

# Talking Points

## Eurasia in the Global Economy

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### **Eurasia, the landmass bridging the traditional continents of Europe and Asia, has become a bulwark of the global economy.**

The ancient network of trade routes that for thousands of years brought goods from the Far East to Western Europe is now a rapidly modernising network of pipelines, rails, super highways, and Information Technology links. The Eurasia of the Third Millennium is home to some of the world's largest oil producers, wealthiest investors, and fastest growing economies along with more than half the world's population.

### **China and Eurasia**

China is the foremost economic power in the Eurasian theater, where it is investing more heavily than the EU or the United States. China's Eurasian portfolio includes road construction projects in Tajikistan and Kyrgyzstan, gas pipelines in Turkmenistan and Kazakhstan, and hydropower plants in Tajikistan and Kyrgyzstan. With \$2.0 trillion in reserves representing nearly 30% of foreign exchange reserves worldwide, China enjoys huge financial resources to support its Eurasian ventures.

Energy and energy security are the drivers of China's Eurasian strategy. China is now the world's second largest oil consumer due to the country's rapid industrialisation and urbanisation. China's massive economic stimulus package, strategic stockpiling of oil

reserves, and launch of new refineries are heightening the country's demand for energy. According to the International Energy Agency, China's oil demand will rise to 11.3 million barrels a day by 2015.

The hydrocarbon supplies coming from the Eurasian region remain modest compared to those originating in the Persian Gulf. Kazakhstan (the second largest oil producer in the Former Soviet Union following the Russia Federation) produces 1.4 million barrels per day (bpd) compared with Saudi Arabia's 10.9 million bpd, the United Arab Emirates' 3.0 million bpd, and Kuwait's 2.7 million bpd. Iraq, whose long-dormant oil industry is poised for major production increases, is projected to reach 4 million bpd by 2015.

China's energy investments in the Eurasian area serve to lower the country's reliance on imports from remote Middle Eastern suppliers, most of which have lengthy and potentially perilous journeys through the choke points of the Hormuz and Malacca Straits.

Noteworthy among these Eurasian projects is the 2,228 kilometer Kazakhstan-China pipeline (jointly owned by KazMunayGas and the China National Petroleum Corporation), which will transport 20 million tonnes of oil per year from the Aktobe, Kumkol, and the increasingly important Kashagan fields on Kazakhstan's Caspian shore to Alashankou in the western Chinese province of Xinjiang.

The \$7.3 billion Turkmenistan-China pipeline was inaugurated in December 2009, permitting the eastward transportation of Caspian gas. By 2011, 30 billion cubic meters of natural gas will be delivered to China from Turkmenistan (along with 10 billion cubic meters from Kazakhstan), helping China stabilise its energy supplies and reducing carbon dioxide emissions.

Parallel with these energy initiatives in Central Asia, China is expanding its commercial footprint on the South Asian Subcontinent (illustrating the gradual warming of bilateral relations with longtime antagonist India) and the Middle East (including manufacturing-related trade and investment in the Middle East and North Africa).

China is also a potential participant in the IPI (Iran-Pakistan-India) project, which as originally conceived would deliver natural gas from Iran to Pakistan and India. But India is hedging on the project due to sanctions on Iran by the United States, whose ties with the New Delhi government have also deepened in recent years. The Obama Administration is reportedly pressuring the Pakistani government also to abandon the natural gas venture with Iran. China is prepared to fill the void left by India and Pakistan's withdrawal, constructing a deepwater port in Gwadar near the Hormuz Straits in preparation of and to promote an energy partnership with Iran.

### Eurasia and Energy Politics

Russian-based energy companies (GazProm, Lukoil, et al) and mining/metallurgical companies (e.g., MMC Norilsk Nickel Group) are heavily invested in the "Near Abroad" of the Former Soviet Union, and are therefore important commercial players in Eurasia.

But geopolitical factors (notably the reassertion of Russian domination in Central Asia and persistent ethno-national and territorial disputes in the North Caucasus) powerfully influence Russian activities in the Eurasian area. Moscow's heavy-handed use of the energy weapon against Belarus and Ukraine and its armed intervention in Georgia demonstrate the close interconnections between politics and economics in Russia's approach to Eurasia.

To counter the Moscow government's growing assertiveness in the Eurasian region, the EU (strongly supported by the United States) constructed the 1,768 kilometer Baku-Tbilisi-Ceyhan (BTC) pipeline transporting oil from the Azeri-Chirag-Guneshli field to Turkey's South Mediterranean port. Since the first tanker with Azeri oil left a Turkish port bound for an Italian refinery in 2006, BTC has become the most important energy corridor linking the Caspian Sea and Europe.

The EU and U.S. also sponsored the parallel Baku-Tbilisi-Erzurum (BTE) pipeline, which transports natural gas from Azerbaijan's offshore Shah Deniz field to Turkey. From there, Caspian natural gas will be distributed to Western Europe via a Turkish-Austrian pipeline (Nabucco) and other links. A proposed Trans-Caspian pipeline will convey natural gas underwater from Turkmenistan to Azerbaijan, connecting to BTE for delivery to Western Europe. Meanwhile, the European Commission has signaled its interest in ITGI (Interconnector Turkey-Greece-Italy, which would convey natural gas from the Caspian to Italy) and the White Stream project (which would transport Caspian gas to Romania and Ukraine).

Notwithstanding Western efforts to create alternatives to Russian hydrocarbons, the Russian Federation remains the dominant energy power in the Eurasian area. Current energy projects underscore the readiness of European players to accommodate Russian prerogatives:

- Italy's Eni and Russia's Gazprom have formed a joint venture called the South Stream pipeline, which will transport Russian gas under the Black Sea to Southeastern Europe.
- Turkey's TPAO (Türkiye Petrolleri Anonim Ortakligi) has joined a Gazprom-led consortium to develop the Badra oil field in eastern Iraq.
- Germany's BASF and E. ON and Holland's N.V. Nederlandse Gasunie have signed as minority partners with majority owner Gazprom in the Nord Stream project, an offshore Baltic gas pipeline that has incurred the ire of bypassed Poland.

### Transportation Projects

A range of international transportation projects are underway to create a modern infrastructure for the Eurasian region.

The building of a railroad linking Kars, Turkey and Akhalkalaki, Georgia and the rehabilitation of the Akhalkalaki-Tbilisi rail line will connect Istanbul to the Caspian Sea. The Kars-Akhalkalaki-Tbilisi-Baku railway is expected to be completed in 2010 with onward connections from Azerbaijan to Kazakhstan. Together with rail lines linking Kazakhstan and China, these projects will create a rail connection from Istanbul to Urumqi in China's interior.

China is constructing 12 highways to configure Central Asia as a land bridge linking Beijing with the Black Sea. These highways will connect the Xinjiang Autonomous Region with neighboring countries, including Russia, Kazakhstan, Kyrgyzstan, and Pakistan. Customs procedures for en route goods will also be streamlined. China's Eurasian highway ventures are part of the 141,000 kilometer Asian Highway project sponsored by the United Nations.

The China Railway Construction Corporation (CRCC), which is the world's 6th largest contracting company and whose declared mission is "to cut paths through mountains and builds bridges across rivers", has launched a number of Eurasian projects. The China-Kazakhstan railway will connect China and Kazakhstan via the Alatau Pass, providing passenger service from Urumqi to Almaty and Astana. CRCC is also constructing a rail link between China, Kyrgyzstan, and Uzbekistan.

The importance of this East-West transport corridor was recognised by the EU's TRACECA (Transport Corridor Europe-Caucasus-Asia) programme in the mid-1990s. The transportation network will make it possible to ship goods quickly and inexpensively across the Eurasian landmass reducing the transit time for cargo between the Chinese Pacific coast and the European market to about one week.

### Information Technology in Eurasia

Along with investments in transportation, the Eurasian region is undergoing a modernisation of Information Technology.

The Black Sea Interconnection (BSI) project implemented under 7th Framework Programme of European Commission and the Istanbul-based Black Sea Economic Council (BSEC) has developed a high-speed backbone linking the national research and education networks of the South Caucasus countries, allowing connectivity to the pan-European research and education GEANT2/3 network. The Scientific and Technological Research Council of Turkey (TUBITAK) acts as coordinator and links 45 universities and over 150 000 scholars from Azerbaijan, Georgia and Armenia with partner institutions in Europe. The BSEC is also leading the Trans-Eurasian Information Super Highway (TASIM) venture to bridge the region's "digital divide" by enlarging international connectivity and expanding broadband access.

### Conclusion

The resurgence of international interest in the Eurasian commercial area has important implications for the countries of the region:

- Deepening commercial ties between China and the EU, whose trade turnover already surpasses the volume of Sino-American and Sino-Japanese trade
- Rising standing of the Republic of Turkey as a cultural/economic/political/technological bridge between Asia, Europe, and the Middle East
- Expanding links between the EU and the Soviet successor states and the Caucasus, many of which endured stagnation, instability and isolation during the 1990s and 2000s but are now showing strong economic potential (eg Azerbaijan).

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