

# GREATER CASPIAN REGION ECONOMY: LOOKING INTO 2019

SPECIAL POLICY BRIEF BY CASPIAN POLICY CENTER

# ABOUT US

The Caspian Policy Center (CPC) is an independent, nonprofit research think tank based in Washington D.C. Economic, political, energy, and security issues of the Caspian region constitute the central research focus of the Center.

CPC aims at becoming a primary research and debate platform in the Caspian region with relevant publications, events, projects, and media productions to nurture a comprehensive understanding of the intertwined affairs of the Caspian region.

With an inclusive, scholarly, and innovative approach, the Caspian Policy Center presents a platform where diverse voices from academia, business, and policy world from both the region and the nation's capital interact to produce distinct ideas and insights to the outstanding issues of the Caspian region.



## ABOUT THE AUTHORS



**Ambassador (Ret.) Robert Cekuta**  
**Caspian Energy and Economy Program Chair,**  
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Ambassador to the Republic of Azerbaijan (2015 – 2018), Robert Cekuta has long and extensive experience as a top level U.S. diplomat. Deeply engaged in advancing high-profile international energy projects, trade policy initiatives and agreements, commercial sales, and other complex international security matters, Amb. Cekuta's positions in the State Department included Principal Deputy Assistant Secretary for Energy Resources as well as Deputy Assistant Secretary for Energy, Sanctions, and Commodities.

In addition, he was Deputy Chief of Mission in Albania and held positions in Vienna, Baghdad, Kabul, Johannesburg, and Sana'a, Yemen.

He set up the Economic Policy Analysis and Public Diplomacy Office in the State Department's Bureau for Economic and Business Affairs, and served on the boards of the Extractive Industries Transparency Initiative (EITI) and the International Energy Agency (IEA), where he also chaired the IEA Board's Standing Group on Long-term Cooperation charged with anticipating global energy developments.



**Kristen Cheriegate**  
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Kristen Cheriegate is currently the Program Manager for the Caspian Policy Center. She holds a Master's degree in Security Policy and National Security Law from the George Washington University. Formerly, she was a Guest Lecturer at College of the Canyons in Southern California and was on the Board of Directors for the United Nations Association of the National Capital Area. She has also conducted research and analysis for both the Center for Cyber and Homeland Security and the Center for European Policy Analysis.



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Blake Wilcox is an MA candidate in the Eurasian, Russian and East European Studies program at Georgetown's Walsh School of Foreign Service. He graduated magna cum laude with a BA from Brown University, where he concentrated in Slavic studies and German Studies. Blake has served as a research assistant at Brown, worked as a business consultant in Washington, DC and participated in the American Councils' Business Russian Language and Internship Program. His research interests include the energy industry in the CIS, sanctions' impact on the Russian economy, and the role of the international financial system in Russia's economy.

## Summary

Long a focus for international energy policy, the countries of the Caspian, South Caucasus, and Central Asia, including Afghanistan, are increasingly recognized as essential parts of the new connections across Eurasia. New infrastructure, which includes energy pipelines, fiber optic cables and growing surface transportation networks, not only facilitates the integration of the region into the economies of Europe and East Asia, but also improves connectivity within the region—boosting trade, raising the region’s strategic profile, and providing a basis for further economic growth and international engagement.

Moreover, a number of countries in the region are announcing and pursuing economic reform programs. Many of these programs focus on improving the commercial environment for start-ups as well as established businesses, improving governance and the rule of law, and fighting corruption. These initiatives, in addition to seeking to boost economic activity in sectors such as agriculture and IT, also create opportunities for a range of American companies as well as for firms within the region. As reported below, the October 2018 World Bank report suggests an overall increase in the region’s Doing Business scores and ranking, and United States’ (U.S.) data shows an increase in trade with Afghanistan, Azerbaijan, Kazakhstan, and Uzbekistan.

That said, progress on economic reform in the region is uneven and even where it is moving forward, it is essential that governments continue reform efforts, including fighting corruption, and boosting attractiveness to new and established firms. In addition, while governments will often look to attract new firms and investments, it is essential that they pay close attention to the conditions that promote the growth of companies already in their domestic markets. Such conditions are essential to creating businesses and new jobs and to improving economic well-being and security.

Continued attention to furthering growth and increasing exports of the region’s oil and gas will be important, as will raising the profile and utilization of expanding surface transportation networks, including the new rail links.

## Business Climate

### *Ease of Doing Business*

The World Bank published its annual “Doing Business” (DB) report on October 31, 2018, providing each participating country with a score and ranking. Economies are compared to one another, and over time, the scores show how much the regulatory environment for local entrepreneurs has changed in absolute terms. Except for Turkmenistan, all countries in the Caspian region, plus Afghanistan, participated. Scores for the region as a whole are expected to increase across the board in 2019. The first number next to the country signifies its estimated 2019 DB score according to the World Bank’s report. The second score is its 2018 DB score.

Rankings number up to 190, and all but two of the greater Caspian region’s countries are in the top 50 percent. Georgia was once again in the top 10 and Azerbaijan jumped up 32 spots.

Afghanistan – 47.77 (37.13) - 167th place

Armenia – 75.37 (73.31) - 41st place

Azerbaijan – 78.64 (71.54) - 25th place

Georgia – 83.28 (82.8) - 6th place

Kazakhstan – 77.89 (77.16) - 28th place

Kyrgyzstan – 68.33 (65.76) - 70th place

Tajikistan – 57.11 (57.03) - 126th place

Uzbekistan – 67.4 (66.32) - 76th place

### *Furthering Reforms*

Reform initiatives and the progress are important to starting and doing business. Better governance and increased anti-corruption measures can reduce the informal economy, encourage growth in the legitimate economy, and boost tax revenue. Azerbaijan and Kazakhstan have made positive headway, while Armenia and Georgia have begun to lay the groundwork for reform programs in 2019. The Caspian Policy Center will publish a report in April discussing what reforms the Greater Caspian Region has accomplished, and what it hopes to realize in the near future.

## Energy

### *Hydrocarbons*

BP is set to begin exploratory drilling in two new tracts, the Shallow Water Absheron Peninsula (SWAP) and the Shafag-Asiman field. BP and SOCAR are optimistic about the potential of the latter given preliminary data from seismic surveys, which suggest that the formation may hold 500 billion cubic meters of gas and 65 million tons of condensate. Moreover, BP reports it is in the process of bringing into operation the next four wells in the second cluster of the Shah Deniz II field. Once Shah Deniz II is fully operating, BP reportedly expects an additional 16 bcm/yr in production, bringing total capacity to 26 bcm/yr, of which 10 bcm/yr will end up in southern Europe. Equinor will begin survey activity on the Ashrafi-Dan Ulduzu-Aypara complex in March 2019, with additional investment contingent upon survey results. Kazakhstan will increase natural gas exports to China as sales from Turkmenistan decline. The Central Asia-China Gas Pipeline is expected to reach full capacity utilization in mid-2019, putting a cap on additional exports of Central Asian gas to China.

### *Renewables*

Kazakhstan continues pursuing a number of renewable energy projects to meet its renewable energy goals. By 2020, the government anticipates 3 percent of Kazakhstan's electrical generation capacity will come from renewables, excluding hydro. "Up to the end of 2020, there are plans to put into operation about 52 renewable energy sources with a total capacity of two gigawatts," Kazakhstan's Energy Minister Kanat Bozumbayev told the Astana Times. Azerbaijan continues to spur investment in renewables, particularly wind and solar. Legislation on renewables is being drafted and is expected to move through Azerbaijan's parliament this year. BP recently signed a Memorandum of Understanding with Azerbaijan on renewable power generation.

### *Energy Infrastructure (pipelines)*

The 40-billion-dollar Southern Gas Corridor is almost ready; meanwhile Turkey received its first gas via TANAP from Azerbaijan in June 2018. Caspian gas is expected to reach Italy via the TAP pipeline by 2020, despite the delays resulting from domestic Italian political complications.

## Connectivity

### *Silk Road Visa*

Travel will become easier as Kazakhstan and Uzbekistan look to launch the “Silk Road Visa” in the coming months, in the hopes of increasing foreign tourists to Central Asia. Azerbaijan and other countries outside of Central Asia are interested in joining this project.

### *Lapis-Lazuli Corridor*

This project, key to diversifying and expanding Afghanistan’s surface transport and trade links, reached a major milestone when a \$2 billion project funding agreement with the Asian Development Bank was officially signed with Afghanistan, Azerbaijan, Georgia, Turkey, and Turkmenistan in November, 2018. The connection with Europe will reduce land-locked Afghanistan’s dependence on Pakistan, while also affording trade access to the Arabian Sea. It also offers a cheaper choice to move goods back and forth with Europe via the Turkmen port of Turkmenbashi on the Caspian Sea. Officials from the five countries involved will meet in the near future to discuss ways to make further progress.

### *Khorgos*

The Khorgos Gateway dry port on the China/Kazakhstan border, officially the International Center of Boundary Cooperation (ICBC), boasted an eight percent increase in visits from 2017 to 2018 with 1.5 million people using the facility as a crossing point. The facility is also a major new gateway for rail traffic and an important node in the evolving BRI network. China has kept a steady eye on Kazakhstan, as the Central Asian country is a key hub for its BRI routes and an important player in its plans for the region.

### *Baku-Tbilisi-Kars (BTK) Railway*

The BTK is somewhat atypical among projects in the evolving Silk Road network, given that it is financed primarily by Azerbaijan and has been by and large developed by the Caucasus and Central Asian states themselves. Russia and Iran have also played a role, particularly in looking to expand it and revitalize north/south rail traffic through Baku. The BTK rail link, with its connections via Turkmenbashi and Aktau across the Caspian to Central and East Asia, was officially opened in October 2017. Work on the corridor continues, for example with modernization of the railway’s signaling infrastructure expected to begin in 2019. Central and Eastern European states, including Poland, Ukraine, and most recently Czechia, have expressed interest in utilizing the BTK railway to ensure better surface access to Central and East Asian markets

## Economic Diversification

### *Growing Trade with the United States*

The Caspian region (plus Afghanistan) witnessed a 20 percent increase in trade with the United States between 2017 and 2018, rising from \$4 billion to \$4.73 billion. Afghanistan, Azerbaijan, Kazakhstan, and Uzbekistan were drivers of this expansion, as the growth in their trade volumes with the U.S. averaged 40 percent. Armenia, Kyrgyzstan, Tajikistan, and Turkmenistan, however, saw a decline, with Turkmenistan's trade with the United States experiencing a decrease of over a 90 percent. Looking into 2019, the Greater Caspian Region is expected to continue pursuing additional investments and trade opportunities from the United States; likewise, the U.S. should encourage businesses to trade more with the region. Economic reform and diversification programs, such as the drive in Azerbaijan, Kazakhstan, and Uzbekistan to boost and expand their agricultural sectors, should provide further opportunities to increase business with American firms. Additionally, the United States should encourage countries in the region that have not signed Trade and Investment Framework Agreements (TIFA) to do so. Moreover, those economies that are not yet members of the World Trade Organization would benefit from joining the organization.

### *GDP*

The World Bank's Global Economic Prospects report predicted that global growth will slow to 2.9 percent in 2019. The statistics below represent real GDP growth percentages at market prices. The first number reflects the estimate for 2018, and the second number reflects the forecast for 2019. Oil price movements will also affect the region's overall economic growth as well as the domestic situation in important producers such as Azerbaijan, Kazakhstan, and Turkmenistan.

Afghanistan – 2.4 (2.7)

Armenia – 5.3 (4.3)

Azerbaijan – 1.1 (3.6)

Georgia – 5.3 (5.0)

Kazakhstan – 3.8 (3.5)

Kyrgyzstan – 3.1 (3.4)

Tajikistan – 6.0 (6.0)

Turkmenistan – 6.2 (5.6)

Uzbekistan – 5.0 (5.1)



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