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Strategy Paper of the IGC TRACECA For the period 2004-2008

The analysis of forecasting the main lines of world economy development evidences that major financial, commodity and information flows of the XXI century will be focused in the triangle the USA-Europe-Asia.

In this context the most important task of the European Commission TACIS-TRACECA program member-states (Republic of Armenia, Azerbaijan Republic, Republic of Bulgaria, Georgia, Republic of Kazakhstan, Kirgiz Republic, Republic of Moldova, Mongolia, Rumania, Republic of Tadjikistan, Turkmenistan, Republic of Turkey, Republic of Uzbekistan, Ukraine) consists in taking advantage in full measure of their geopolitical locations and economic opportunities through the development of transport networks and the international transport corridor Europe-the Caucasus-Asia that has been officially acknowledged by the leading international institutions (ESCAP UNO and ECMT) as the natural transit bridge between Europe and Asia.

Today the trade turnover between Asia and Europe exceeds 2 trillion \$ US Dollars a year, the share of transport expenses being 200 billion \$ US Dollars. Below there is given a table as an example of comparative figures of commerce growth tendency between some countries of Asia, the USA and the European Union.

Foreign commerce figures between some countries of Asia with the USA and the European Union (Billion Dollars)

	USA				European Union			
	1986		1996		1986		1996	
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
Japan	28,9	80,4	74,4	104,9	17,8	36,7	50,8	62,1
CPR	4,7	2,6	18,0	26,0	9,1	4,4	23,0	21,0
Indonesia	1,5	2,9	5,2	7,0	2,2	1,4	9,5	7,6
Malasia	2,0	2,3	13	16,0	1,9	2,1	14,0	11,0
South Korea	6,5	13,9	33,3	21,7	3,9	5,2	23,7	16,3
Total:	43,6	101,1	143,9	175,6	35,6	49,8	120	118
Goods Turnover	144,7		319,5		85,4		237,9	
Growth	2,2 times				2,8 times			

The table shows that the above-mentioned triangle is a reality, and the TRACECA member-states are actually situated on the high road linking Europe and Asia.

Taking into account the geographic situation of TRACECA countries in the context of trade relations development between Europe and Asia on the one hand and the location of the major goods producers in Asia and consumers in Europe, the rise of freight flows, possible big states freight-owners on the other hand, we can make practically faultless conclusion – goods delivery to Europe through the transport corridor TRACECA (in the line of East-West) looks much more attractive in comparison with the other alternative routes. Suffice it to say that the distance along transoceanic route from Iokogama to the biggest West-European ports as Rotterdam, Hamburg, Antwerp and others is more than twice longer than that of the TRACECA route.

Today thanks to the assistance of the European Union TRACECA program in member countries there are branched transport networks and seaports of international significance, oriented at the outside world having good cross-country ability within their own territories.

This means that to develop transit traffic the TRACECA countries do not have to create new inland corridors or additional transport passages to the adjacent countries. It should be pointed out that at present these countries need not to obtain huge investments for the development of the existing transport corridor and its networks. TRACECA transport corridor does already exist and function. There has been stored great experience in organizing and accompanying considerable volumes of goods of different categories, and after the signing on September 9, 1998 in Baku of the “Basic multilateral agreement on international transport for the development of the Europe-Caucasus-Asia corridor” the legal basis is developed for the organization of international transit traffic on a more improved level.

Of great importance is the fact that the TRACECA transport networks pass along the territories of the countries rich in perspective mineral resources and energy supply to be developed. These regions have not so far lost well-trained competent human resources. Transit development in these countries will undoubtedly contribute to the growth of production, population employment in the regions. Whichever political, economic changes would happen the chosen, developed and tested by experience transit route will remain a stabilizing long-term factor, creating favorable investment climate and positively influencing the globalization of integration processes.

Taking into account fast development of telecommunication and information processes in the XXI century which at the same time brings about electronic trade development through the worldwide Internet it should be pointed out that in this context the role of transport sharply grows. But there is another circumstance: due to the electronic sales growth there will arise the problem of increasing the rates and improving service of the ordered goods and freight delivery. The demands for high-speed technologies of freight deliveries will most likely be satisfied by air, road and railway transport. In this respect we will have to examine a great number of factors: freight delivery rates, the distance that a carrier (operator) should cover, mode of transport. It should be stressed that in the market of transport services there will be brought to the forefront a transit aspect, new shorter transport routes, corresponding level of transit traffic and attractive competitive tariff, i.e. the “commercial triangle” well-known in transit traffic. (Time-Service-Tariff). Nevertheless, sea transport will perspective keep its positions on the transoceanic routes. Moreover, it should be pointed out that some transnational shipping companies are carrying out the investigations and negotiations with the shipbuilders on the issues of container vessels construction of new generation (10 000-12 000 TEU and more).

The creation and development of any transport corridor (route) does not mean the efforts only of transport specialists in one separate country. Transit freight flows movement in the international transport corridor is organized and it functions in multifactor coordinates system.

The European Commission is the main donor of the TRACECA program. Particularly, since 1994 up to date the EU has allocated more than 120 million EURO for the implementation of 50 technical and investment projects. The main aim of this program is the deepening of interregional cooperation between the signatories to the Basic Agreement and the creation of conditions for the integration of transport corridor (TRACECA) into the transeuropean transport networks (Ten's).

We should note here the attitude of the USA where in accordance with the US President B. Clinton's directive on intensifying cooperation with the countries of the Caucasus and Central Asia the President's administration has been active in putting forward the idea of establishing a new Eurasian Transport Corridor (TRACECA) that would link these countries with the West.

The establishment of such corridor is on the one hand necessary to protect the newly independent states in the region from domination over communicational and transport flows by any country, on the other hand – to provide a guaranteed continuous outlet of the energy supplies of the Caspian Sea and the Caspian region on the whole into the international markets.

After the signing on 9 September 1998 of the "Basic Multilateral Agreement on International Transport for the Development of the Transport Corridor Europe-Caucasus-Asia" at the historic summit in Baku, there were established the Intergovernmental Commission TRACECA, its executive bodies – the Permanent Secretariat with corresponding representations in the countries the MLA signatories, i.e. the interregional program of the European Commission TRACECA was institutionalized.

From the political and economic points of view the issues of Eurasian freight transit within the TRACECA transport networks should be considered through the prism of the availability of cargo base at the ends of the route, i.e. in the Asian region and in the Western Europe as well as from the point of view of the countries – freight forwarders as regards the efforts of the TRACECA member-states to reinforce their positions as transit States – economic (competition) and geopolitical.

In this respect it is efficient to have in view the standpoint of China, the biggest commodity producer in the world, the standpoints of India, Iran whose geostrategic positions in the prism of the existing transit bridge Europe – Asia – Europe are well-known. The most important standpoint is that of Russia with its major prospect for the Transsiberian trunk-railway.

The main container traffic in the line of Europe – Asia – Europe in the near future will be focused on the transoceanic route. Freight forwarders (operators) in the South-Eastern Asia – China, Japan, Korea will be more likely shipping containers by sea, and in this context the TRACECA countries will have to provide the best conditions to the freight owners, demand from the operators to sharply reduce the time of delivery, improvement of the services level and corresponding legal basis for the multiprofile process of international transit traffic.

On the basis of the positions of different countries as regards transit development along the corridor Europe – Caucasus – Asia (TRACECA) it is efficient to point out the following.

Judging by the objectives set for themselves the "final ends" of the transit route the European Union and China we have of late noticed the concerted efforts of these countries in implementing their policies. The European Commission is engaged now in the creation of transeuropean networks looking for an outlet to China with the help of TRACECA program. Pursuing balanced policy China is actively involved in the development of the Transchina railway route with the future linking of the transport corridor Europe – Caucasus – Asia (TRACECA).

Therefore it is necessary to point out that the main political and economic factors to a great extent influencing the contouring of the TRACECA countries in the period of globalization of the modern world processes come to the following:

- Maintaining stable economic growth of the GDP within 8-10% a year.
- Increasing investments into the economy because reinvestments and the inflow of foreign investments are very small and do not correspond to the demands of these countries.
- Suspending the outflow of capital from the countries because its lack does not allow them to pursue concentrated investment policy.
- Building-up of the technological sphere.
- Insufficiently coordinated policy of state structures in the TRACECA countries for the purposes of harmonization of the legal basis for the functioning of international transport corridor Europe – Caucasus – Asia (TRACECA).

To provide such a large-scale task as the interception of 4-6% of the freight flow to the transport networks of TRACECA there will be needed considerable modernization of transport complexes transit traffic included, bringing the national legislations into conformity with the international conventions. The estimated volume of the investments for the TRACECA countries needed for stage wise modernization will approximately exceed 50 billion \$ US Dollars. In comparison for the purposes of solving the similar tasks China has spent more than 30 billion \$ US Dollars for the last eight years.

Probably in favorable concourse of circumstances international financial institutions in the near future may provide the TRACECA countries with not more than one billion\$ US Dollars for these purposes. The other amounts should be attracted from the freight owners interested also in transit traffic via the territories of these countries. In China the money from the international lending institutions aimed at the development of transport and transport infrastructure make approximately the quarter, the other amount is based on direct investments of the freight owners searching for the ways to increase the traffic volumes. Therefore, the TRACECA member-states may receive the opportunity at the account of investments into transit to fulfil their own objectives of reconstruction of the transport system.

To attract such large-scale investments it is necessary to introduce legally the following methods of cooperation with investors as concession and that which has become widely accepted during the last decades within the system "construction – operation – hand over". Such mechanism has been widely utilized in India, Malaysia, Turkey, Egypt, and Nepal to attract the investors into the big infrastructure projects with the long pay-back period. In accordance with this mechanism investors and the state make an agreement for the turnkey construction of an infrastructure object (port, container terminal, airport, bridge, paid road, etc.) and operate this object during 20-30 years. On the expiry date the state is entitled to buy back a stockholding from an investor at mutually advantageous price set at the time of signing the agreement. Working on this project the government of India has managed to attract more than 20 billion\$ US Dollars, the Turkish government – 16 billion\$ US Dollars. A number of countries through this mechanism have managed to solve a number of investment problems. Thus, Turkey has managed to solve the problem of repatriation of capitals exported earlier from the country having allowed investing them into the construction of infrastructure objects not naming the sources of the capital origin wisely thinking that the constructed container terminal was impossible to be exported abroad. Thus 10 billion\$ US Dollars came back to the country without special efforts on the part of the law-enforcement bodies.

The history of the TRACECA member-states also evidences that to solve the issue of a large-scale renewal of infrastructure only at the account of internal financial resources is very complicated.

Considering the problems of infrastructure modernization in these countries on the whole and not only the problem of one transport branch or several related branches in a separate country it is necessary to define the following strategy tasks for the near future 4 years (2004 - 2008):

1. To include the implementation of transit program into the number of national priorities of the countries having signed and ratified the "Basic Multilateral Agreement". To work out the state coordinated ideology of transit on the legal basis taking as an example the achievements of other countries such as the Netherlands, the Central Eastern Europe countries, etc. At the same time it is necessary to take into account the developing system of electronic trade that is the main factor of changes in the world trade structure and its transport support.
2. on the basis of the documents prepared by transport ministries and agencies to work out the coordinated program for the development of international transport corridor TRACECA and its transport networks in view of serving the domestic needs of these countries.
3. to decrease the tax burden on the transport infrastructure development projects being of strategic importance for the country from the point of view of tax imposing first of all of the value-added tax and customs fees. The TRACECA countries should finally define: either they are interested in the construction of transport infrastructure or they consider its structures only as the source for the

taxes proceeds. In this case these structures will be built not on the territory of these countries but, for example, in Russia, China, India, Iran, the Baltic States or Finland.

4. To introduce new modern methods of attracting the investments, tested and applied by many countries (concessions, mechanism of “Build – Operate - Transport”).
5. To allocate the greater part of the finances from international grants and loans for the development and reconstruction of transport and communication infrastructures.
6. To approve the actions of sensible protectionism concerning transport companies, ship owners, ports, railways and other objects of transport infrastructure participating in transit traffic.
7. To develop international cooperation in the field of transit traffic first of all with the countries which owing to their geopolitical position prefer the transit traffic by the TRACECA corridor. In this context the concerted support of the Ministries of Foreign Affairs of the TRACECA countries will assume the decisive role in settling the international issues related to the development of transport cooperation, in obtaining targeted diplomatic options to settle the undetermined problem issues important for the transit perspectives (quick settlement of the conflicts in Abkhazia, Nagorny Karabagh, Pridnyestrovye and South Ossetia).
8. To overcome the established negative image of the TRACECA member-countries like a “black whole” concerning the safety of transit freight there will be required an active private company. This should to a certain extent promote the concerted efforts of state and commercial structures of the TRACECA countries in the field of transit development.

Therefore, transit plays strategy role in the economy of the TRACECA countries; it is obvious that there are prerequisites for considerable growth (2-3 times) of this kind of services for the world community.

This is the task of state and national scales and it is directly linked to the changes of structural policy and economic strategy of the States having signed the “Basic multilateral agreement on international transport for the development of the corridor Europe – Caucasus – Asia”.

In the context of interregional contouring pragmatic attitude and rational solution of this task will drastically influence the geopolitical activity of these countries. It has an opportunity to become one of the factors stimulating the development of not only the transport complex and economy of these countries but the globalization of the regional integration processes for the purpose of achieving long-term political stability.