

KAZAKHSTAN'S POLITICO-ECONOMIC RELATIONS WITH IRAN

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Iran is called upon to play the role as a strategic partner of the Central Asian republics; also, it is their gateway to the Middle and Near East and South Asia—that is to say, regions where the majority of the world's Muslim population traditionally lives. The starting point in the evolution of relations between Kazakhstan (the Republic of Kazakhstan) and Iran (the Islamic Republic of Iran) was 1992, when the country's president, N. Nazarbaev, went to the Islamic Republic of Iran on an official visit (October 28 through November 3). Then, on 24 through 26 October, 1993, President A. Hashemi Rafsanjani of Iran returned the visit. In the course of those meetings, treaties were signed, laying the groundwork for the development of cooperation between the two states.¹

More than 40 documents regulating bilateral relations in the trade and economic, industrial, scientific and technical, transport, transit, and customs sphere have since been drafted and signed.² These contacts are constantly being advanced.³

There are a number of factors in Kazakhstan's special interest in developing mutually beneficial politico-economic relations between our two states.

- First, Iran's political course is marked by independence and predictability, including both in the medium and long term—that is to say, it is oriented toward consistent integration into the world economic system while retaining its

national specifics. Although Iran's economy greatly depends on the export of manufactured goods and technology, it is visibly picking up pace as the country implements large-scale industrial modernization programs and develops transportation infrastructure, combining planned economy elements with market mechanisms and coordinating the operation of state owned and private enterprises, which ensures steady growth of GDP (on average, 4 percent a year).

- Second, Iran basically differs from many other Islamic countries in its human resource potential (according to the 1996 census, Iran had a population of 60,055 million people; today it is more than 70 million), the high education level of the people, and as of recently, the growing proportion of young people in the country's population. Thus, whereas in the 1991-1996 period, the total population growth rate was 1.46 percent, in the 15-34 age group it was 2 percent to 2.5 percent and higher. At the same time, the proportion of students in this age group is fairly high⁴: In other words, this points to the positive dynamics of the state's social development.
- Third, the national transport development strategy is geared to make the most of the country's geopolitical situation. A modern network of railways and highways links the southern coast of the Caspian Sea with ports in the Persian Gulf, the country's western border areas with Turkey, its southern border with Pakistan, and

¹ See: K. Tokaev, *Vneshniaia politika Kazakhstana v usloviakh globalizatsii*, Almaty, 2000, p. 391.

² See: *Kazakhstansko-iranskiye omoshenia v dokumentakh 1992-1998 gg.* A publication of the Iranian Foreign Ministry publishing and printing center with assistance from the Embassy of the Republic of Kazakhstan in Tehran.

³ See: K. Tokaev, op. cit., p. 390.

⁴ See: A.Z. Arabadzian, *Islamskaia Respublika Iran. Ekonomicheskii potentsial*, Moscow, 2002, pp. 20-21.

its eastern border with the Central Asian republics. Also, a lot of effort is being deployed to put in place a pipeline transport system and to modernize the sea ports and oil refineries in the north of the country. Transit-wise, Iran remains a main gateway for the newly independent

states of Central Asia, providing them an outlet to world markets.

Thus, in light of the aforementioned, in the extent of its political and economic influence on Central Asia, Iran can well be put on a par with Russia and China.

Cooperation in the Oil and Gas Sector

Kazakhstan's intention to sell oil to Iran was first brought up in the course of drafting a protocol on development of cooperation in the transport sphere (November 1992). Under the document, which was signed by the transport ministers of the two countries, Kazakhstan was going to sell up to 2 million tonnes of oil a year (Part 5.2). In 1996, following a summit meeting in Tehran, an agreement on Kazakh oil supplies on a swap basis was signed. The contract, however, was not finalized until December 2001, and in February 2002, the first tanker of the national shipping company KazMorTransFlot with oil for Tehran and North Iranian oil refineries set out from the port of Aktau to the Iranian port of Neka. An equivalent volume of Iranian oil was shipped to Kazakh importers to Khark Island (a port in the south of Iran). In 2003, Kazakhstan exported approximately 1 million tonnes of oil on a swap basis. In 2004, the volume is expected to double.⁵

Oil export is the main source of revenue for both countries; it is also extremely important not only for their development but also for their integration into the world economy with oil swap operations considerably expediting the process. Under the Saup Project, signed in 1998, Iran is modernizing the Tehran, Tabriz, Isfahan, and Arak oil refineries since they did not meet the technology standards required for refining Kazakh oil. In addition, the Rey terminal, located next to the Tehran oil refinery, is being modified and Neka-Tehran and Sari-Nimrud pipeline construction projects are underway.

For its part, Kazakhstan is building up infrastructure on the Caspian coast. Development of relations with Iran stimulates modernization of the port of Aktau that can today handle up to 8 million tonnes of oil and oil products a year. In 2001, an oil loading rack was modernized here, making it possible to ship oil from the Kumkol oil fields in the winter period; it is also planned to modernize the port of Bautino as an oil loading terminal. Furthermore, a Tengiz-Uzen-Belek-Tehran-Qom-Isfahan-Khark pipeline project is in the works. It has a length of 1,440 kilometers, about 500 kilometers of it running across Iranian territory.⁶ Another project, which is being developed by Transneft and KazTransOil companies, envisions the use of the existing Omsk-Pavlodar-Shymkent-Chardzhou oil pipeline with an extension to the north of Iran.⁷ In this case, the Iranian section of the pipeline will be joined and accessed by Russia, Kazakhstan, Uzbekistan, and Turkmenistan. Thus, an interdependent oil exchange system is becoming not only a base for Kazakhstan's integration with Iran, but will also help other countries in Central Asia and the Caspian to get involved in the process.

By developing political relations with Kazakhstan and other republics in Central Asia, Iran is strengthening its positions in international structures, in particular, the Organization of the Islamic Conference, and in future (should Kazakhstan and Turkmenistan join the organization of oil exporting countries) also in the OPEC,⁸ while Kazakhstan gets a transit line, alternative to Russian, and becomes less dependent on the RF for energy export.

⁵ See: *Panorama*, 19 December, 2003.

⁶ See: A.A. Kurtov, "Iran i problemy Kaspiya," in: *Iran v sovremennom mire*, Moscow, 2003, p. 58.

⁷ See: A. Abishev, *Kaspii: neft i politika*, Almaty, 2002, p. 303.

⁸ See: M. Sanai, *Vzaimootnosheniia Irana i stran Tsentral'noi Azii: Istoria i sovremennost (politologicheskii analiz)*, Almaty, 1997, p. 56.

At the same time, Kazakh-Iranian experience in oil swap operations is increasingly attracting a number of national and multinational companies. Say, Turkmen exporters, represented by Drayun Oil, in 1998 signed an oil swap agreement with Iran, in April 2000 signing a new agreement (for 10 years).⁹ Total-FinaElf's Christophe de Margerie said that almost all companies operating in the Kazakh sector of the Caspian see the Iranian oil transport route as by far the most profitable.¹⁰ Canadian PetroKazakhstan Inc. is already shipping its share of oil, produced at the Kumkol oil field (Kzyl-Orda Region) to the Tehran refinery along the Tedzhen-Serakhs-Mashhad railway line, under a swap contract.¹¹ The Iranian transit route is also favored by Chinese exporters of Caspian oil.¹²

In addition, Iran makes a profit from oil swap operations, resulting from the difference in the price of oil bought in the north and that provided in the south, as well as from transit charges,¹³ while to Kazakhstan, the Iranian route is the shortest and therefore more profitable than the existing Russian or prospective Chinese routes.

An Outlook for the North-South International Transportation Corridor

The North-South international transportation corridor project envisions the creation and development of a joint transportation infrastructure of Russia, Iran, and India, as well as of some other states wishing to participate in it. After the Russian Federation adopted, in 2000, a transport systems modernization program for the period until 2010, Moscow, Delhi, and Tehran signed a framework agreement on creating a strategic corridor linking India, Pakistan, and Persian Gulf countries. It will pass across Iranian territory to Caspian Sea ports and then along the Russian inland water, rail, and road network to countries of East and Central Europe and Scandinavia. In addition, more than 20 states in the Asia Pacific region, the Middle and Near East, the Baltic region, the CIS, and East and Northern Europe have already shown interest in the project.

Astana's accession to the North-South transportation corridor project created additional opportunities for the republic in the sphere of international trade and transit, as well as for the industrial development of its western regions and the formation of a national transport network (with diversified infrastructure) as a whole. In this respect, on the one hand, Kazakhstan gets an opportunity of becoming an intermediary in the international flow of goods by offering and making available its transit services, regardless of Russia's transport capacity in the Caspian region. On the other hand, the evolution of the Caspian Sea basin as an international transport node orients a part of freight and passenger flow to the west of the country, which creates additional opportunities for a balanced development of its economy on the regional level. One important aspect of this project is the relatively large share of shipments planned for the non-oil sectors of industry, while the projected modernization of ports in Russia, Iran, and Kazakhstan provides for the shipment of a wide range of goods, which, along with the development of the fuel and energy sphere, stimulates industrial and agricultural growth in the Republic of Kazakhstan.

The Kazakhstan section of this route includes the Aktau sea port, which already now is by right considered as one of the technologically most advanced transport nodes on the coast. It links Russia's West Siberia and Ural regions, as well as Uzbekistan, Tajikistan, and Kyrgyzstan with Iranian sea ports

⁹ See: A. Abishev, op. cit., p. 301.

¹⁰ See: Ibid., p. 303.

¹¹ See: *Panorama*, 8 August, 2003.

¹² See: A. Abishev, op. cit., p. 352.

¹³ See: M. Sanai, *Otmosheniia Irana s Tsentral'noaziatskimi stranami SNG. Sotsial'no-politicheskie i ekonomicheskie aspekty*, Moscow, 2002, p. 124.

on the Caspian. The European Bank for Reconstruction and Development extended a \$54 million loan for its modernization with another \$20 million provided by the Kazakhstan government.¹⁴ In 2003, the transshipment complex handled 1.5 million tonnes of dry cargo and 8 million tonnes of oil and oil products. Along with development of port infrastructure, pursuant to a 2003 presidential edict, a special economic zone, Aktau Sea Port, was established where it is planned to create enterprises producing steel structures, metal and fiber glass and plastic pipes, etc.¹⁵

The emerging transportation infrastructure is of key importance for the development of Kazakhstan's economic contacts with Iran and other Caspian countries. Iran, Russia, Turkmenistan, and Kazakhstan are now restructuring all of their transport and communication systems, especially railways as the most cost effective sector in the vast Eurasian expanses. This process is marked by two interconnected trends. On the one hand, modernization of this network is oriented toward global markets, including the market of transit services for neighboring states, which is especially pronounced in Iran. On the other hand, national transport systems seek autonomy: That is to say, each country builds new transport branch lines on its territory bypassing those existing in neighboring states. This is especially characteristic of the post-Soviet republics.

The modern transport and communication system of Central Asia is to a very considerable degree influenced by the history of its evolution in tsarist Russia and the Soviet Union, when the dominant vector of transport and communication routes was northern, which resulted from the policy of promoting economic relations between the state's principal administrative/territorial divisions (entities).¹⁶ Following the emergence of the newly independent states, a peculiar situation has evolved in Central Asia where roads linking districts and regions in each particular republic pass along the territory of other sovereign states, while their uncoordinated tariffs, customs barriers, and other bureaucratic hurdles impede internal economic integration, which forces them to build new roads, bypassing the existing ones. This notwithstanding, Kazakhstan today has a fairly reliable and effective transportation infrastructure—thanks for the most part to the old system. Russia also is confronted with similar problems. Its land communication lines to southern seas now pass across the territory of several independent states in Central Asia and the Caucasus, as a result of which it seeks to develop the infrastructure of its Caspian ports: Astrakhan, Olia, and Makhachkala.

At the same time, states in these two regions are working to carry out integration projects, including within the framework of the North-South program. In particular, there are plans to build a rail road along the east coast of the Caspian Sea, linking Russia, Kazakhstan, Turkmenistan, and Iran, known as the Eastern Path, as well as along its western coast—that is to say, across the territory of Azerbaijan.

During the years of independence, Kazakhstan has built the Druzhba-Alashankou railway line linking it to China, in the region of Dzhungarskiye Vorota (Dzhungar Gate). In 2001, the Aksu-Konechnaia section was put into operation and in late 2003, the Khromtau-Altynsarino section was brought on line,¹⁷ as a result of which the republic's eastern, northern, and western regions received access to the port of Aktau, while domestic manufacturers got a beeline to Iran. This certainly helps to further Kazakh-Iranian relations. Say, being a major grain exporter, already in 2004 Kazakhstan will be in a position to ship 1.5 million to 2 million tonnes of grain through the port of Aktau, thus saving up to 15 percent in transport costs.¹⁸ It is quite likely that large quantities of this grain will be exported to Iran as well as to Saudi Arabia, Jordan, and Turkey, which will have an opportunity to use the cheaper Iranian transit route. In addition, the Khromtau-Altynsarino section will enable Russia to substantially increase the cargo flow from West Siberia and the Ural region to Iran.

Development of Kazakhstan's transport network will make the Iran-Central Asia-Ural (Russia) axis cooperation model a more viable proposition. According to Mehdi Sanai, an Iranian expert, with invest-

¹⁴ See: "Port v budushchee," *Kontinent*, No. 23, 2003, p. 12.

¹⁵ See: *Panorama*, 10 January, 2003.

¹⁶ See: V.I. Gubanov, "Razvitie transportnoi infrastruktury kak faktor izmeneniya geopoliticheskoi situatsii v Prikaspiyskom regione: vzgliad iz Baku," in: *Kaspiiskiy region na sovremennom etape: problemy, tendentsii, perspektivy*, Almaty, 2003, p. 118.

¹⁷ See: *Panorama*, 21 November, 2003.

¹⁸ See: *Kazakhstanskaia pravda*, 28 August, 2003.

ment and scientific/technical assistance from Iran, the Urals industrial capability could considerably expedite the modernization of existing and creation of new enterprises in Central Asia while the Central Asian countries would help fill the Ural and West Siberian market with agricultural products and consumer goods. On the other hand, Iran would have good prospects not only for the import of Russian raw resources but also access to new markets for its goods.¹⁹

Iran's transport network also is changing considerably. It does not have to bear the costs that the CIS republics are faced with while the country's transit strategy with regard to neighboring states is geared toward the maximum use of its geopolitical position. According to Ali Reza Bikdeli, an Iranian analyst, the Islamic Republic of Iran should get more actively involved in the regional transport structure so as to be able better to stand up to political pressures affecting the economic process, including the formation of transport and communication structures without Iranian participation.²⁰

At present Iran's railway lines are linked with those in Turkey, Azerbaijan, Pakistan, and Turkmenistan, as well as with the port of Bandar Turkman on Iran's Caspian coast and with the ports of Khorramshahr, Bandar Imam Khomeini, and Bandar Abbas near the Persian Gulf and the Arabian Sea. There is also a rail link to the new port of Amir Abad that is being built to the north of Bandar Turkman.²¹ In addition, the existing highways are being modernized and new ones are being built. Thus, in the 1995-1998 period alone, the length of arterial roads increased by 216 kilometers, primary four-lane roads by 1,622 kilometers, and main roads by 485 kilometers.²²

Thus, there is good reason to say that cooperation between Kazakhstan and Iran in the transport and communications sphere is developing quite successfully with the North-South international transportation corridor and the Caspian region being especially promising.

The Trans-Asian Railway as a Section of the Modern Silk Road

The Southern Corridor (in the classification of the Economic and Social Commission for Asia and the Pacific, or ESCAP) links such capitals and large cities as Beijing, Taiyuan, Xian, Lanzhou, Urumchi (China); Almaty, Taraz, Shymkent (Kazakhstan); Tashkent, Dzhizak, Navoi, Bukhara (Uzbekistan); Chardzhou, Mary (Turkmenistan); Mashhad, Tehran, Tabriz (Iran); and Van, Ankara, Istanbul (Turkey). It has a total length of 12,000 kilometers. Essentially, this road follows the Silk Road and in the case of Kazakhstan and other Central Asian republics could play a key role in developing their national economic, trade, cultural, and humanitarian relations with the rest of the world.

The corridor went into operation in the first half of the 1990s, when construction of two railway branch lines on the border of the region was completed. In September 1990, Kazakh and Chinese railway lines were linked in a place near Dzhungar Gate (between the stations of Druzhba and Alashankou), while in May 1996, construction of the Tedzhen-Serakhs-Mashhad railway line was completed on the border of Turkmenistan and Iran. It has a length of 292 kilometers, 130 kilometers passing across Turkmenistan. The construction project took four years to carry out (one year ahead of the plan). Iranian and Turkmenistani leaders decided to put it into operation in time for the Ashghabad meeting of ECO heads of state and government. There were considerable difficulties in the construction process, related to terrain relief and the route's remoteness from main transport and communication lines. A particularly difficult section was built in Iran where 29 kilometers of rail were laid on across Mahura highland terrain and 42 kilom-

¹⁹ See: M. Sanai, *Otmosheniia Irana s Tsentral'noaziatskimi stranami SNG*, p. 65.

²⁰ See: Ali Reza Bikdeli, "Polozhenie tranzita Islamskoi Respubliki Iran i stran Tsentral'noi Azii," *Amu Darya*, No. 12, 2002, p. 23.

²¹ See: M. Sanai, *Vzaimootmosheniia Irana i stran Tsentral'noi Azii*, pp. 91-92.

²² See: M. Sanai, *Otmosheniia Irana s Tsentral'noaziatskimi stranami SNG*, p. 83.

eters along mountainous terrain. The section includes eight stations, a 2,700-meter bridge, and three tunnels with a total length of 4,998 meters.

As for Turkmenistan, in addition to the Tedzhen-Serakhs section, it built the Karakumy-Dashhovuz (formerly Tashauz) line, linking the city of Kazandzhik to the Iranian port of Bandar Turkman, completed construction of the Chardzhou (Turkmenabad)-Kerki branch line, a bridge across the Amu Darya river (near the station of Kerkichi)²³ and the Bekdash-Yeralievo section (along the east coast of the Caspian Sea).²⁴

Development of the transportation infrastructure of these neighboring countries considerably expands the transit capacity of the Central Asian republics, Russia, and China for freight shipments to states in the Near and Middle East and South Asia via Iran, while the last mentioned gets access to the large markets of Central Asia, Russia, and China.

Nonetheless, despite the great international importance of the Southern Corridor and its established infrastructure, this railway line is not being used to capacity: The main reason for this is that the Central Asian republics and the CIS as a whole are not as yet ready to embrace global geopolitical changes. The unevenness of economic reforms conducted in the Central Asian states holds back the development of their integration, which, in the view of the present author, constitutes in fact the main impediment to full-capacity transit along this railway line. Say, in late December 2002, Tashkent unilaterally imposed severe restrictions on the crossing of the Kazakh-Uzbek border. Although he went on record as saying that the move was related to quarantine measures, the real reason was the outflow of hard currency resources from the country.²⁵ The restraints that Uzbekistan slapped on business contacts between Uzbek small and medium sized companies and entrepreneurs in neighboring countries impedes the self-organization of this market and economic reforms as a whole. Yet another problem here is an uncoordinated regional tariffs policy. Thus, today Uzbekistan and Tajikistan charge rather high transit fees, which certainly does not encourage freight forwarders to step up their operations. In addition, the Central Asian republics oftentimes fail to meet their obligations to each other—say, the agreement on a 50 percent discount on transit charges within the framework of the TRACECA Project, which partially coincides with the Southern Corridor. Turkmenistan refused to grant exemptions to Uzbek carriers: What is more, it slapped a 20 percent VAT hike on their goods, thus appreciably reducing freight traffic along this route.

Unfortunately, thus far there seems to be no solution in sight, while cargo traffic continues to decline. In this connection, A.V. Malashenko, a Russian expert, is rather skeptical about the prospects for cooperation in this area: “The relatively short section of the Silk Road—a railway line linking the Central Asian countries at the Turkmen border city of Serakhs—cannot perform its functions and is in fact little more than a costly monument to cooperation that failed to materialize.”²⁶

Even so, the importance of the Southern Corridor for the Central Asian republics, China, and Russia should not be underestimated. Tehran sank considerable resources into the Serakhs protected customs zone and the railway infrastructure in the country’s northeast provinces. Western parts of China, especially the Xinjiang-Uighur Autonomous Region, are seeing vigorous industrial development, which will compel China to orient itself toward markets in Russia, the Central Asian states, Iran, and Pakistan, and therefore toward the existing transport communication systems. Countries in the region also are quite interested in stable economic development and transit revenues, which will become a guarantee of their integration into the world economy.

Thus, the Southern Corridor with the Tedzhen-Serakhs-Mashhad transport branch line as its “golden link” is unlikely to lose its strategic importance in the context of regional economic integration. Moreover, this railway artery could become a catalyst for economic reforms in southern parts of Kazakhstan,

²³ See: N. Pereverten, *Koridor vmesto tupika* [http://www.turkmenistan.ru/index.cfm?r=4&d=1608&op=viv].

²⁴ See: M. Sanai, *Otmosheniia Irana s Tsentral'noaziatskimi stranami SNG*, p. 92.

²⁵ See: D. Maslov, “Posledniaia liniia oborony,” *Kontinent*, No. 2, 2003, p. 14.

²⁶ A.V. Malashenko, “‘Noviy Shelkoviy put’ i problemy sotrudnichestva gosudarstv v Tsentral'noi Azii,” *Dialog tsivilizatsiy na Velikom shelkovom puti* “Tsentral'naia Azia: vchera, segodnia, zavtra.” *Materialy mezhdunarodnoi nauchnoi konferentsii*, Bishkek, 2002.

Uzbekistan, and Turkmenistan, also producing a positive effect on the Tajik and Kyrgyz economy. Yet, in order to revive the Silk Road, a number of difficult tasks will need to be fulfilled. First, politico-economic stability in Central Asia and the security of international transport line need to be ensured, which could in part be done within the framework of the Shanghai Cooperation Organization. Second, success of economic reforms in the Xinjiang-Uighur Autonomous Region is of key importance in this context: It will help to boost trade between Iran and China and therefore the effectiveness of transit across the territory of countries in the region, including Kazakhstan. Third, along with the trade and economic component, it is essential to develop also the tourism business whose potential is now being clearly underused. In this respect, the historical legacy of the ancient and medieval civilizations of Central Asia and Iran is especially attractive to international tourism. With an adequate transportation infrastructure in place, this legacy will become accessible to the broad sections of the population.