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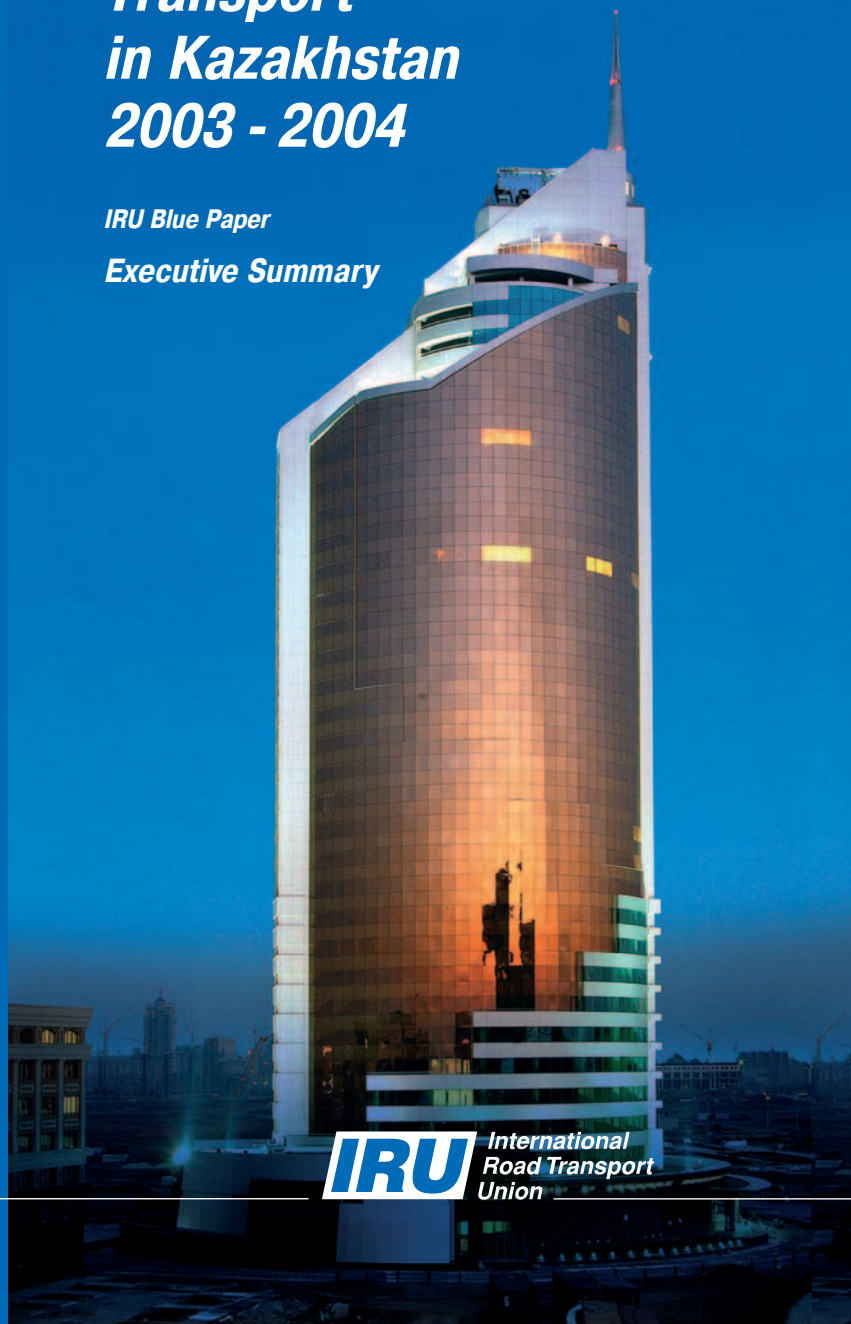
Road Transport in Kazakhstan 2003 - 2004

IRU Blue Paper

Executive Summary



IRU International Road Transport Union

Permanent Delegation to the CIS Countries

Road Transport in Kazakhstan 2003-2004

IRU Blue Paper

Executive Summary

Moscow, 2004

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Introduction

Kazakhstan's transport complex plays an especially important role in promoting ties among economies and governments. Transport activities make up 9.8% of the country's gross domestic product, and each dollar of GDP represents over 9,000 km of transport work.

The importance of the transport complex in Kazakhstan is due to the country's large territory (2,275,000 km^2), its low population density (6 people per square kilometer), the large distances between raw material sources and industrial centers, and the remoteness of the country from water transport routes.

For land-locked Kazakhstan, cooperating with other Central Asian countries lacking sea access to improve the region's overall transport policy is critical. Key to this joint work is the Almaty Program "Partnership for Addressing the Specific Needs of Developing Countries Lacking Sea Access", adopted by the International Conference on Transit Cooperation, which took place in Almaty on August 28–29, 2003.

Kazakhstan is actively working with several international organizations to solve its economic problems – including those dealing with road transport – both on a global level (UNECE, UN ESCAP, UNDP, the European Community and others) and within the region (EurAsEC, ORI, OEC, SCO and others). Especially important has been the ongoing cooperation with international financial institutions (the World Bank, EBRD, ADB, IBD and others) making large investments into the country, with a particular focus on improving the technological level of the country's road network.

Joint work is also taking place between governmental transport administrators, professional organizations and transport companies from various countries. Of particular interest has been a stronger focus on the highly effective group efforts of the Association of International Road Transport Carriers (KazATO), ASMAP, IRU and the IRU Permanent Delegation to CIS countries, and also cooperation between the National Association of Kazakh Freight Forwarders and FIATA.

Current conditions also call for further cooperative work in the development and utilization of international transport corridors. These corridors serve not only to bring together manufacturing and economic concerns, but also Kazakhstan's technological, political and social interests and in the interactions among all of these spheres.

To the extent possible, this report examines the fundamental aspects of road transport in Kazakhstan and the immediate problems facing the rapid development of road transport of the country under the overriding current conditions of integration and globalization.

1. General Observations on Kazakhstan's Road Transport Sector

Structural Dynamics of the Vehicle Fleet; Development of a Market for Road Transport Services

At the beginning of the 1990's, Kazakhstan had approximately 1.4 million vehicles, of which 372,000 were trucks, 54,000 – buses, 849,000 – cars, and 119,000 – special-purpose vehicles. In addition, there were roughly 27,000 tractors and 64,000 vehicle trailers. The vast majority were equipped with gasoline powered engines. The more economical diesel engine was not employed, not even for trucks and buses, due to the inertia found in the vehicle production complex of that period. Of the total vehicle fleet inherited from the USSR by independent Kazakhstan, gasoline powered engines accounted for 90%, diesel engines – 7% and propane powered vehicles – 3%.

The vehicle fleet of that period also displayed a good age distribution – approximately 84% (not including individuals' privately owned cars) were still within their amortization period, i.e., less than 8–10 years old. Of these, 25% were "new", having been in use less than three years.

Of the truck fleet, 25% were dump trucks and 32% were lorries, and the freight carrying capacity of the fleet showed a clear preponderance towards average loads. The capacity of two-thirds of the fleet was from 1.5 – 7.0 tons, while no more than 8% of the fleet was built to handle light loads, and less than 1.5% could carry heavy loads of 15 tons or more. There was a more rational distribution in the passenger capacity of the bus fleet, which adequately fulfilled the public transport needs of the period.

At the end of 1991, individual Kazakh citizens owned 819,000 cars, or 50 cars per 1,000 inhabitants, putting Kazakhstan on par with developing countries. Leading industrialized countries had already achieved this level of car ownership by the 1940's and 50's.

With independence and the emergence of new commercial/economic relations, Kazakhstan's vehicle fleet began to undergo fundamental quantitative and qualitative changes. Until 1999–2001, the number of all types of vehicles decreased. But since 2002 there has been stable growth, and by 2003 there were:

Trucks – 2,142,000;
Buses – 514,000;
Cars – 10,626,000;
Special purpose vehicles – 369,000.

As this list demonstrates, cars predominate in the vehicle fleet, with their share having grown from 59% of the fleet in 1991 to 78% by 2003.

One important qualitative change in the car fleet has been the rapid growth in the number of cars imported from non-neighboring countries. If at the beginning of the 1990's the number of these cars never exceeded 1%, by 2003 it was about 20% of all cars.

Such a fundamental reaction to the liberalization of the economy and the opening of markets carried with it a number of specific consequences, the first being that the car fleet was enhanced not so much with new as with used cars. Despite the fact that customs statistics indicate the import of used cars decreased to 20% of all imported vehicles by 2000, the situation regarding the age distribution of the car fleet remains unsatisfactory.

Since 1993 there has been a steady tendency towards an aging of the fleet, and by 2003 the number of vehicles still within their amortization period had decreased to 30%. Today the number of vehicles being operated beyond their planned useful life is approximately 66% of trucks and 50% of buses. This problem is significantly exacerbated by Kazakhstan's lack of a domestic automobile production industry focused on satisfying current market demands.

It should be noted that until now these changes in the vehicle fleet have taken place almost entirely under the influence of market forces, i.e., demands for one type of transport or another, and without significant government regulation. Therefore, these tendencies can be considered sufficiently objective and should be taken into careful account when evaluating the efficacy of various forms of economic regulation (customs duties, tax rates, etc.) that might be used by the government to promote its transport policy.

Research carried out by Scientific Research Institute of Transport and Communications of the RK has shown that the value of road transport on Kazakhstan's domestic market has now reached roughly 220 million US dollars. The volume of cargo transport grew by 9% in 2000, 19% in 2001 and 13% in 2002. During these years trade increased by 16, 23 and 14 percent, respectively. These favorable trends have also come together in the expansion of modern international transport. Between 1997 and 2002, the volume of international road transport carried out in accordance with to the TIR system increased approximately 8 times and represented 150,000 tons of cargo. The share of transport activity of domestic operators grew from 7.7% in 1996 to 36.8% in 2002. The geographical coverage of international transport providers has also expanded – today they can be found in practically every region of Kazakhstan.

Kazakhstan's Road Network

Today there are 88,045 kilometers of general use roads in Kazakhstan, of which 23,011 kilometers are federal roads and 12,301 – municipal roads. The existing road network allows transport between all of the country's regional centers, and the quality of Kazakhstan's roads is somewhat higher than average – 91% of the roads are asphalt/black-top, 8% are gravel and only 1.1 % have unpaved dirt segments.

International transport flows on Kazakhstan's highways in three primary directions:

- North – to Russia and on to Europe and the Far East;
- South – to China and on to the countries of Southeast Asia;
- South – to the countries of the Central Asian region and further to the countries of the Caucasus, Iran and Turkey.

Corresponding segments of Kazakhstan's highways along these routes have been integrated into Asian highways with the Asian Land Transport Infrastructure Development (ALTID) project, established by the countries of the Organization for Economic Cooperation under the aegis of ESCAP, and also into 1) European highways as part of TRACECA (European Union) and 2) the network of international highways of participating CIS countries. Through such projects, the Kazakhstan road network has been integrated into the European and Asian sub-regional highway system, with access to many countries, major ports, transport hubs and terminals.

Despite its low density, the geographic distribution of the existing highway system fully satisfies Kazakhstan's economic needs. However, the condition of the roads and of the highway infrastructure in many regions corresponds neither to domestic nor, especially, international requirements.

The low quality of Kazakhstan's roads does not allow travel at reasonable speeds, causes gasoline to be consumed at a rate 50% higher than it otherwise would be, increases maintenance and repair expenses by approximately 3 times, and shortens the useful life of vehicles by a minimum of 30-50%. Along with these economic losses, the low quality of the roads also results in an increased accident rate.

Road construction is expensive, with the average cost of building one kilometer of Kazakhstan highway approximately $200,000. Capital renovation costs $100,000 per kilometer, and basic renovation – $20,000 per kilometer. Because of these high costs, rehabilitation of Kazakhstan's highway system requires that tremendous investment be attracted to such projects.

Priority rehabilitation projects are those parts of Kazakhstan's highways that form part of international transport corridors, and also highways in the western part of the country, where major oil fields are located. In addition, new construction to provide further highway access to Kyrgyz, Uzbekistan and the Russian Federation, and to increase Kazakhstan's attractiveness as a transit corridor, are being considered.

2. International Road Transport

Preconditions for Establishing International Cargo Flows in the Region

It is well known that trade is the major generator of international transport flows. Many years of experience have also shown that it is not only (and not always) commercial interests that lie at the heart of trade, and that political, ethnic, religious and other circumstances often have a major role to play.

Within the community of Central Asian countries (Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyz and Tajikistan) formed in the wake of the dissolution of the Soviet Union, there are two major influences on economic interrelationships:

- Geographic proximity, and philosophical/social similarities among the inhabitants of these countries;
- The technological compatibility and interdependence of the national economies inherited by these countries from the USSR.

With respect to this region, Kazakhstan can be considered to have a relatively high and stable potential as a transit country. This is due to the decades long development of an interdependent economic system among these Central Asian countries during the Soviet period, as well as to the fact that almost all trade between Central Asia and the Russian Federation must cross through Kazakhstan's territory. The use of alternative routes to the west, south and southwest through the Caucasus, Iran, Afghanistan and China is limited due to political instability and the technical difficulties presented by mountainous terrain.

The globalization of the world economy, based on the further growth and enhancement of economic ties, makes thorough research of alternative transport relations among economic powers indispensable. Trade between Europe and Southeastern Asia has two alternative routes – a sea route around the Eurasian continent, and a land route composed of the existing system of land transport links. A preliminary evaluation indicates that the movement of goods by land can save up to 10 days of transport time. The difficulties lie in 1) establishing the high-speed transport of goods throughout the entire route, and 2) minimizing expenses (in terms of money, time and the safekeeping of freight), both during the overall transport process and during border crossing in particular, as numerous national borders are involved.

Kazakhstan's International Transport Corridors

Kazakhstan's powerful geographic and demographic specificities have resulted in a limited number of directions in which arterial highways can run. These highways provide transport connections not only with the outside world, but also between various regions of

the country. As a result, the country has no choice of alternative routes for international transport corridors.

Support for five priority highway directions has been provided within the framework of agreements reached between the Economic Commission for Europe and Economic Commission for Asian and Pacific region of the UN. These are based on the following five Kazakh components of international transport corridors:

- **North**, which connects the Russian Federation to western regions of China. This corridor is a fragment of the transcontinental corridor connecting Europe with the eastern coast of the Asian mainland and was designated "TransSib" by the St. Petersburg Conference.
- **South**, which connects Central Asian countries with western regions of China, and which is part of another transcontinental corridor linking the countries of southern Europe with the eastern coast of China. The St. Petersburg Conference designated this route as "Central".
- **North-South**, connecting the European part of Russia with Uzbekistan and Turkmenistan. This corridor serves as part of the planned transcontinental corridor of the same name, which will connect north and northeastern parts of Europe with the countries of South Asia and the Indian subcontinent.
- **Central Asia – European Russia / Central Asia – Asian Russia.** These corridors connect countries lying within the borders of the former USSR.
- **TRACECA**, adjoined by Kazakhstan's transport links and fed by those links in the eastern part of the country. By means of TRACECA, Kazakhstan has an alternate route to the countries of Southeast and Central Europe, and also to other Mediterranean countries, not crossing Russian territory.

Unlike pan European transport corridors, the above Eurasian corridors are characterized by a high level of super positioning upon each other due to the low density of the rail and road networks, a lack of alternative routes, and a lack of connections linking the various national networks. For example, many components of Kazakhstan's railroads, in particular those leading to the Druzhba/Alashanka station – the only connection between Central Asia and China – are part of numerous corridors and routes.

These "transport/political corridors" only partially match up with the area's actual road and rail networks. Direct east-west routes through Kazakhstan do not exist, neither by rail nor by road, and cargo flows in these directions are subject to considerable detours. While this state of affairs affects primarily domestic transport and import/export flows, it also negatively impacts Kazakhstan's attractiveness as a transit country.

The overall extent of the above listed corridors is 8300 kilometers, the majority (94%) of which is paved with asphalt/black top. Gravel segments are found only on the fourth of the listed routes.

International Cargo Flows

Growth in foreign trade has put many new problems before the country's road transport system in meeting the demands of those involved in trade. In order to address these problems, the Kazakhstan Union of International Road Transport Carriers (KazATO) was established in 1994. Within two years of its founding, the organization became a member of the International Road Transport Union (IRU – Geneva).

This entrance into the IRU allowed Kazakhstan's international carriers to access European and Asian markets and to incorporate state-of-the-art customs and transport documentation technology into their operations. But the most important result of cooperation with the IRU was the access domestic carriers obtained into the TIR system. Since 1996, the number of vehicles utilizing the TIR system for international transport has grown 10 times, and the volume of goods transported – 13.5 times. Today companies involved in international transport have integrated a number of European vehicles into their fleets, including MAN, Volvo, Mercedes, DEF, and Iveco, among others.

The geographic coverage of Kazakhstan's international carriers has also increased. In just the past two years, Kazakhstan has signed agreements on international road transport connections with Greece, Italy and Switzerland. In total, Kazakhstan has concluded 30 such agreements.

Despite the large distances involved (from 5,000-9,000 kilometers), road transport now competes successfully with rail transport, especially when examining those shipments with a high degree of customs risk.

It is well known that international cargo transport volumes and growth trends depend primarily on the levels and rates of growth in foreign trade and the dynamics of the going market rate per unit (ton) of cargo carried. Kazakhstan's foreign trade turnover has been growing steadily each year, and, according to Customs statistics, overall trade turnover (not including unofficial gray and black market trade) for 2002 was 16.2 billion USD. This figure increased by 8% overall, with a 12% increase in exports and a 2% increase in imports.

The Russian Federation is the primary supplier of imported goods (39.1% of the total), followed by Germany (8.7%), the United States (7.0%), China (4.7%), Great Britain (3.9%), Italy and Ukraine (3.3% each), Turkey (2.6%), Japan (2.5%), South Korea and France (1.7% each), the Netherlands and Uzbekistan (1.3% each), Poland (1.1%) and Switzerland (0.9%).

In general, international road transport tends to be the choice for shipments of more expensive goods, products with a short shelf life, and other types of urgent shipments. By volume, the largest proportion of international road transport consists of construction

materials (27.0%), animal and plant products (14.3%), vehicles/machinery/equipment (7.9%) and prepared food products (5.9%).

While Kazakhstan's overall foreign trade exchange is dominated by exports (82.4%) due to the large amount of natural resources (grain, oil and petroleum products, metal ores) sent abroad by rail or pipelines, over 60% of goods carried by road transport are imports. It should be noted that almost 90% of exports and 65.2% of imports come from CIS countries, along with a considerable amount of goods to/from China. Of European Community countries, the most active trade takes place with Germany and Italy (respectively 0.3% and 0.4% of exports, 2.7% and 1.8% of imports).

Organizational Issues in the International Transport of Cargo

In accordance with the recommendations of the Administrative Committee for the TIR Convention, the European Commission and the UN, KazATO adopted the SafeTIR uniform information system in March 1999. This system allows access, through the IRU's computer network, to the customs authorities of countries in which the loading and unloading international cargo shipment takes place.

The primary focus of the IRU's activities is the elaboration of legal and regulatory acts dealing with international road transport. Within the framework of a TACIS project, an educational center for road transport operators has been set up, providing training both for the management staff of transport companies and for the drivers employed by these companies. Management education is focused on the observance of TIR Conventions, the organization of international cargo transport and the utilization of the SafeTIR system. For drivers, the main topic is international cargo transport rules and regulations.

Experience shows that international road transport depends to a great degree on the conditions found at border crossing points. In order to remove the various nonphysical barriers found at border crossings, the UN Conference on Trade and Development (UNCTAD) and the IRU have launched several measures aimed at simplifying customs procedures and promoting transit activities. Specifically, 70 developed countries of the world have now adopted the automated customs information system ASYCUDA, which was developed to shorten the time needed for customs clearance and to tighten control over customs officers at border crossings.

As noted above, the IRU has introduced the SafeTIR system, based upon the electronic exchange of information. Plans are in place to unify the SafeTIR and ASYCUDA systems, a move that will doubtless provide cumulative enhancements to both systems. A trilateral agreement has been concluded among the IRU, the Kazakhstan Customs Committee, and KazATO to encourage other national customs services to join this system.

An agreement regarding joint cooperation between the Ministry of Transport and Communications and KazATO was signed in September of 2002, in which sides agreed to take concrete responsibilities upon themselves to further develop international road transport by improving the competitiveness of Kazakhstan operators. The measures adopted included a zero VAT rate to be applied to export/import and transit cargo shipments, the release of acquired trucks and trailers from customs duties, and the inclusion of leased transport equipment for the carriage of loads greater than 20 tons onto the list of items to which the temporary import regime applies. Since the beginning of 2002, in accordance with the amendments made to the Tax Code, the payment of VAT on vehicles acquired for the carriage of heavy loads is made by means of the offset method.

Recently, the position of Kazakhstan carriers has improved and they have found recognition in the international arena. The percentage of international shipments carried out by domestic operators increased from 7.7% in 1996 to 36.8% in 2003.

The Great Silk Road

Changes in the economic and political life of Eurasia have revived interest in the development of the Great Silk Road as a zone of economic cooperation among the countries lying along its length. The Great Silk Road, also called the New Eurasian Continental Bridge, brings together ancient trade and transport routes between East and West, stretching from the eastern shore of China to the Atlantic coast of Europe and the northernmost parts of Russia, and also traversing South Asia and the Middle East. This ancient route encompasses the territories of approximately 35 modern nations.

The UN regional project "Development of the Silk Road Region", a joint undertaking of the UN Development Program and the UN Office for Project Services, was put into effect in 2000. The project is supported by the UN Regional Office for the Asia-Pacific Region and the UN Regional Office for Europe and the CIS, and its original budget was set at 1.2 million USD. The head office for the project is located in Beijing.

Practical realization of plans to revitalize the Great Silk Road will demand considerable efforts from all sides – in initiating cooperation on the transport infrastructure and transit possibilities, in creating favorable conditions at border crossing points, in fostering the growth of trade, and in the organization and harmonization of national legal and regulatory acts of region's countries. From these prerequisites the UNDP project took shape, and focused on the following special purposes:

1. Regional cooperation (policy development and institutional potential for regional and international cooperation in the sphere of transport and trade);
2. Transport and transit (assisting the development of transport and transit in the region);

3. Trade and customs activities (assisting the development of international trade and the improvement of relations with customs authorities);
4. Formation of new, effective economic and cultural transport ties in the region.

The project was developed with six countries in mind – China and the five Central Asian nations – Kazakhstan, Kyrgyz, Tajikistan, Turkmenistan, and Uzbekistan (although the last two countries have not yet agreed to participate). This group of countries occupies an axial position, both geographically and economically, about which the Great Silk Road has traditionally flourished.

The choice of participant countries was based on a number of factors. After the dissolution of the Soviet Union in 1991, the countries of Central Asia demonstrated a tendency to expand their economic relations with other countries, in particular with the nations of Europe and Southeast Asia. All of these Central Asian nations face high import and export costs, and their lack of sea access adds additional difficulties to the promotion of trade with new partners on markets in Eastern and Southeastern Asia and with North America.

The goal of the Great Silk Road project is to resolve the issues hindering the activation of this economic corridor, and to provide access to international markets for countries lacking access to sea trade routes. Agreement has already been reached on the formation of a single "Silk Road" transport system based upon the national transport systems of the countries of China and Central Asia. As regards the way in which the Silk Road will be integrated with the system of Eurasian transport routes, it is important to note that the Silk Road lies in the central part of the Eurasian continent parallel to the northern and southern transport routes connecting East and West. Turkey, Iran, Iraq, Afghanistan, the countries of Central Asia (including Kazakhstan) and China have all demonstrated an inclination towards the Silk Road.

Practically the entire central route of the Trans-Asian Railroad (TAR) runs along the borders of the Silk Road region. However, while in the eastern reaches of the Silk Road region there are no alternative routes to the Druzhba /Alashanka crossing, in the western part a minimum of three variants can be seen. These are the central route of TAR, which crosses through Uzbekistan, Turkmenistan, Iran and Turkey, and also two routes of the TPACECA corridor: by ferry from Turkmenbashi to Baku, or from Aktau to Baku, and further onto the countries of the Caucasus, exiting onto the Black Sea.

Road routes in the eastern part of the Silk Road area are more diverse. For example, in the region of Kazakhstan abutting the Silk Road there are two border crossings with China (Dostyk and Khorgos), and Kyrgyz and Tajikistan are organizing corresponding border crossings with China at Torugart and in the Rankulya region. In the western part of the Silk Road region there are the highway systems of Turkey and Iran. Analogous to the railroads, the road systems of the Caucasus countries are also found within the Silk Road region.

Kazakhstan's road routes in the Silk Road area connect border crossings with China to those of Uzbekistan and have alternative highway components:

Khorgos – Saryozek – Almaty and *Khorgos – Kokpek – Almaty;*
Georgievka – Bishkek – Merke and *Georgievka – Kainar – Merke.*

There are 1,100 kilometers of Kazakhstan highway connecting the Khogos Chinese border crossing with the Uzbek border.

Despite the technical problems that exist, an important advantage of Kazakhstan's Silk Road highways is that they lie primarily in flat plains and can be utilized year-round, unlike roads in Kyrgyz and Tajikistan, a considerable portion of which lie in high mountainous regions and present definite difficulties to carriers, particularly in the winter months.

Transit Policy in the Region

Until recently, transport connections to Eurasia consisted of a sea route across the Indian Ocean through the Suez Canal (the primary route) and also the Tran-Siberian Railroad, built in Russia almost 100 years ago. Successful economic growth in countries lacking direct sea access to world markets depends a great deal upon the condition of transport routes connecting them to countries in the developed world, and particularly upon the development of land corridors through these landlocked nations.

The geographical location of Kazakhstan – in the center of the Eurasian continent – allows the country's transport highways to be utilized in the formation of transcontinental East-West routes. Kazakhstan's historical development has given it great transit/transport potential. The foundation of this potential is the existing transport routes, which provide the possibility of efficient international transport. It is possible for Kazakhstan to become a key bridge for the development of economic ties between Europe and Asia, and the country has already demonstrated an active interest in the effective use of its transport potential.

With this goal in mind, Kazakhstan has been taking advantage of the experience of international organizations and joining in the work of the Special UN Program for the Economies of Central Asian Countries, the ESCAP "Development of the Land Transport Infrastructure in Asia" program (ALTID), the European Commission's TRACECA program, the UNDP Silk Road project, and the transport activities of the Organization for Economic Cooperation (OEC), among others. The importance of Kazakhstan in the development of transport ties on the Eurasian continent is underlined by the fact that the Special UN Program for the Economies of Central Asian Countries has named the country as an essential participant in development of a transport infrastructure and the simplification of border-crossing procedures.

At the present time, TACIS has concluded its project "Support of Transport Corridor Policy Development in Kazakhstan". The results and experience accumulated during the implementation of this project should now be utilized throughout all of the countries in the Central Asian region.

Today, transit statistics have become an objective indicator of levels of international cooperation and economic prosperity. Yet, at the same time, regional and sub-regional cooperation are the most important elements in the creation of an effective transit system, with such cooperation based upon the fact that the countries of the region all share a lack of sea access and exhibit high potential as transit corridors. This is especially true for Kazakhstan and other CIS countries in Central Asia, in that:

- international cooperation is unsatisfactory in the Asian region overall, especially with regard to countries serving as transit corridors to the open sea;
- the transport infrastructure in this region is at a relatively low level and is poorly integrated into effective transport corridors;
- there are extremely large distances between these countries and open sea ports (Kazakhstan – at 3750 kilometers from the sea – holds the world record, and is over 1000 km further from the open sea than any other country);
- according to UNCTAD statistics, the transport and insurance costs of landlocked countries exceeds the world average by 2-3 times.

Landlocked European countries, in contrast to these Central Asian CIS countries, are geographically located in such a way that their largest export markets surround them, the percentage of their trade that takes place by sea is relatively low and seaports are located relatively nearby. Additionally, the majority of the exports of these European countries have a high added value. As a result, these countries find themselves in a much more favorable position with regard to transport and economic relations than do Kazakhstan and its CIS neighbors.

Transportation Cooperation Between Kazakhstan and Other Central Asian / CIS Countries Lacking Access to the Sea

On June 5-6, 2003, the leaders of Kazakhstan, Kyrgyz, Tajikistan and Uzbekistan met in Almaty as part of the Central-Asian Cooperation (TsAS) Organization. At this summit, decisions were made regarding the establishment of transport, hydroelectric and food product consortiums and the leaders instructed their governments to accelerate work on multilateral international agreements on the above subjects.

Summit participants also resolved to address international financial institutions – including the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Islamic Development Bank – with a request for assistance in

elaborating a concept for the work of these consortiums, including the transport consortium.

An analysis of the technical conditions found in the Central Asian region reveals that the key problems requiring comprehensive solutions are the route directions with the most potential, the investment requirements to obtain sea access, and the need to improve intergovernmental transport cooperation. The following, more general, problems represent yet more impediments to the development of a strong transport economy in this region:

- A lack of mechanisms to unify national legal and regulatory systems regarding the functioning and reform of the transport complex;
- A lack of a single concerted approach to the development and application of a tariff system for the carriage of cargo and containers;
- A low level of harmonization of customs rules, and the presence of a number of physical and nonphysical barriers at border crossings;
- A lack of conformity of the technical equipment of Central Asian transport equipment with international standards;
- A lack of acceptable organizational structural mechanisms for carrying out joint projects and establishing joint ventures in the transport sphere.

An **international transport consortium** could be a first practical step in realizing such joint transport projects. If successful, the consortium could increase the volume of international transit shipments in Eurasia by a minimum of 1.5-2 times compared to current levels.

The goal of these Central Asian leaders in creating an international transport consortium is to provide the maximum support possible for the exploitation of the transport potential found in Kazakhstan, Kyrgyz, Tajikistan and Uzbekistan by creating favorable conditions for the liberalization of international cargo flows, the attraction of cargo transit on the highways of the region, and the integration of these countries' transport complexes in the world transport and economic/trade systems.

Today, the transport infrastructure of the Central Asian region does not meet modern demands, and the composition of the transport fleet, the layout of the highway system and the organization of cargo terminals do not yet allow the transport potential of these countries to be fully realized.

A fundamental modernization of the transport complex should become a primary goal of the region's transport policy. The resolution of the large-scale problems found here can be accomplished only within the framework of an international consortium supported first and foremost by the following government measures:

- The fostering of corresponding growth in the capacity for the acceptance and transport of goods on domestic segments of transport/transit corridors;

- The assimilation of modern multi-modal and combination cargo carriage based on the principles of logistics;
- The establishment of a system of tax rates and preferences to promote infrastructure projects with strategic importance for individual countries and the region as a whole;
- The elaboration and implementation of a joint program to create and develop a uniform information system for the comprehensive management and promotion of cargo transport activities; and
- The construction of logistical centers, built to meet the needs of international carriers, at priority locations along transport/transit corridors.

The modernization of the region's transport infrastructure demands huge amounts of capital investment. For Kazakhstan alone, the amount needed exceeds 4 billion USD. As a comparison, solving the analogous problems of China over the last 8 years cost a total of 30 billion USD, and Russia has plans to invest 50 billion USD in its transport infrastructure.

The fact that there are only limited funds available from domestic capital sources for the renovation of the existing transport system and the construction of new infrastructure components is a fundamental barrier to the full-scale reconstruction of the transport systems of the countries of Central Asia.

In August 2003, the International Conference on Transport Cooperation was held in Almaty. The conference brought together donor countries and international finance and development organizations with ministers from developing countries lacking sea access and developing countries with transport potential. The conference was convened in accordance with UN General Assembly Resolution 56/180, "Concrete Steps with Regard to the Special Needs and Problems of Developing Countries Lacking Sea Access", with the goal of drawing up appropriate policies and practical programs to aid in the establishment of effective regional transport systems.

In his message to the conference, UN Secretary General Kofi Annan specifically noted that the UN had placed developing nations lacking sea access on its priority "Millennium Goals" list. The United Nations long ago recognized the unique situation of countries lacking sea access – almost 50 years ago in 1957 the General Assembly adopted a resolution in which it first took notice of "these countries' requirement for adequate transit opportunities for the development of international trade" and called upon the international community to lend full assistance to these countries in their work to establish a mature and stable transit system.

Research testifies to the fact that a lack of sea access lowers a country's rate of economic growth by 0.7%. Although countries lacking sea access represent 12.5% of the earth's land and 4% of the world's population, their combined GDPs are only 0.3% of the world total. Only 0.34% of the worldwide volume of direct foreign investment is allocated to landlocked developing countries.

According to UNCTAD statistics, the amount of money spent by developing countries lacking sea access on transport and insurance is 2-3 times higher than the world average for other countries. The added necessity of making extralegal payments due to corruption exacerbates the situation still more and lowers the competitiveness of goods from these countries. For example, freight operators traversing the Caucasus or Central Asia must pay, as a rule, up to $1500-2000 in the form of unofficial collections or payments for semi-coerced escorts (according to the World Bank). Depending on world prices, transport expenses (official and unofficial) in these countries can constitute up to 50% of the total cost of goods.

The majority of developing countries lacking sea access, if not all, are exporters of natural resources. The extremely high level of transport expenses borne by these countries hinders export growth, considerably limits the number of potential exports, and circumscribes the number of markets on which such goods can be profitably sold. High transport expenses also cause the prices of imported goods to skyrocket.

In such conditions, an effective transport system can be developed only on the basis of a genuine partnership among developing countries lacking sea access and among developing countries with transport potential, with the assistance, when needed, from their partners in the development process, and also on the basis of a partnership between governments and the private sector on a sub-regional, regional, national and global level.

3. Strengthening Government Support for Road Transport Carriers

Promoting Competition on the Transport Services Market

An important indicator of the competitiveness of country's transport complex is the attractiveness of its transit corridors to foreign operators and international carriers.

The government of Kazakhstan, with the goal of improving the competitiveness of national carriers, has ratified the "Program for the Development of Kazakhstan's Transport/Transit Potential, 2003–2005". The program sets out a number of measures to prevent transport isolation and strengthen the country's transport potential. The program's foundation for these measures is ongoing monitoring of international cargo carriage with an analysis of the dynamics of change and the reasons for such changes in order that appropriate corrective measures can be adopted. Such monitoring should be carried out not only on highways traversing Kazakhstan, but also along alternative routes. In a similar vein, a model for a pilot database for the Ministry of Transport and Communications (MTC) has been developed within the framework of the TACIS project "Policy Support for the Development of Kazakhstan's Transport Corridors". MTC plans to continuously update and supplement this database to reflect the status of transport activities in real time, and MTC has already installed the technical equipment necessary to support this database.

In modern economic conditions, the successful growth of international cargo carriage is impossible without the adoption of state-of-the-art transport technology, such as that needed to support multi-modal transport (including container and piggyback systems), and logistics technology. The degree to which these technologies are adopted and implemented will determine the rate at which international cargo flows are attracted to Kazakhstan's highways. The development of these technologies is directly connected to the extension and improvement of container carriage and the creation of multi-modal operators' institutes on all international corridors.

Unfortunately, the volume of container traffic on Kazakhstan's roads is steadily decreasing (its share of total transport traffic is less than 0.5%), and the problems associated with the development of a system of operators' institutes have note yet entered into the realm of discussion in transport conferences and seminars.

It should be noted, however, that in the past few years Kazakhstan's transport complex has undergone serious institutional reform and the rate of its development is in line with the demands of the country's market economy. Domestic road and air transport and intermodal competition (primarily between road, rail and water modes of transport), along with competition from international carriers on an open transport services market, will promote the self-preservation and consecutive self-correction of the transport system.

Legal/Regulatory Support of Road Transport Activities

The foundation for the legal regulation of organizations engaged in road transport activities is found in:

- International conventions and agreements, and documents of international organizations involved with road transport work;
- Bilateral and multilateral intergovernmental agreements regarding road transport relations; and
- Domestic legislation regulating road transport under market conditions.

Kazakhstan's domestic transport legislation consists of corresponding sections of the Civil Code and the federal laws "On Transport in the Republic of Kazakhstan", "On Road Traffic Safety", "On the Utilization of Air Transport and Aviation in the Republic of Kazakhstan", "On Rail Transport", "On Trade Navigation", and other normative acts.

The clearest shortcomings in current transport legislation are:

- The lack of a clearly defined delineation of the authority and scope of competence of ministries and departments charged with the management and control of Kazakhstan's transport complex and its individual modal sectors;
- A lack of agreement among these various government agencies on how best to manage transport activities;

- The lack of forceful measures against conditions promoting corruption and allowing certain actors in the transport sphere to deviate from legal requirements;
- An extremely limited capacity to monitor and calculate the activities of individual entrepreneurs and small operators (this is particularly true on the transport services market);
- An insufficient system for guaranteeing that all appropriate bodies are notified about current normative acts, particularly with regard to various regulations and interdepartmental agreements.

Multi-modal transport has not yet gotten sufficient legal support, and is still officially regulated by:

- Certain sections of the Civil Code of the Republic of Kazakhstan;
- Temporary Regulations of the Rail System of the Republic of Kazakhstan (adopted by a resolution of the Kazakhstan Government on January 18, 1996);
- Road Transport Regulations of the Kazakhstan Soviet Socialist Republic (1970).

Soviet era legal norms cannot provide for the effective regulation of relations among market actors under current changed economic conditions. Therefore, the fundamental principles governing legal relations in multi-modal transport today are found in provisions of the Civil Code.

Ensuring that current legislation and legal requirements directly related to road transport are observed and fulfilled depends upon the following fundamental legal/regulatory acts:

- The Code of Administrative Law Violations (adopted on January 30, 2001);
- The Government Resolution "Issues for the Transport Control Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan", issued on September 8, 1999;
- The Order of the Interior Ministry "On Measures for Improving Control over Road Transport Carriers and Eliminating Extralegal Payments on the Highways of the Republic of Kazakhstan", issued on September 27, 2000;
- The Kazakhstan Government Resolution "On Establishing a Unified System of Government Control over Road Transport Carriers on the Territory of the Republic of Kazakhstan", issued on September 8, 2000; and
- Rules for Conducting Inspections of Individuals and Organizations to Ensure Compliance with Licensing Requirements and with Rules Regarding the Carriage of Passengers and Cargo by Road (confirmed by an order of the Ministry of Transport and Communications on January 21, 2001).

During this process of improving and completing national road transport legislation, it is critical that Kazakhstan utilize the experience of the EC in the development of control procedures and the observance of legislation dealing with road transport. Special attention should be focused on the unification of various control procedures on the highways and border crossing points

Sub legal regulatory acts and other normative documents occupy a particularly important place in the legal regulation of road transport activities. The large number of such documents can be systematized in the following way:

- Rules regarding the carriage of passengers and cargo, including cargo shipments categorized as heavy, high clearance or dangerous;
- Rules and instructions ensuring the safety of road transport and the protection of road transport workers;
- Rules dealing with technical issues in the utilization of the vehicles, including maintenance, repair and periodic government inspection;
- Technical requirements of the road transport system itself and the inherently dangerous parts thereof, and for the materials used in its building, maintenance and utilization; and
- Rules and regulations regarding environmental protection and road transport activities.

Practical Aspects of Governmental Regulation of Production Activities in the Road Transport Sector

With the goal of further developing the transport complex, the Kazakhstan Government adopted the "Concept for Government Transport Policy for the Period until 2008". It sets out the following priority goals:

- Institutional and legal/regulatory reinforcements for support of the transport sector;
- Improvement of the transport infrastructure;
- Decreases in transport costs;
- Adoption of modern transport technology; and
- Integration into the world transport system.

Development of a transport policy is the first step pivotal to implementing fundamental governmental strategy for the transport sphere. The linchpins of such a strategy are economic, legal and administrative regulatory measures.

Government regulation of the transport sector is based upon the observance of the general principle of freedom of the entrepreneurial activities of carriers, which means a level playing field for all participants in the provision of transport and transport related services.

The Concept for Government Transport Policy envisages the development of a system of decentralized management of the sector through the devolving of a number of regional responsibilities to appropriate local authorities. Additionally, service aspects of the transport infrastructure of government enterprises that can be carried out by the private sector will be privatized according to an agreed upon plan.

Along with legal/regulatory support, the Concept recognizes that the way in which government regulations are administered is key, and that improvement of administration should focus on:

- Optimization of the management activities of the Ministry of Transport and Communications with the goal of fostering the comprehensive development and coordination of the work of all sectors of the transport complex within the framework of a unified transport policy;
- Strengthening of current, and addition of new, management functions over the transport complex in the areas of safety, licensing and certification, and also elaborating a countrywide program for development of the sector and a plan to ensure that it is implemented;
- Coordination of all modes of transport to promote multi-modal shipments, and also mutual agreement on development of the transport sector to open new territory and reconstruct existing networks;
- Strengthening of the roles of expediting companies and logistics centers.

Worldwide experience has shown that natural market forces do not promote optimal solutions to such important social problems as protecting public health and safety during the transport process, lowering accident rates, and protecting the environment. Therefore, the Concept also contains measures for strengthening the government's regulatory functions in the transport sphere, such as:

- Improvement of the national system for transport licensing and certification, including for fuel, lubricating materials and other vehicle fluids;
- Improvement of rules regarding the technical condition of vehicles and the requirements for maintenance and repair thereof;
- Elaboration and introduction of economic mechanisms to encourage the acquisition of new transport technology, which will aid in achieving an acceptable level of safety and environmental protection; and
- Commission of transport projects establishing ecological monitoring of transport complex enterprises, particularly in environmentally sensitive areas.

Road transport in Kazakhstan, which currently operates under a market economy that is not yet fully developed, is in great need of effective government support, first and foremost in updating the vehicle fleet with modern trucks and buses, lowering tax rates and improving the tax system in regard to the acquisition and utilization of these new vehicles, simplifying the authorization process for international carriage of goods, and removing nonphysical barriers to cargo transport on the country's highways.

Government support of road transport carriers and the transport sector overall is by its nature a fundamental precondition for the effective development of a market for transport services. The effective functioning of the transport complex on a national scale depends decisively on the improvement of the economic and legal methods used by the government to regulate the various components of the complex.

4. Conceptual Directions for the Development of Kazakhstan's Road Transport Sector

A Strategy for the Development of Kazakhstan's Transit and Transport Potential

The problems associated with the establishment of effective and dependable Eurasian transport links have become extremely topical in today's globalized economy. The important role Kazakhstan plays in the expansion of these links is due to the economic growth of the region, the country's geographical location, its wealth of natural resources, the sufficiently developed capacity of its transport complex, and the political decisions that have been made to integrate the country into the international economic system on an equal footing with other nations.

The strategy "Kazakhstan 2030" addresses the competitiveness of the domestic transport complex on the international market for transport services and increased trade flows through the country's territory as two of the most important long-term priorities for Kazakhstan's economic development The basic direction of practically all of the decisions found in the strategy have been confirmed by the Kazakhstan Government in two policy documents – "Government Transport Policy of the Republic of Kazakhstan through 2008" and "Development of the International Transport Corridors of the Republic of Kazakhstan".

The "Kazakhstan 2030" strategy sets out a package of linked technical, organizational, economic, legal and other measures for the comprehensive development and improvement of the country's transit and transport potential. It names the attraction of cargo flows to Kazakhstan's highways as one of the most important problems to be solved. The strategy also sets out a number of corresponding recommendations for achieving its goals in the following key areas:

- The establishment and development of a unified and harmonized legal/regulatory foundation for the transport complex;
- The creation of favorable tax, customs and other regulatory regimes to promote the acceptance of transit shipments through Kazakhstan's territory;
- The easing of border crossing procedures and improvement of other organizational influences to facilitate transit flows;
- The modernization and technical refitting of the national transport network;
- The promotion of pure research and research & development to support the effective functioning of international transport corridors;
- The development and deepening of the bilateral and multilateral cooperation with countries forming these transit corridors;
- The improvement of tariff policy, with the goal of increasing the attractiveness of Kazakhstan's share of international transit corridors.

Road transport/transit corridors, in comparison to rail or sea transport, have a much more marked regional character. In addition, road transport is coping with significantly higher

volumes of international trade flows – flows that are growing at a rapid pace – for greater distances, than was previously considered possible.

Under current conditions, it is recommended that Kazakhstan focus on the following types of transport shipments:

- First, the transfer of cargo across the entire territory of Kazakhstan (in which the Kazakhstan border is crossed two times – entry and exit), carried out by foreign carriers (nonresidents of Kazakhstan) with the final receipt of cargo taking place in another country;
- Second, ongoing shipments picked up by Kazakh carriers in the country where the previous voyage was completed and where the final destination is in a third country; and
- Third, shipments through the territory of Kazakhstan with conveyance (large sized cargo shipments) to another form of transport.

Unlike rail transport, in which the percentage of tariff due for transport on Kazakh sectors of international routes is paid to the national carrier, the entire tariff for direct road transit links (including that part carried out on Kazakh territory) is paid to the carrier taking custody of the cargo in the origin country. Nevertheless, Kazakhstan has a great interest in the growth of transit road shipments across the entirety of its territory for a number of reasons:

- Transport budget revenue is received in the form of various payments recovered from foreign carriers. In addition, transit is accompanied by indirect economic benefits for society (from the sale of fuel, other maintenance/repair materials, the provision of various road services, etc.).
- Transit is a catalyst for the creation of employment.
- Transit is a means for strengthening intergovernmental economic and political ties.
- Transit is an important factor for attracting investment into highway systems.
- Transit encourages international scientific progress to be incorporated into national systems.
- Transit stimulates ongoing mutual improvements in transit conditions between adjacent countries.

Integration of Kazakhstan's Domestic Transport Complex into the Global Transport System

Integration, a modern worldwide tendency, envisions a voluntary union of the potentials and demands of various countries for the preservation and promotion of their national interests. Various regional unions and international organizations for cooperation provide bright examples for those aspiring to integrate into the modern world. Achieving the proper position to take advantage of conditions found today requires real, not just formal, integration into regional and world systems, which is possible only where economies and political systems have been liberalized.

It is well known that trade and transport react sharply to barriers and limitations. Therefore, government regulatory measures in this sphere must be applied prudently. Regulations must be rational and must not violate fundamental principles of economic freedom and competition, but at the same time must promote national interests. Strategically, there is no alternative to trade liberalization and competition in the transport sphere. This conclusion is supported by the example of Europe's historical development, where the uncompromising competition and confrontation of individual governments was transformed into a common market and then into the European Union, which is today the highest level of integration of independent countries under international law.

Today, under the aegis of the UNECE, there are over 50 active conventions and agreements for all forms of land transport. Kazakhstan is a signatory to 11 of these. The country's active position in joining international conventions and agreements allows not only the harmonization of national transport legislation with these international documents, but is also accompanied by effective integration of Kazakhstan into regional and international transport systems.

In addition to these international conventions and agreements, an important role in the support of intergovernmental ties and the development and deepening of integration processes is played by bilateral and multilateral agreements between countries taking part in international trade. These agreements regulate a huge number of legal and organizational questions regarding the barrier free crossing of national borders and the responsibilities of various parties in the transport process.

In 2003, Kazakhstan signed and ratified the multilateral Framework Transit Agreement of the Organization for Economic Cooperation (OEC). Besides multilateral intergovernmental acts on transport cooperation, over 40 bilateral agreements and contracts regarding international road transport have been signed, which positively strengthen the general background against which regional cooperation and integration take place.

Practical transport cooperation confirms that export/import and transit shipments are in the geopolitical interests of all countries. From one side, such shipments are accompanied by processes of integration, giving countries access to modern goods and technologies and allowing them to harmonize their legislation with world standards. From the other side, they stimulate the development of the national economy by attracting investment, primarily foreign, into the economy and by creating new jobs.