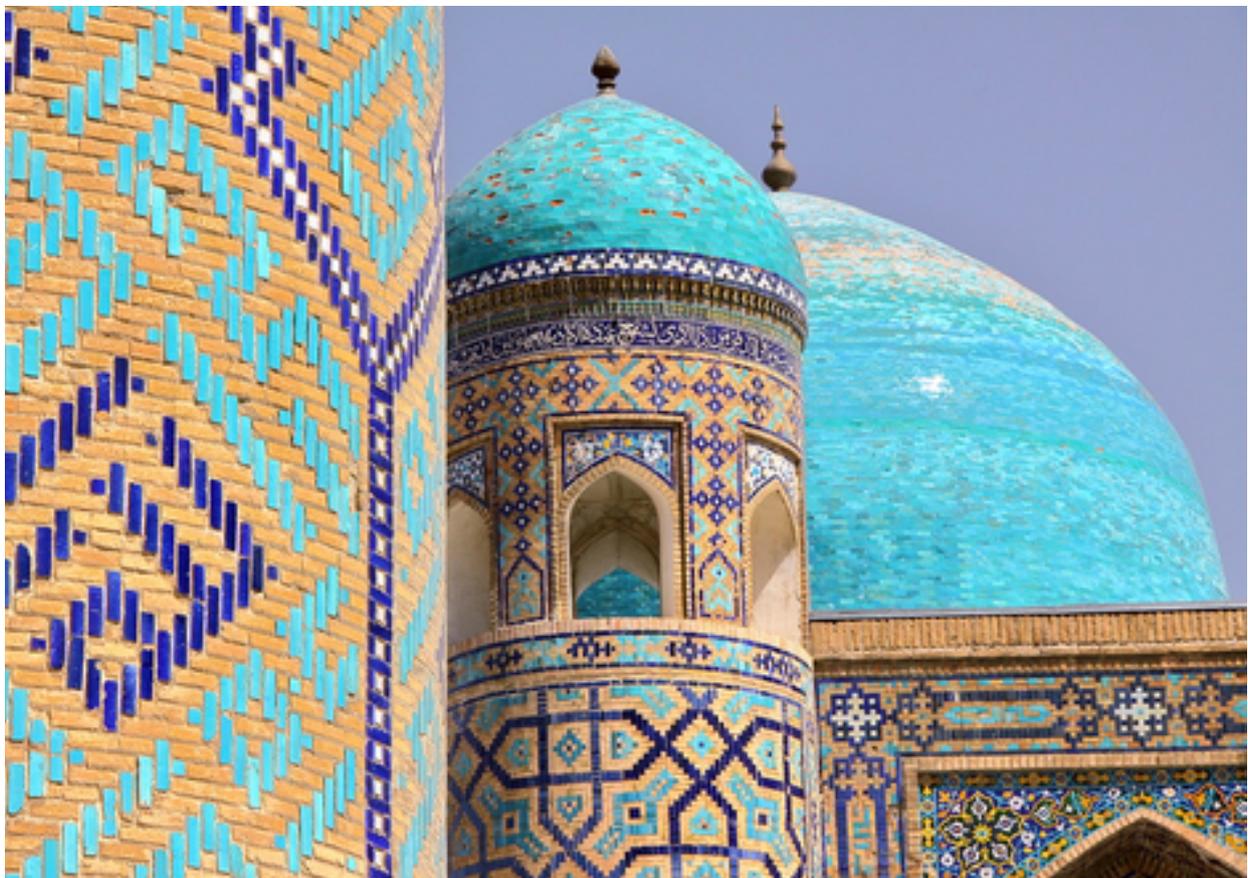
The Central Asia and the South Caucasus (hereinafter referred to as “the CAC”) region encompasses five countries in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan) and three in the South Caucasus (Armenia, Azerbaijan, Georgia). All of these eight countries were part of the Soviet Union until 1991. For the past 25 years, most of them have been concerned with their own internal development issues, but now the region is becoming part of a grand transcontinental development project, these countries can no longer restrict their focus to internal issues only. It is expected that with new developments on the continent, all the countries in the region will be deeply involved in both regional and global dynamics.



Since the dawn of history, Central Asia and the South Caucasus have been at the crossroads between different civilizations. People who live in the CAC countries are a mix of descendants of brave nomads from great steppe, skilful farmers and artisans of the Fergana Valley, and proud highlanders of Caucasus mountains. The Ancient Silk Road connected this region with the people of Europe, India, and China.

During pre-Islamic and early Islamic times, Central Asia and the South Caucasus was a predominantly Persian region. After the expansion of the Turkic peoples and later the Ottomans, Central Asia and part of the Caucasus (namely, Azerbaijan) also became the homeland for many Turkic peoples. Turkic languages largely replaced the Persian languages previously spoken in the area. Nevertheless, Armenia and Georgia preserved their Christian faith and indigenous languages, while in Tajikistan the whole nation continues to speak a language that is a dialect of Dari Persian.

In 1904, the British geographer, Halford Mackinder, was the first to describe Eurasia as a macro-region. He called center of the continent the **heartland**. That is modern day Central Asia. From the mid-19th century to the end of the 20th century, the eight countries of Central Asia and the South Caucasus were part of the Russian Empire and, later, the Soviet Union. The Soviet areas of Central Asia and the South Caucasus experienced industrialization and the construction of infrastructure,



but also the homogenization of local cultures, which left a lasting legacy of the response to ethnic tensions and environmental problems. With the collapse of the Soviet Union in 1991, the CAC countries gained independence.

The 70 years of Soviet rule left strong levers of influence, including Russian-oriented and Russian-speaking elites, involving cultural ties, media influence, as well as influence in the economic and security spheres. For quarter of a century now, the independent countries of the CAC region have been in the process of opening up to the external world. They are on the brink of large-scale transformations, including political reforms and the integration and revival of historic trade routes via large infrastructural projects. As a result, this region will very soon provide huge business opportunities for international, regional and local enterprises. Nonetheless, this unique part of the world has its own peculiarities, starting from its social environment and indigenous cultural heritage, as well as its own political structures. The political systems in the region range from strongly centralized presidential republics to evolving multiparty democratic systems with active civil societies.





Political and economic issues in the region are widely discussed. These countries are still in the process of transition from planned to market economies. They are promoting liberalization and reform, and they compete for foreign direct investments. These investments are mainly directed into the oil and gas sector and related infrastructure. That is why the hydrocarbon resource-rich countries of the region – Kazakhstan, Azerbaijan, and Turkmenistan – have enjoyed the most rapid economic growth. However, their economies rely heavily on income from the extractive industries. Whereas other countries of the region have more diversified economies, they have lower growth indicators and depend significantly on remittances from their labor migrants working in Russia.

In terms of culture, the CAC is a mystery to the rest of the world. However, this also has been changing in the past decade. Celebration of New Year in the spring is common for Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. The festival of Nauryz (Novruz) has been added to the Representative List of Intangible heritage compiled by UNESCO. Furthermore, UNESCO also proclaimed the Armenian duduk—an ancient double-reed woodwind flute made of apricot wood—and its music as a Masterpiece of the Intangible Heritage of Humanity in 2005.

The CAC, located at the heart of the Eurasian continent, has been the subject of increased media attention in the past two years due to several large-scale geo-economics projects, such as the Eurasian Economic Union and the Silk Road Economic Belt. As such, the timeliness of this report can be explained by the urgent needs of the international community for a qualified guidance to navigation through this region for the purpose of grasping emerging opportunities and realizing its potential. We introduce you to the first part of the report: The Geo-economic Landscape Around the CAC Region.

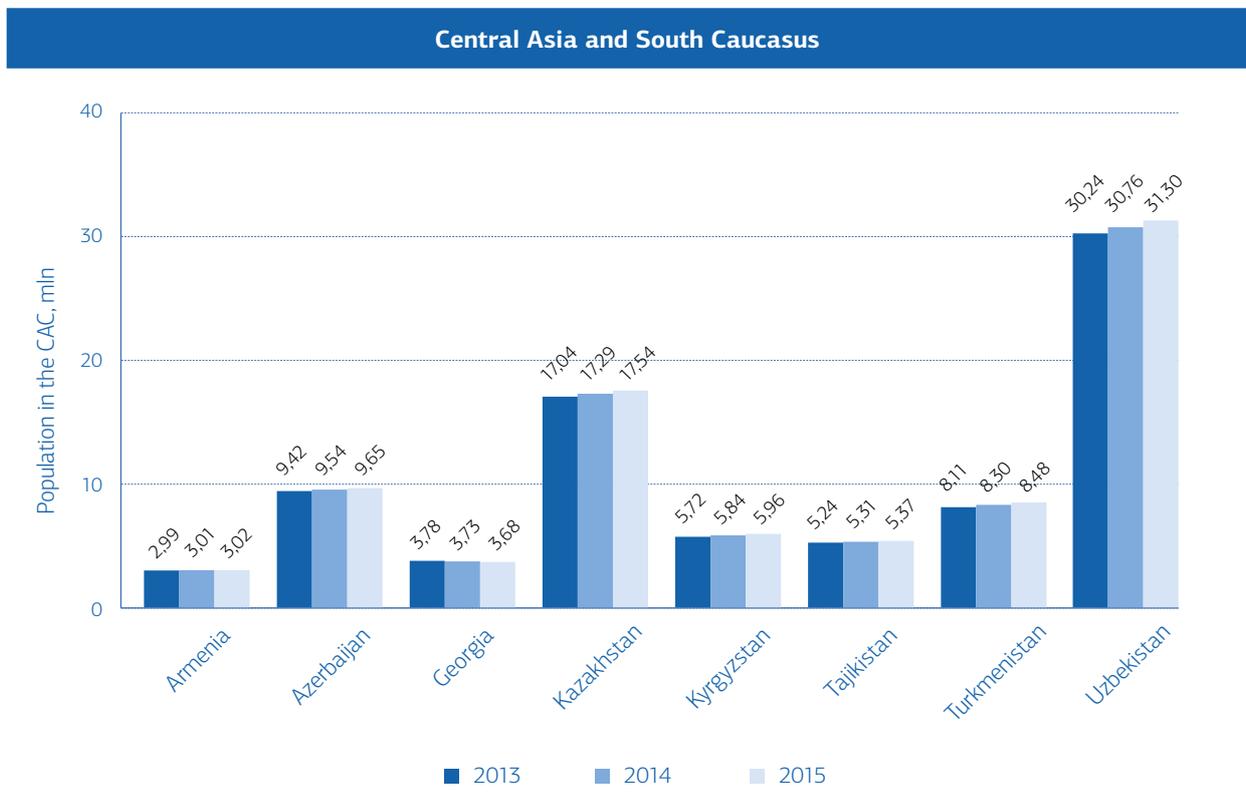
# The Geo-economic Landscape

The CAC region is located on the crossroads between Russia, China, the Islamic world and the West. The political and economic dynamics in central Eurasia have a direct effect on the heartland of the continent – the CAC region.

The eight countries of the region can be addressed as a single unit due to their geographical connectedness and use of one Turkic language group (except Armenia, Georgia, and Tajikistan). They also have long, shared

histories and similar social problems. Human diversity in the region has always been magnificent. Amongst the 85 million people living in the CAC, there are over a hundred ethnicities, and speakers of more than thirty languages of five major language groups. They include practitioners of all the world’s largest religions.

It is important to note that, with the exception of Armenia and Georgia, which are



Source: World Bank



Christian, the countries in the region are predominately Sunni Muslim. The interconnect- edness of the region is obvious if one looks for example at the water and irrigation systems and energy grids which link Kazakhstan, Uz- bekistan, Kyrgyzstan and Tajikistan, or Ar- menia, Georgia and Azerbaijan, and the ethnic diasporas of one country in another. It is evident that the common history of the region has left its imprint in today's ethnic mix, cul- ture and connected infrastructure.

Geo-economic forces have a major influ- ence on neighbouring countries, as well as regional and global powers, and shape their policies and economic interests in the CAC re- gion. Special attention is paid to China, as the emerging economic powerhouse in the region with its economic agenda, and to Russia, as a

historical partner of all of the eight countries of the CAC.

In the light of recent global financial and geopolitical instability, the countries of the region are seeking economic benefits from regional integration. This tendency will strengthen and extend toward intrare- gional integration and cooperation. Integra- tion is a powerful driving force in the re- gion and is considered in our analysis. CAC is a fascinating region and it is still large- ly undiscovered. The new economic trends on the continent offer unprecedented op- portunities for the region. Nonetheless, to capture these opportunities, the peoples of Central Asia and the South Caucasus must withstand external forces and address their internal development challenges. Outside





stakeholders must understand the needs of the people of the region and of other international market participants in order to integrate their own economic interests and cooperate effectively.

## Russia

Western economic and sectoral sanctions imposed in 2014, in response to the political situation in Crimea and Ukraine, blocked Russia's access to customary Western financing. This reduced GDP by approximately 0.5% and 0.6% in the two subsequent years, and helped boost inflation in the country. Despite this trend, when compared to other factors (mainly, declining oil prices), the sanctions had a limited effect on the Russian economy. Overall, the slowdown of its economy was driven

by inherent fundamental causes. According to a recent Skolkovo IEMS report "Russia's lost decade? Challenges to growth, Recipes for acceleration" (2016), the root causes of the economic recession in Russia include the heavy reliance of the economy on energy exports and household consumption, consistently low labor productivity, a decreasing birth rate, a declining working age population and a contraction of the SME sector.

All of these developments in and around Russia have affected the weaker economies in Central Asia and the Caucasus. In turn, exports to Russian (mostly from Armenia and Uzbekistan) have declined and remittances to countries heavily dependent on them (Tajikistan, Kyrgyzstan and Armenia) have decreased, leaving thousands of people of the region unemployed. Average annual GDP



growth in the region fell, and is forecast at only 2%-3% for next few years. Most currencies in the region have depreciated or were devalued sharply in 2014-2015 (up to 60% in Russia, and as much as two times in Azerbaijan and Kazakhstan).

Nonetheless, Russia is the most desired destination for regional labor migrants and the source of vitally important remittances. According to official statistics in 2015, the proportion of migrants that arrived from the eight CAC countries to Russia amounted up to 49.7% of the total number of international migrants (almost 300,000 people). Most came in pursuit of jobs and opportunities to sustain their families in their home countries through remittances. An extreme example is Tajikistan, where 20-50% of the annual GDP comprises remittances by labor migrants. The unofficial figure for labor migrants from the CAC in Russia is almost 5 million (3/4 of them originate from Uzbekistan and Tajikistan).

Another important recent trend is Russia's geopolitical pivot to the East, to China especially. Russia feels itself more comfortable as part of "Big Eurasia", and announced an ambitious plan to forge closer ties between the Eurasian Economic Union and the Chinese Silk Road Economic Belt (described in more detail below). Closer ties with Eastern partners might be beneficial for Russia but they decrease the geopolitical room for manoeuvre of the CAC countries between these big Eurasian powers. The trend will likely continue, notwithstanding the 2018 presidential election race which starts this year in Russia.

The past three years have been challenging for Russia, as falling oil prices and Western sanctions revealed fundamental problems in the Russian economy, and reoriented Russian foreign policy towards the East. The domino effect that affected the CAC region after the devaluation of Russian currency demonstrated once again how the republics of the region are connected with Russia. It is important to note that as a remnant of the Soviet past, the Russian language remains the lingua franca

of the region and in some countries is still an official language, albeit a secondary one.

Moreover, Russia remains one of the main trading partners (annual bilateral trade volumes exceed USD 40 billion), investors and creditors of the CAC countries. Russia is also an important political partner for the region, as well as security guarantor, through security blocs such as the Collective Security Treaty Organization and the Shanghai Cooperation Organization (both discussed in more detail below).

## China

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China's importance for the countries of the CAC region has increased significantly over the last five years due to the Silk Road Economic Belt (SREB) initiative. Having been absent from the region prior to the USSR's collapse, China is now an important trade and investment partner, and major creditor of all the countries in the region. Before the SREB, Chinese presence in the area mainly featured energy investments such as the oil pipeline Kenkiyak-Kumkol-Atasu-Alashankou in Kazakhstan, and the Central Asia-China gas pipeline in Turkmenistan. The rest of the region remained outside the scope of Chinese interests, except in being a market for Chinese goods. The famous Dordoy Bazar nearby Bishkek in Kyrgyzstan has operated from the 1990s and serves as one of the main entrepôts through which consumer goods from China arrive for shops and markets in Kazakhstan, Russia, and Uzbekistan.

China has no energy investments of geo-strategic significance in the South Caucasus. Having no direct borders with the region, its political co-operation with the South Caucasus was also far less developed than was the case with Central Asia. In general, China's interests in the South Caucasus are essentially part of its wider foreign policy goals: securing access to new sources of raw materials where possible, creating a stable environment around China's extended periphery, and, to an extent, opening up new markets for Chinese



companies—and that includes building the necessary infrastructure for trade.

China has been increasingly recognized by young people from the CAC countries as an attractive, fruitful and affordable destination for education. With an average 10% year-on-year growth, the number of international students in China has doubled since 2005, making China the third most popular destination for overseas students, ahead of Canada, Germany and France and behind only the US and the UK. Moreover, the Confucius Institutes that are dedicated to promoting Chinese language and culture, are rapidly growing in the region. According to Xu Lin, director of the Confucius Institute Headquarters, already in 2013, the number of registered Confucius Institute students in the region stood at 24,000, up 33.3% year-on-year.

China's increased role in the region benefits all CAC states by giving it a degree of

leverage in their dealings with other outside powers, first and foremost Russia, but also to some extent the US and EU. Apart from political leverage, now the focus includes the economic aspect of Chinese involvement in the region, namely the SREB initiative.

At the World Economic Forum Davos meeting in January 2017, Chinese President Xi Jinping announced plans to host a One Belt One Road summit for international cooperation in Beijing this May, to brainstorm on interconnected development and to explore ways of addressing regional and global economic problems.

### South Korea

The 10th Republic of Korea-Central Asia Cooperation Forum, held in Seoul in November 2016, reasserted South Korea's aspiration, expressed in the 2013 "Eurasia Initiative" of now

ousted President Park Geun-hye, to be involved more in traditional spheres such as construction and infrastructure development (thermal and hydro power stations, logistical centers), automobile assembly, the energy and mining sector (natural gas, uranium, rare earth metals), and also in the digitalization of Central Asian governments, cooperation in agribusiness, and stock exchange modernization. Traditionally, most attention has been given by South Korea to Uzbekistan, where the largest investments have been made by South Korea since 1990s (USD 7 billion). Currently, around 450 enterprises established with the participation of South Korean investors successfully operate in Uzbekistan. To name a few of the largest projects: management of the Navoi airport, the UzDaewooAuto automobiles assembly plant, and construction of the Uz-Kor Gas Chemical gas processing plant in Uzbekistan.

One of the factors linking South Korea to the CAC region is the large Korean diaspora, which has fuelled economic cooperation. The deportation of Koreans to the Soviet Union during the Stalin era resulted in Uzbekistan and Kazakhstan having the sixth and the ninth largest Korean diasporas in the world, with a population of around 176,000 and 104,000 Koreans, respectively. The Korean diaspora provides an exceptional synergy between the cultural and economic dimensions of cooperation between their ethnic motherland and current home-countries.

## Japan

When it comes to Japan, its increasing interest in the CAC region was proved back in 2006 when, before stepping down as Japan's prime minister, Junichiro Koizumi visited



the Central Asian republics of Kazakhstan and Uzbekistan. His main aim was to secure agreements to supply oil, gas and uranium to Japan. The four-day trip – the first by a Japanese leader to Central Asia – was driven by a strategy to diversify Japan's energy supplies from its heavy reliance on the Middle East. As well as securing oil and gas for Japan, according to the analysts, the trip was also used to counter the growing influence of China and Russia, especially since the formation of the Shanghai Cooperation Organization, linking the two countries with Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan.

In 2015, the Japanese Prime Minister, Shinzo Abe, officially visited Central Asia for the first time in almost 10 years and committed to investing over USD 24 billion in the region's infrastructure. Japan is engaged in infrastructural projects (electric-power and transportation infrastructure, and water supply and sewer systems upgrading), uranium mining, and rural development through agriculture and SME capacity-building programs. Due to the need for modernization in all the CAC countries, Japan is regarded as a sound partner for technological and innovative solutions. With their abundance of energy and mineral resources such as oil, natural gas, uranium, and rare metals, the countries of the region are also strategically important to Japan, which has been promoting resource and energy diplomacy as it constantly tries to diversify its range of resource supply countries. Japanese companies such as Inpex, Itochu, JNOC, and Petro Japan Corporation already have interests in some of the largest oil fields in the Caspian Sea coast of Kazakhstan (Kashagan) and Azerbaijan (Azeri-Chirag-Guneshli), as well as in the gas sector in Turkmenistan, where Japanese companies are engaged mostly as EPC contractors (Sumitomo, Mitsubishi). Japan is very interested in mining uranium in Uzbekistan and uranium and rare-earths in Kazakhstan. Moreover, the Japanese corporation Mitsui is active in the implementation of the industrial free economic zone and multimodal logistics center, Navoi.

## Turkey

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Another important regional player is Turkey, which appeals to the ancient Turkic legacy in the CAC region. Turkey was the first country to recognize the independence declarations of all the Central Asian and South Caucasus countries in the early 1990s. Since then it has been active in strengthening economic and cultural ties, positioning itself as a central country in the wider Turkic civilization. For instance, 27 Kazakh-Turkish High Schools (Lyceums) have become very popular educational institutions in Kazakhstan due to their high performance and because pupils are taught in three languages (Kazakh, Turkish, and English). Similar Turkish schools have been established in Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan. Their best graduates have attractive possibilities to continue education in Turkey and abroad as well as later working for numerous Turkish hotels, and firms in the telecommunications, energy, banking, agriculture, textiles and construction companies which operate in the region. It is notable that Turkish firms are carrying out 70% of all construction in the new capital city of Astana. Construction companies from Turkey are also active in Uzbekistan, Turkmenistan and Azerbaijan.

Turkey has become the transfer point for oil and natural gas from the Caspian basin for Western markets. This was greatly helped by the opening of the Bakü-Tbilisi-Ceyhan (BTC) pipeline in July 2006, the integration of Azeri gas into the Turkish pipeline system via Erzurum, and the transfer of Kazakh oil to Ceyhan via the BTC.

Nevertheless, Turkey's role in the region has decreased in the past decade, especially during the last two years. This is due to Turkey's internal political tensions, which led to a failed coup d'état in the summer of 2016, and to the escalation of ISIS threat. These internal security concerns, as well as its own economic problems are the reasons for the reduction in international economic initiatives coming from Turkey.



On 16 April 2017, Turkey held a referendum on constitutional reform and transition to a presidential form of government. President Recep Tayyip Erdogan was supported by 51.3% of the votes. The resulting constitutional change will allow the winner of the 2019 presidential election to assume full control of the government, ending the current parliamentary political system.

Growing internal political concerns will definitely hinder Turkey's medium-term economic prospects. For example, foreign and domestic investment may be lower, financial market turbulence might rise and, perhaps, a sharp monetary tightening will follow these events. Moreover, Turkey's historical regional aspirations are contested now by Iran and Saudi Arabia.

## Iran

Iran became particularly interesting for the business community after international sanctions were lifted in January 2016. According to a recent report by the Skolkovo IEMS, "Iran: The Business Opportunity of the Decade" (2016), Iran is in the list of the world's top 20 economies with a GDP (PPP) of USD 1.3 trillion, and is the second largest economy in the MENA after Saudi Arabia. The IMF has predicted that the Iranian economy will grow by 4.5% in 2016-2017. The outlook for 2017 is clouded by concerns about whether Iran can sustain economic growth at the predicted rates due to uncertainties related to presidential elections in May, and current tensions with the new US administration.





While the dependence of the Iranian economy on oil exports is a big issue, the country's economy is more diversified than many of its Persian Gulf peers. It has a strong manufacturing base, and has demonstrated ambition and achievements in the area of technology, which are well above the regional average. An unexpected fact is that Iran produces over 1 million cars per year, which is more than Italy.

The neighbouring countries of the CAC and the Caspian basin have a large trade and logistics potential, taking into account their intermediary position between Iran and the north of the continent. The North-South Transport Corridor and the Kazakhstan-Turkmenistan-Iran railway link are amongst those opportunities. The planned corridor running between Russia and India via Iran is intended to reduce freight costs and increase trade along the route. This project should provide

considerable investment and other opportunities in the region, notably in Kazakhstan, Turkmenistan and, especially, Azerbaijan.

Azerbaijan was formerly a province of Persia and there is still a largely Azerbaijani area in Iran, now called Iranian Azerbaijan. Despite their historic and religious bonds and geographic proximity, the economic links between Azerbaijan and Iran have been weak. This is partly explained by Iran's perception that Azerbaijan supported the US in connection with the political and security issues arising from Iran's nuclear program. Nevertheless, Azerbaijan does not refuse business opportunities associated with Iran. Amongst others, Baku positions itself to export Iranian natural gas to Europe both via its existing Trans-Adriatic Pipeline and the Trans-Anatolian Natural Gas Pipeline, which is scheduled to be commissioned in 2018.



According to the Skolkovo IEMS report “Iran: the Business Opportunity of the Decade”, an open Iran is particularly important for Armenia that positions itself as the “a key interface to Iranian business”. Armenia has a common border with Iran, a trade turnover of more than \$300 million annually, a stable exchange of tourists, and strong historical ties.

The Persian heritage has been also a major point of convergence between Iran and Tajikistan. The Tajik people are of ethnic Persian descent, like the people of Iran, and the Tajik language is a dialect of Persian. Tajikistan and Iran have had close relations for many years. Iran needs Tajikistan as a gateway for trade into Central Asia, and Iran has invested millions of dollars in commercial and infrastructure projects in Tajikistan.

Iran’s relations with Turkmenistan are, by contrast, characterised by increased anger over Iran’s payment arrears for gas supplies. Turkmenistan currently exports up to 10 billion cubic meters of gas to Iran, its third largest trading partner after China and Turkey. Iran uses Turkmen gas in the populated north of the country while its main gas fields are in the south. In January 2017, Turkmenistan halted gas supplies to Iran amid tensions between the two countries over arrears, and even though the two countries have been holding discussions, they have not yet reached agreement on the payment, and on the amount of arrears Iran owes to Turkmenistan.

## Saudi Arabia

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Saudi Arabia has a religious connection with the Islamic population of the CAC. Saudi Arabia’s role in the region includes granting Hadj quotas, religious education and financing.

Economically, Saudi Arabia is interested in developing agriculture, such as cultivating sheep and cattle in Central Asia and Caucasus region in order to address their own food security strategy. Thus, in January 2017, the Saudi Arabian Al Ramez International Group

announced that it will finance a poultry farm in the South Kazakhstan region with a production capacity of 30,000 tonnes of meat per year.

Cooperation with Saudi Arabia carries some security concerns. There is much discussion of the negative connotation of Islamic fundamentalism connected with Saudi Arabia. Saudis are accused of being responsible for the popularity of contemporary Islamist fundamentalism, and of funding extremist movements in the region, such as Wahhabism.

The Saudi royal dynastic succession crisis in 2015 was the biggest challenge for the ruling family in the past 50 years. The power vacuum during the transition from the 90-year old King Abdullah to the present monarch, Salman, and inconsistent decisions and actions of de-facto ruling Crown Prince Muhammad bin Nayef caused internal political tensions in the country. They are jeopardizing the country’s status in the international arena and its ability to maintain security.

## India

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India positions itself as a digital powerhouse on the Eurasian continent. It has already bypassed China in terms of GDP growth (7.9% in India as opposed to 6.7% in China annually). It holds third position in terms of GDP (PPP) size in the world after the US and China. The information and communication technology (ICT) sector of India accounts for 9.5% of the country’s GDP.

The potential for digital technology development and innovation cooperation with India is enormous. Being a country of contrasts, India is fruitful soil for the growth of innovative ideas. The Tata project in the automobile industry became a great success providing affordable cars to more than 1 billion people in India who were living at the bottom of the world’s wealth pyramid – Bottom of the Pyramid (BoP). This experience is valuable for the low GDP per capita countries of the CAC region. The distant and thinly populated CAC region can be opened up



for BoP goods and services since technology now permits digital marketing and distribution. BoP retail shops, educational centers and clinics, as well as moneylenders, can all find a market in the region.

Moreover, India has over 3,000 engineering and math schools turning out a million and a half graduates every year. These graduates can become the sought after educated and skilled human capital for Eurasia now and even more so in the future. This vector of India's role in the CAC is very important because the region is mostly landlocked. Digital technology export could be an answer to addressing the problems of the landlocked and remote areas in the region.

## The US and Europe

The Western superpowers such as the United States and the European Union have been traditionally present in the CAC region. They secured their economic and geopolitical interest in energy resources access, maintained a corridor for Afghan operations, promoted human rights protection and democratic values, and ultimately balanced the Russian and Chinese impact.

Although the official statistics of FDI inflows in the CAC region persistently show the Netherlands, British Virgin Islands, and Cyprus as the leading investors, followed by China and Russia, the US and UK, Germany, Italy, France and other EU countries steadily occupy top ten places in the list of investors in the region. These countries mostly invest in energy, construction, transport and communication, other infrastructure, and the financial and services sectors in the region. The largest energy projects of the last decade, in which the US firms Exxon and Chevron have stakes, are the Tengiz, Karachaganak and Kashagan oil fields in Kazakhstan. The same US firms plus Amoco, Unocal, UK's BP and Norway's Statoil have invested in energy and infrastructure projects in Azerbaijan (for example, Azeri, Chirag, and Deepwater of Gunashli field).

However, recent developments, including success in shale gas exploration and the opening of new big oilfields (20 billion barrels) in Texas, USA, have led to a declining need for Caspian oil and gas for Euro-Atlantic allies. In addition, financing, resource availability, and partner reliability problems of the US-promoted TAPI project (building a natural gas pipeline from Turkmenistan to Afghanistan, Pakistan, and India), a general slow-down and ultimate halt of the US New Silk Road policy in the region, and the withdrawal of US troops from Afghanistan are proof of the reduced involvement of the US in Central Asia. Nonetheless, the situation in the South Caucasus remains relatively stable for the US-EU block, which is shaped by continuous US involvement in Azeri energy projects (the Baku-Tbilisi-Ceyhan pipeline, the Shah-Deniz natural gas field, Baku-Supsa pipeline), as well as the promotion of democratic values in Georgia, Armenia's rising role as a bridge between Europe and Iran, and the EU's Eastern Partnership program. The new US administration headed by President Donald Trump and its process of adapting to government; the EU's issues with Brexit and migrants from the Middle East; and international concerns in Syria and Ukraine, will together put serious limitations on the North Atlantic camp in terms of its willingness to engage in the CAC region to the extent it did in the early years of independence. On the other hand, it is understood that a major shift away from the West towards the East of the CAC countries in the foreseeable future will occur due to the massive economic penetration by China and the more protectionist mood in Russia as it tries to retaliate against Western sanctions and preserve its sphere of primary interest, the Eurasian heartland.

# Intraregional Dynamics

## Security

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Cooperation in security in the CAC is a matter of international concern considering the ISIS threat, the border with unstable Afghanistan and various potential regional conflicts, such as water disputes, undefined borders between countries (Kyrgyzstan and Uzbekistan, Tajikistan and Uzbekistan, Kyrgyzstan and Tajikistan, Armenia and Azerbaijan), ethnic clashes between Uzbeks, Kyrgyz and Tajiks, as well as the concerns of people who believe that there are authoritarian governments in the region.

For instance, a water and electricity crisis is imminent in Central Asia. The old Soviet system of resource sharing between the five countries of the region has collapsed. As a result, some are left with constant interruptions of electricity (Kyrgyzstan, Tajikistan), while others are without water for irrigation (Kazakhstan, Uzbekistan). Kazakhstan, Uzbekistan and Turkmenistan constantly raise awareness about the deterioration of the environmental situation in connection with the drying up of the Aral Sea region due to extensive use of water from the Syr Darya and Amu Darya rivers by upstream countries.

The economic situation is already difficult, so experts like the Chinese Academy of Science have been warning about regional conflicts and possible social explosions in the next few decades. Other than affecting the relationships between the countries in Central Asia and risking regional conflict, the situation could also affect the construction of the SREB, jeopardizing China's plans to revive trade along the ancient Silk Road, according to a Chinese research report.

An important security issue for the region is ISIS recruitment among the population of the Central Asian republics. Economic hardships together with religious fundamentalism create fertile ground for local terrorist groups that pledge allegiance to ISIS. A worrying example is contained in a report by the Hague-based International Center for Counter-Terrorism (ICCT) which claimed that 27 Tajiks had carried out suicide operations in Iraq and Syria between December 2015 and November 2016, the highest among all foreign nationals whose country of origin has been identified.

## Political transition

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The political environment in the region is complicated, and there are concerns over stability, corruption, tribalism and nepotism. Even adherence to democratic principles has its own peculiarities and interpretations.

Thus, notwithstanding that the CAC countries are evolving dynamically, there is still a long way to go to make the change from an emerging market to a developed one. Political transformation is among the areas of primary attention of the interested parties. Since the end of the Soviet regime there has been a whole new cohort of political figures replacing the Soviet era communist party leaders by democratically elected presidents and parliaments. However, this political transition is not consistent across the region. For example, Kazakhstan is currently undergoing constitutional reforms in the separation of powers, but it still has the same patriarchal leader who has been in office since 1989, President Nursultan Nazarbayev. Uzbekistan now has its second president since 4

## Political environment



December 2016, after the death of President Islam Karimov in the autumn of 2016. Kyrgyzstan, by contrast, has been able to transform into a democratic state, albeit at a cost of two revolutions (2005, 2010) and stalled economic development as a result of political instability. Turkmenistan and Tajikistan are making their political transformations slowly. Nonetheless, in over two decades of independence all these countries have produced liberal-minded youth who are likely to be more concerned about developing full democracy, a market economy and technocratic entrepreneurship.

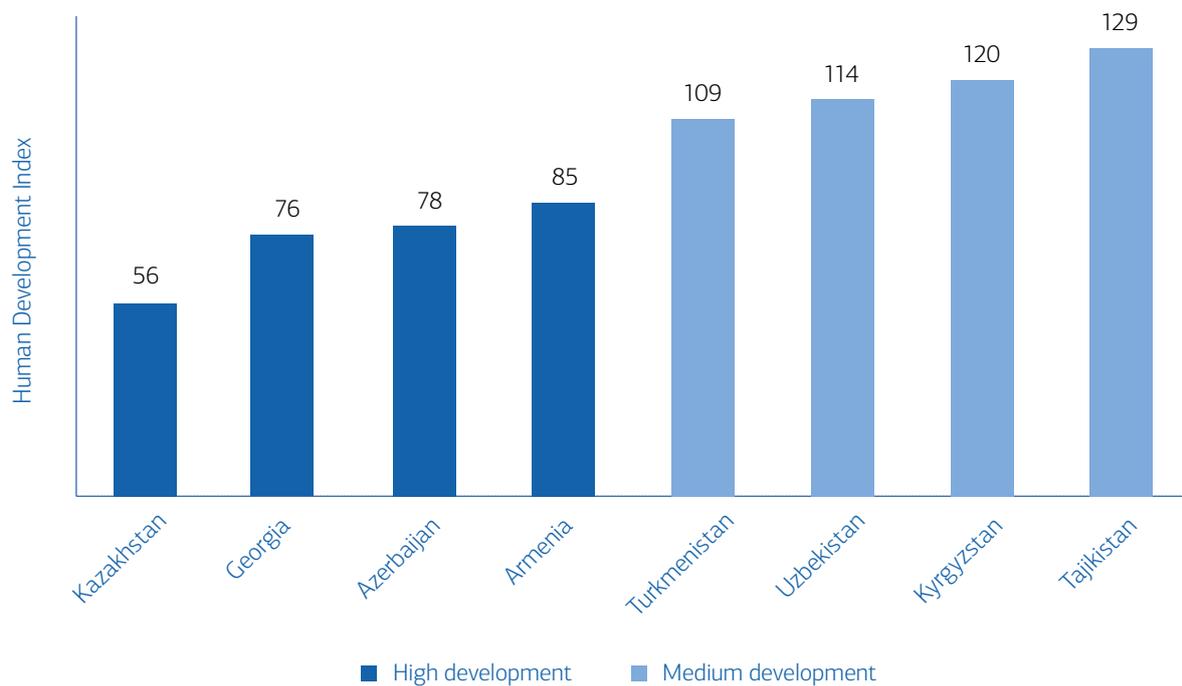
### Demography

In general, the demographics of the region look promising. The share of the population that is young and educated is high. Nonetheless, there are still issues with female empowerment, migration, a brain drain and

urbanization which causes the loss of agricultural labor. Obviously, also the Islamization of the region poses a risk of extremism. The challenge of a rapidly increasing population is another threat that, if managed properly, can be turned into an opportunity. As such, the goal would be to further increase the level of technical and higher education in the region.

2017 will be a landmark in the demographic situation in Central Asia. In 1991 the population of the region was 51 million people. In the past 25 years it has increased by 34.4%. At the beginning of 2016, it was 68.6 million. Over the past 5 years, the average growth rate has increased from 1.2% to 1.7%. Should this positive dynamic continue, the milestone of 70 million people might be passed in 2017. The increase of the population is supported by a decrease in mortality, a growth in the average age of the population and a rising birth rate.

### Central Asia and South Caucasus region at glance



Source: World Bank

The growth of the population in the last 25 years, the available resources, and most importantly the evident potential of an entrepreneurial, open, educated and skilled population prove that the region's dynamic transformation in the last two decades is only a beginning.

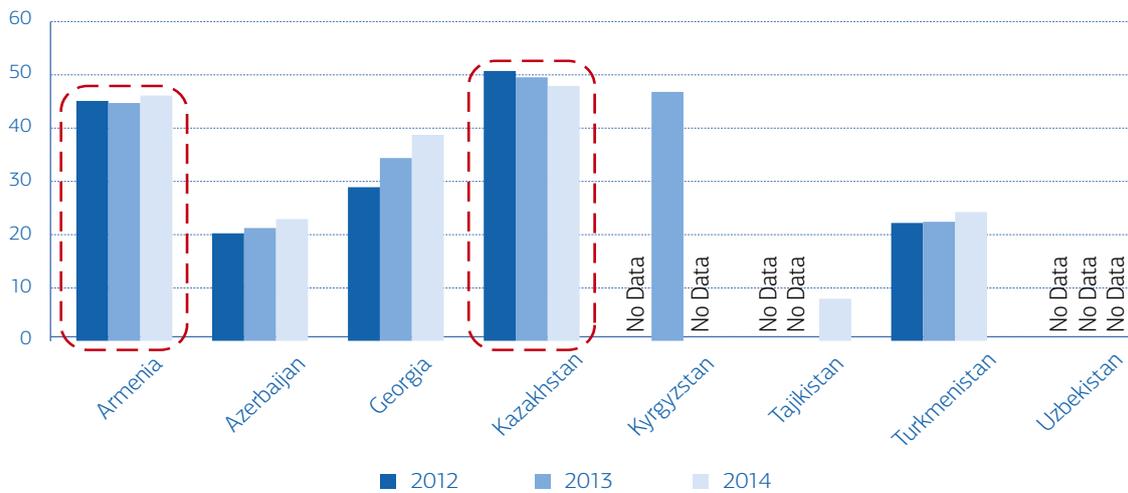
#### Regional business environment

The Central Asia and South Caucasus countries generally have been successful in improving their business environment, and improving the competitiveness of their economies. Since the end of the Soviet era, the eight countries cumulatively attracted USD 200 billion in FDI. Although most of the investments were in the resource industries, the countries managed to develop their financial

and agricultural sectors and stimulate the growth of their SMEs. The chart below demonstrates the recent development of the countries' business environment according to the World Bank Doing Business Ranking.

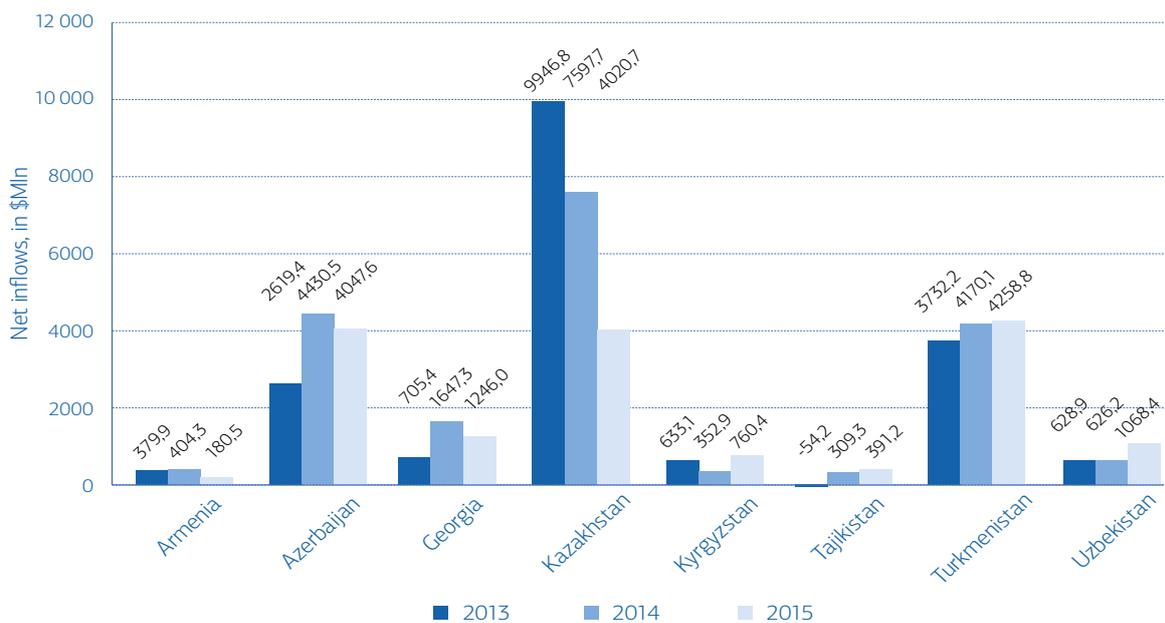
Since the 1990s, the financial sectors have become comparatively advanced, especially in Kazakhstan, Kyrgyzstan, and Uzbekistan, where stock exchanges were opened for the first time in the region's history. The Kazakhstan Stock Exchange (KASE) was founded in 1993 and is located in Almaty. The Tashkent Republican Stock Exchange (TRSE) and the Kyrgyz Stock Exchange (KSE) were founded in 1994. Shareholders of the regional stock exchanges are the state, financial institutions such as brokerage firms, asset management companies, pension funds, and commercial banks. Later, Azerbaijan, Georgia and

### Tertiary enrollment ratio, %



Source: World Bank

### Foreign direct investment

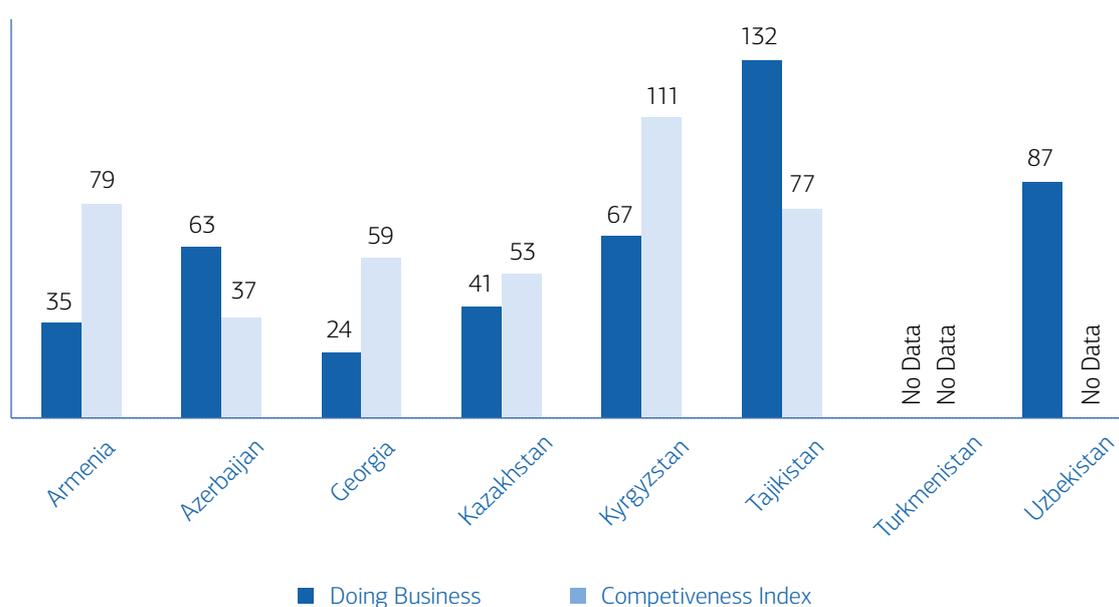


Source: World Bank

| Table        |                                   |         |         |
|--------------|-----------------------------------|---------|---------|
| Country      | World Bank Doing Business Ranking |         |         |
|              | 2014                              | 2015    | 2016    |
| Armenia      | 37                                | 38      | 35      |
| Azerbaijan   | 70                                | 63      | 63      |
| Georgia      | 8                                 | 24      | 24      |
| Kazakhstan   | 50                                | 53      | 41      |
| Kyrgyzstan   | 68                                | 67      | 67      |
| Tajikistan   | 143                               | 138     | 132     |
| Turkmenistan | no data                           | no data | no data |
| Uzbekistan   | 146                               | 103     | 87      |

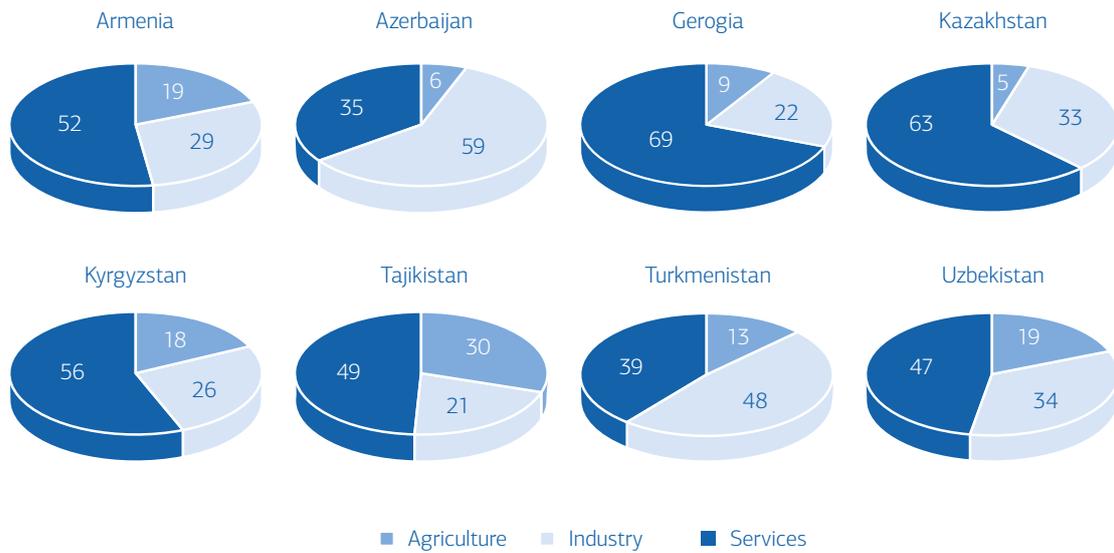
Source: World Bank

### Central Asia and South Caucasus region at glance



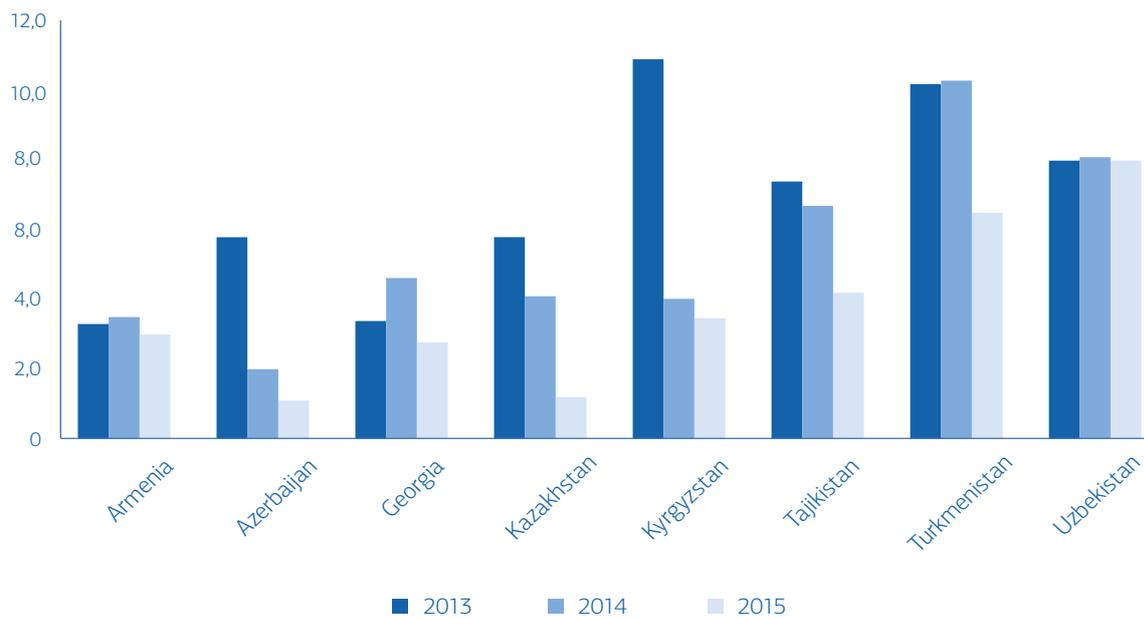
Sources: World Bank, WEF Competitiveness Report

### GDP Composition, by sector of origin



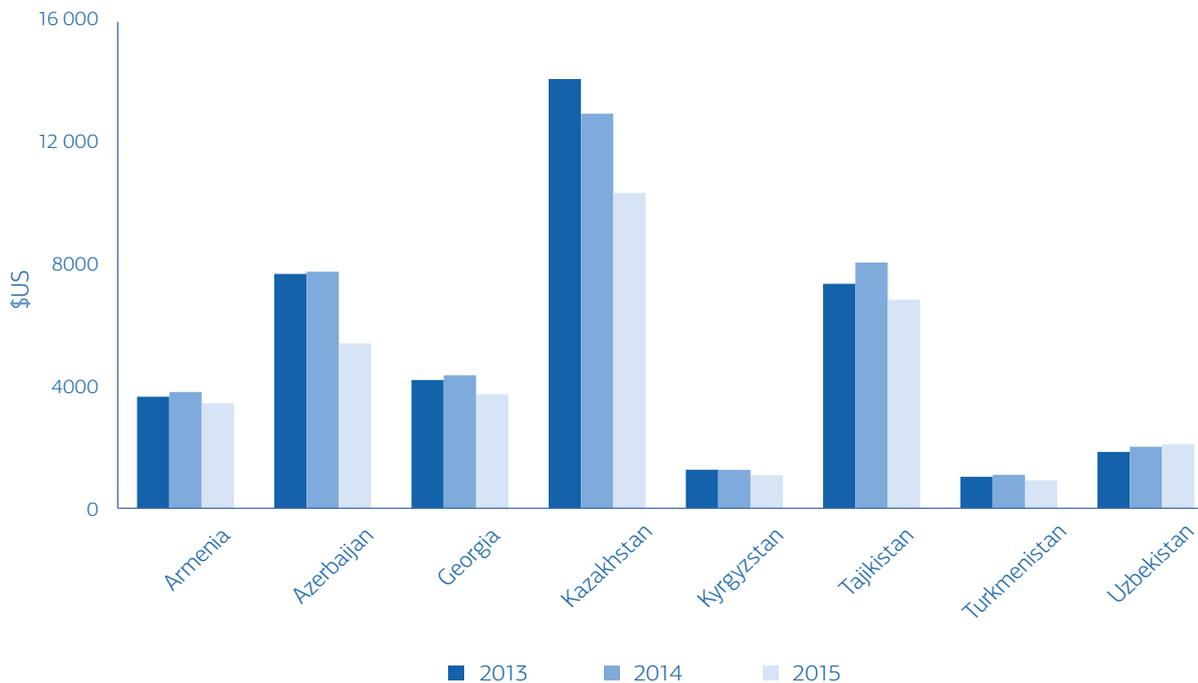
Source: CIA Factbook

### Annual GDP growth, %



Source: World Bank

### GDP per capita



Source: World Bank

Kyrgyzstan also established their securities trading platforms. The Georgian Stock Exchange (GeSE) was organized in 1999, and the Baku Stock Exchange (BSE) was founded in 2000. Additionally, the recent emergence of the Astana International Financial Center in Kazakhstan as a regional financial hub may become one of the grounds for cooperation for the countries in the region and beyond.

Notably, the SME share in the Armenian and Kyrgyzstan GDP is almost 40%. It is 54% in Uzbekistan, 24% in Azerbaijan (in non-oil sectors the share of SME input amounts to 42%), 25% in Kazakhstan (which also includes extractive industries), and less than 10% in Georgia. SME share data is unavailable for Tajikistan and Turkmenistan. Comparatively, in OECD countries, this indicator is on average 55%. The development of SMEs is among

the priorities in the government economic programs of each country of the CAC.

### Regional infrastructure development

The current infrastructure of the region is mostly the remnants of the Soviet era. Outdated morally and technologically, worn-out and needing ever-greater maintenance expenditure, the CAC infrastructure is a barrier to further economic growth, international trade and social development. Nonetheless, governments of the region are aware of this challenge and are working with leading development institutions in constructing the necessary infrastructure, especially in the transport sector. We believe that the SREB will bring more vitality to regional infrastructure development and that this will trigger further dynamic economic growth.

## Transport

There are long lasting well-known concerns in the area of transportation infrastructure. According to the Asian Development Bank (ADB), transportation costs can be as much as 50% of goods' total cost. There is a lack of transportation corridors, few well-equipped logistical centers, the low capacity of terminals, ports and warehouses, and time-consuming administrative procedures at the borders, even more so now with the common customs territory of the Eurasian Economic Union. Moreover, the quality and density of road and railways in the region is low and not suitable for the international transit level that is envisaged by the SREB initiative. Transport infrastructure is of the utmost importance since the majority of the CAC countries are landlocked. In fact, Kazakhstan is the largest landlocked country in the world and Uzbekistan is one of the two double landlocked countries in the world.

Challenges are not only barriers, but also opportunities – and often in disguise. The

well-known transportation challenges of Central Asia and the South Caucasus stimulate demand for new initiatives and open vast opportunities for the business community. As discussed earlier, one of the initiatives that entails infrastructure development in the region is the transportation of goods from China to the EU by the SREB. This route would take about two weeks, which is a fifth of the time of the current route by sea. Consequently, the demand for high quality insurance services for transported goods, new logistical centers, software for the automation of customs and logistical procedures, and catering and hotel networks along the roads and railways will rise exponentially. These sectors are potential areas for new business in the region. Moreover, it is expected that related businesses will develop, such as supplying materials for road and railway construction and the development of maritime transportation facilities at the Caspian Sea ports, which would allow for multimodal transportation through the region.

Figure: CAC region transportation infrastructure (data as of 24.03.2017)

| Country      | Roads, total network (km) | Railways, goods transported (million ton-km) | Rail lines (total route-km) | GDP growth (annual %) |
|--------------|---------------------------|--|-----------------------------|-----------------------|
| Armenia      | 7 749                     | 0  | 826                         | 3                     |
| Azerbaijan   | 18 986                    | 0.008  | 2 068                       | 1.1                   |
| Georgia      | 18 854                    | 0.006  | 1 578                       | 2.8                   |
| Kazakhstan   | 97 155                    | 0.236  | 14 329                      | 1.2                   |
| Kyrgyzstan   | 34 000                    | 0.001  | 417                         | 3.5                   |
| Tajikistan   | 27 767                    | 0.001  | 621                         | 6                     |
| Turkmenistan | 24 000                    | 0.012  | 3 115                       | 6.5                   |
| Uzbekistan   | 81 600                    | 0.023  | 4 192                       | 8                     |

Source: World Bank API

This part of the world was outside the international trade flows in the Soviet era, since the international trade routes went mostly around the closed Soviet territory. After the collapse of the USSR and the region's switch to free markets and international cooperation, the world development institutions such as the World Bank, EBRD and ADB have been coordinating with the governments of the CAC and building new transport infrastructure worth over USD 60 billion. Examples of the calibre of these projects are:

- Western Europe-Western China highway (WE-WC) Eurasia megaproject – USD 52 billion. The WE-WC highway will stretch 8,445 kilometers from the Yellow Sea coast of China to the Baltic Sea at St. Petersburg, Russia. More than 2,233 km of it are in Russia, 2,787 km in Kazakhstan and 3,425 km in China. Construction started in 2008, the Kazakh and Chinese part of the highway are almost completed. By 2020 the Russian part and the whole road are scheduled to be commissioned.

- Highway corridor North-South (Armenia) – USD 1 billion. A road corridor will facilitate improving the road connection between Armenia, Iran and Georgia, providing access to international trade routes and markets.

- Deep sea port in Anaklia (Georgia) – USD 2.5 billion. The Anaklia Deep Sea Port project will create a new, faster maritime corridor between China and Europe. The port will allow larger ships to enter Georgian waters, thus expanding the country's export potential and ability to act as a transport corridor.

- Khorgos dry port (Kazakhstan) – USD 388 million. The Khorgos Eastern Gate Special Economic Zone contributes to the development of multimodal logistics and large-scale industrial production and trade, connecting East and West. More than 70,000 containers were handled through the Khorgos dry port during its first year of operation in 2015 and by 2020 the terminal will be able to process more than 500,000 containers annually.

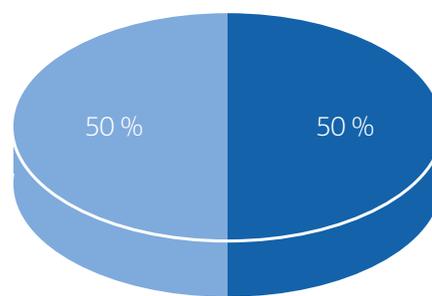
- Railroad Baku-Tbilisi-Kars (Azerbaijan, Georgia, Turkey) – USD 400 million. The

Baku-Tbilisi-Kars project is intended to complete a transport corridor linking Azerbaijan to Turkey (and therefore Central Asia and China to Europe) by rail and sea. The project started in 2007 and construction began in 2008. The railway will have 6.5 million tons of freight capacity, which is expected to be increased to 17 million tons in 20 years.

- Border road improvement (Tajikistan, Uzbekistan) – USD 106 million. The project aims to rehabilitate and upgrade the 62 km section of M41 Highway Dushanbe - Uzbekistan border including several major interchanges, which is a part of the Regional Project (CAREC Corridor 3).

- Navoi Transport and Logistics Hub (Uzbekistan) – USD 63 million. The multimodal transport and logistics hub in Navoi was established in 2008 by an agreement between Uzbekistan Airways and Korean Air. It has connections with 21 international destinations and has a cargo capacity of over 50,000 tons annually.

#### Total value of goods



- Transportation costs
- Other costs

Source: ADB

## Energy and Water

Although transport infrastructure is a priority, other type of infrastructure are also in a poor state and require upgrading. Electricity tariffs are increased annually since power infrastructure is not sustainable nor sufficient for the growing population and urban needs. Governments of the region continue to set the energy prices, which makes it difficult for the necessary investment to be attracted to the sector. The absence of cost-effective tariffs and public governance patterns (negative practices of public governance) in most of these economies has resulted in an inability to provide adequate infrastructure funding, and most upgrade programs are carried out as a part of government-guaranteed long-term loans from international financial institutions.

Nevertheless, households' electrification rate is 99%. Tajikistan, Kyrgyzstan and Armenia have enormous hydro-power potential.

Energy rich Kazakhstan, Turkmenistan and Azerbaijan have 3.5% of world's proven oil reserves and 7% of world's proven gas reserves (IEA). Kyrgyzstan and Tajikistan have announced large projects on construction of hydropower-plants (HPP) such as Rogun HPP, Kambarata HPP-1, Upper Naryn Cascade HPP. Resistance of Uzbek Government against Rogun HPP has been lasting since Soviet times when it was first projected and is still strengthening.

Despite having traditionally strong oil-and-gas energy developed sectors, Kazakhstan too possesses great hydro energy potential due to its vast territory, 12.4% of which is occupied by mountains that is almost 338 thousand square kilometers. Heavy snowfalls during wintertime cause flow of numerous mountain rivers. Kazakhstan's hydro power installed capacity is 2.26 GW, and hydro power production is 630 ktoe (kilogram of oil equivalent) per year. The main hydro power stations in Kazakhstan are Bukhtarma HPP

**Table. CAC region hydroelectric generating capacity (data as of 05.05.2017)**

| Country      | Territory, sq.km | Hydroelectric generating capacity, MW, 2015 |
|--------------|------------------|---|
| Armenia      | 29 743           | 1 250                                       |
| Azerbaijan   | 86 600           | 1 116                                       |
| Georgia      | 69 700           | 2 730                                       |
| Kazakhstan   | 2 724 900        | 2 260                                       |
| Kyrgyzstan   | 199 951          | 3 091                                       |
| Tajikistan   | 143 100          | 5 190                                       |
| Turkmenistan | 488 100          | 1   |
| Uzbekistan   | 447 400          | 1 731                                       |

Source: WorldEnergy.org

(675 MW), Ust-Kamenogorsk HPP (332 MW) and Shulbinsk HPP (702 MW) on the Irtysh river, Kapchagay HPP (364 MW) on the Ili river, Moinak HPP (300 MW) on the Sharyn river, and Shardara HPP (100 MW) on the Syrdarya river.

All the CAC countries have reasonable hydro power production possibilities and facilities except Turkmenistan which has small mountains on the southern part of the country, with few snow coverage during winter-time.

## Communication

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Communications quality in most of the CAC countries is mediocre. Penetration rate of mobile use is relatively low, especially

among older population. Internet penetration in the CAC countries is 33% in average, whereas the world's average is at 43% and Europe's 78%. Low population density results in increased cost of infrastructure spending. The biggest Internet penetration is in Armenia (the smallest territory) – 70.1%, and the poorest Internet penetration is in Turkmenistan (vast territory with small population) – 14.3%. Though the main reason for poor Internet penetration in Turkmenistan is due to political, economic and trade isolation of this country.



Table. CAC region Internet penetration (data as of 05.05.2017)

| Country      | Population, 2017 | Internet users | Internet penetration, % |
|--------------|------------------|----------------|-------------------------|
| Armenia      | 3 031 670        | 2 126 716      | 70.1%                   |
| Azerbaijan   | 9 973 697        | 6 027 647      | 60.4%                   |
| Georgia      | 3 972 532        | 2 411 370      | 60.7%                   |
| Kazakhstan   | 18 064 470       | 9 966 444      | 55.2%                   |
| Kyrgyzstan   | 6 124 945        | 2 076 220      | 33.9%                   |
| Tajikistan   | 8 858 115        | 1 622 924      | 18.3%                   |
| Turkmenistan | 5 502 586        | 789 151        | 14.3%                   |
| Uzbekistan   | 30 690 914       | 15 453 227     | 50.4%                   |



# Conclusion

The world is changing rapidly today and there are obvious trends bringing instability to the CAC region, such as security issues, global macroeconomic trends, the advance of multipolar world politics and decreasing US engagement in the region. On the other hand, there are evident possibilities such as China's involvement and willingness to invest in the region, as well as Russia's determination to increase its influence over regional security issues and economic prospects. In this evolving context, all eight countries' common feature is their ability to adapt to external forces and to manoeuvre between superpowers and their neighbours. Having much in common with each other, all the countries in the region have unique sets of strengths and weaknesses in geopolitical, economic, and social fields. These could be amplified if they were addressed collectively.





In the light of the heightened attention to development of the OBOR, its new regional cooperation initiatives, including working with the Eurasian Economic Union, one may ask what will be the key development factor in the region. Reflecting on the above, we conclude that the CAC region has the opportunity to return to the prosperity of the Silk Road era with the construction of the new infrastructure of the SREB, and as such to become a vital part in the international trade network. Development of transport infrastructure will have a multiplying effect on the rest of the economy, including the services sector, where SMEs can blossom. Additionally, we believe that the development of the region is also heavily dependent on its growing young and educated population. With enlightened leadership, young people can become a key force in building a knowledge economy. Only the knowledge economy will bring the opportunity for the region to embark on the Fourth Industrial Revolution and diversify the regional economy away from resource and labor migrant dependency, and reduce the pressures resulting from its landlocked location.

In summary, we can see that main components for gradually developing multilateral economic and security cooperation in the CAC have already been created. They have yet to be further integrated, synchronized and institutionalized. This process can only be a matter of time because the key objectives of the parties concerned are basically the same – sustainable economic development based on fair competition, diversity and strong regional security cooperation. We have every reason to believe that the CAC region, given its location and history, its resources and people, has all the potential to develop many flourishing societies within Eurasia.

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# China Studies

## Why China?

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- **Russia's key business partner** in Asia Pacific
- Russian business elites have only **fragmented and mostly touristic knowledge of China** and are almost unaware of fine details of Chinese dynamics
- **Impossibility of replication of habitual business practices to Chinese environment** now becomes a full-fledged challenge for Russian companies

## Research:

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- current transformations in Chinese political, economical and business domains retrieving deeper understanding of change and implications for Russian entrepreneurs

## Education:

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- educational programs for Russian corporations and SMEs to quickly master the critical knowledge and skills necessary for the starting up and/or intensification of their business in China

## Networking/ Outreach:

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- Independent stakeholder engagement platform bringing together business, government/policy-makers and academia from Russia and China to discuss current developments and ways to foster trade and investment

# Eurasian Studies

## Why Eurasia?

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- **Changing market landscape** due to integration and free trade initiatives of the **Eurasian Economic Union**.
- **Transformation of economies of the region** from resource dependence into industrial and technological as a result of low commodity prices.
- Opportunities in infrastructure development, international cooperation and trade with the **Silk Road Economic Belt**.

## Research:

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- Insight and analysis of the current political and economic transformative trends in Eurasia and their effect for business community.

## Education:

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- educational programs for Russian and Eurasian corporations in addressing the changes in the market as well as seminars for international businesses about doing business in the Eurasian Economic Union and along the Silk Road Economic Belt

## Networking/ Outreach:

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- Independent stakeholder engagement platform bringing together business, government/policy-makers and academia from Russia and Eurasia to discuss current developments and ways to foster regional trade and investment.



# THERE IS ALWAYS AN EMERGING MARKET

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