

The Belt and Road Initiative: Case of Kazakhstan

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Key Findings

- It's difficult to assess the impact of BRI, Kazakhstan's economic cooperation with China has been developing since 2000s.
- Information about the projects is limited, lack of transparency.
- The Gov. of Kazakhstan **carefully forms its policy** of economic interaction with China, choosing those projects that match Kazakhstan's interests, and in most cases **attracting it's own funds** or involving international financial organizations.

Recommendations

- As a next step, value chain analysis of all BRI production capacity projects in Kazakhstan should be conducted.
- There is a need to develop a framework for comparative analysis among countries with positive experience.

Overview

- BRI was announced only five years ago (2013), and it's hardly possible to assess the economic effects of the initiative.
- Kazakhstan and China have established close economic relationship long before BRI.
- With BRI, economic cooperation between two countries has become much more diversified.
- The first formal agreement on an investment in production capacities established in 2015 (working group is being set).
- In 2014 the Kazakhstani program of infrastructure modernization “Nurly Zhol” was initiated, international financial organizations were invited (WB, ADB, EBDC etc.). In 2015 Kazakhstan and China signed an agreement tying together “Nurly Zhol” and BRI.
- Finance. Most common forms of funding projects take the form of capital investment by creating joint ventures.

Bilateral trade

- Kazakhstan remains the largest recipient of FDI from China among CIS countries.

16 bln. USD since 1991, mostly in the oil and gas sector

- China's share in the external trade is around 15-18%.
- As of July, 2018, there were 846 Chinese companies and 422 joint companies.
- Since 2014, reflecting the collapse of oil prices, trade surplus between two countries fell from 6 bln. USD to 1 bln. USD. FDI dropped as well.

In that regard Kazakhstan announced large-scale (around 1 bln. USD) infrastructure investment program "Nurly Zhol"

“Nurly Zhol”

- A major infrastructure program designed to remove existing infrastructure constraints and bottlenecks in logistics, and allow the country to become a transcontinental transport corridor.
- Financed by the National Fund of Kazakhstan, complimented by partnership agreements with international financial institutions.
- Total budget for 2015-2018 is estimated at around **16 bln. USD**, with co-funding from international organizations est. at **9 bln. USD**.
- In 2015 the Plan of integration of Nurly Zhol with the BRI was approved. China became one of the partners of the initiative.

--- West China - West Europe

..... Astana - Almaty

..... Astana - Ust-Kamenogorsk

..... Astana - Aktobe - Atyrau

..... Almaty - Ust-Kamenogorsk

..... Karaganda - Zhezkazghan - Kyzylorda

..... Atyrau - Astrakhan

Astrakhan

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Zhezkazghan

Kyzylorda

Taraz

Shymkent

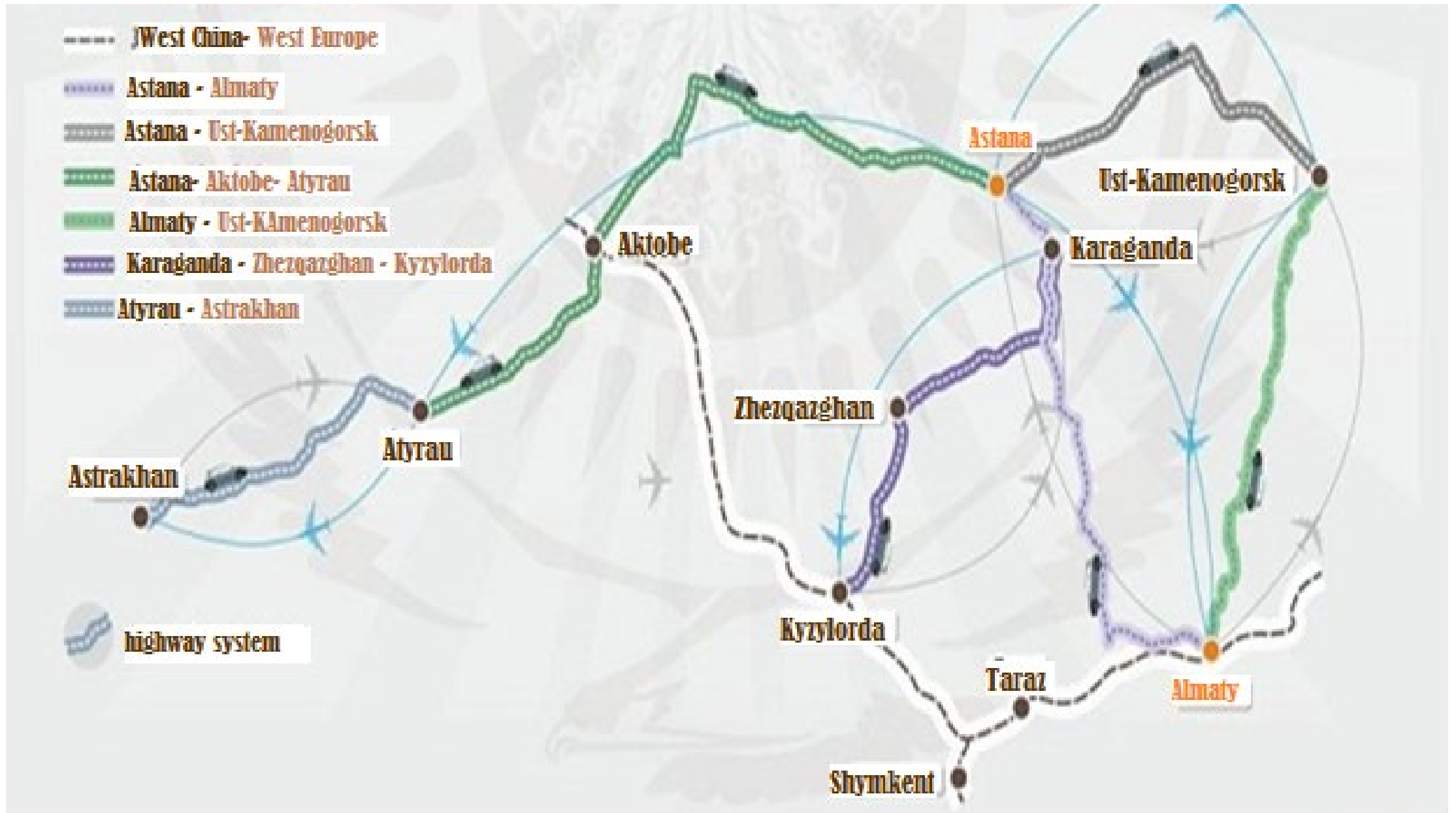
Astana

Karaganda

Ust-Kamenogorsk

Almaty

highway system



- From 2015-2017, 4.4 k km of new roads built. By 2020 7.4 k km of new roads planned to be built.
- Freight turnover between the regions increased 2.5 times (12 to 30 mln. tons), transit road transport – by 3 times (350 k tons to 1 mln. tons).
- 1,376 km of railways and two railway lines were built. In 2018 China-Kazakhstan-Iran multi-modal transport corridor was opened.
- Four logistics centers were constructed: *Lianyungang International Logistics Park; the dry port of the FEZ Khorgos – Eastern Gate; International Center Khorgos; Kuryk Sea Port (Caspian Sea).*
- In 2017 the number of containers transported from China to Europe reached 200 k. In 2019 800 k is estimated, reaching 2 mln. by 2020, **generating 5 bln. USD** in transit revenue.

- China's participation in the construction of these projects has been modest, **Kazakhstan implements most of the projects at its own expense.**

Example: 9 of 16 highways started in 2017 are financed by the Gov. of Kazakhstan, 5 in cooperation with IFIs, and only 2 are funded by C-EXIM.

- However, there is **no open source data available** on the amounts of investments provided by China and terms of financing.
- The World Bank suggests that infrastructure projects have contributed to a reduction in shipping costs by 5% in Kazakhstan, a waiting time at the border by 13%, which in case of Kazakhstan led to an improvement in mutual trade between the countries of the Initiative **by 4%.**

Collaboration in the field of production capacities

- In 2015 a Framework Agreement on Strengthening Production Capacities and Investment Cooperation was signed between the two governments. *Kazakhstan is the first country to which China offered cooperation in the production sphere.*
- Joint Plan will cover exclusively large projects, the main source of financing is **equity investment** (*opposed to lending*).
- It was announced, that “51 projects” will attract 27 bln. USD investments to Kazakhstan.

However some projects are already in implementation, like in oil and gas, and were initiated even before BRI.

Manufacturing

- Production of construction materials, cement, glass, etc.
- Ferrous metallurgy
- Non-ferrous metallurgy
- Oil and gas refining
- Chemical industry
- Mechanical engineering
- Power generation
- Roads, railway and air infrastructure construction
- Textiles, wools, etc.
- Agricultural processing
- Food manufacturing
- Fast moving consumer goods

Services

- Transport logistics
- Tourism

- All key sectors of Kazakhstan's economy and all regions of the country are covered.
- Industrial development, digitalization and infrastructure will be the key directions of development.
- If successfully implemented, the projects will create opportunities for the development of a competitive agro-industrial complex, construction and engineering industry, and chemical and metallurgical sectors.

Financial Integration

- Since 2009, Kazakhstan and China have established joint investment funds to finance a number of major projects:
 - ❖ *2009. CITIC corp. and Samruk-Kazyna created **CITIC KAZYNA Investment fund** to invest in projects outside the oil sector. **200 mln. USD.***
 - ❖ *2015. CITIC and Baiterek Holding established the joint **Kazakhstan Infrastructure Fund** to finance manufacturing industry infrastructure and agriculture investments. **600 mln. USD.***
 - ❖ ***Eurasian Nurly (Bright) Investment Fund** was announced in July 2018 with a target up to **500 mln. USD.***
 - ❖ ***Kazakhstan – China Fund for Industrial Cooperation Co. Ltd.** established with a capitalization of **2 bln. USD.***

- Development Bank of China and Export-Import Bank of China (C-EXIM) lending. *Loans are backed by the state guarantees, discussions are underway regarding the establishment of risk compensation funds as an alternative.*
- The constructive role of the Development Bank of Kazakhstan: it's active in the BRI, providing loans to Kazakhstani parastatals and private firms.
- Chinese Investments in Kazakhstani Financial Institutions.

The sale of 60% of Altyn Bank (subsidiary of Halyk Bank) in 2018 to China CITIC Bank and China Shuangwei Investment Co. Ltd., which offers the potential to access Chinese investors.

Shanghai Stock Exchange and China's Silk Road Fund (which were set up for BRI) are combined 49% of the new Astana International Financial Center (AIFC)'s stock exchange.

- Settlement in national currencies.

In 2012, Kazakhstan and China signed Yuan/Tenge swap agreement in the amount of 1bln. USD. In 2014, trading of Tenge/Yuan paired currencies started at the Kazakhstan Stock Exchange in Almaty. The regional market of the Interbank Center for Foreign Exchange of China, Urumqi offered a similar product.

- But most long-term contracts are still denominated in US\$, reflecting the desire of counterparties to minimize currency risks.
- Despite the growing financial engagement with Chinese financial institutions, the amount of debt outstanding to remains relatively small – **less than 10%** of total external debt, *which remains manageable in relation to Kazakhstan's GDP (9,5% of GDP).*

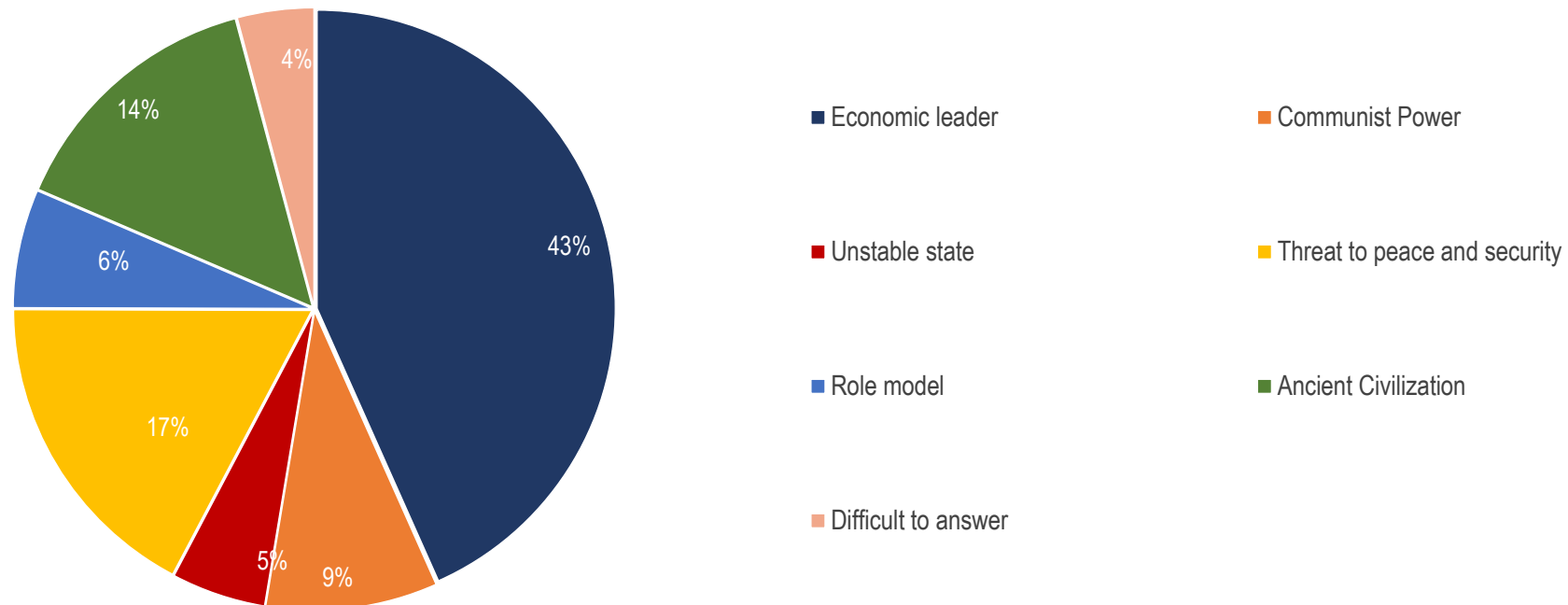
People to people exchanges

- Between 1995-2014 about 100 k ethnic Kazakhs migrated from China to Kazakhstan.
- Between 2015-2017 around 100 k visas annually for citizens of China.
2/3 to ethnic Kazakhs, labor visas did not exceed 10 k per year, business visas around 15-20 k per year.
- In 2018 there were 17,6 k students from Kazakhstan in China.
- In terms of university collaboration, Nazarbayev University joined Tsinghua and Beida, and other 12 Asian top universities as a founding member of the Asian Universities Alliance (AUA).

The perception of China in Kazakhstan

- NAC conducted in 2017 a survey of 3 k households across the country.
- The results showed that Kazakhstan's society still has no clear vision about China.

Figure 6. Survey results for the question "In your opinion, what is China like primarily?"



Thank you