

# One Belt & One Road: Impact on Kazakhstan Introduction-One Belt & One Road Strategy

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## Abstract

**This research focuses on the popular policy from China-One Belt & One Road and its impact on Kazakhstan. Kazakhstan is the friendly cooperative partner with China in economics. Both parties have got benefits from the policy, especially Kazakhstan. But there are still some risks and challenges, such as cultural difference, exchange rate.**

## Keywords

**One Belt & One Road, Impact, Kazakhstan, Strategy.**

## 1. Introduction

December 12, 2016 —The 2013 New Silk Road initiative of China's President Xi Jinping, called One Belt One Road (Abbreviated as B&R), or the Belt and Road Initiative, is anchored in the idea of developing land and sea transport corridors stretching from China's cities to Europe. The overland routes wend their way through Central Asia. The five Central Asian nations—Kazakhstan in the north, bordering Russia, and to its south, Turkmenistan, Uzbekistan, Tajikistan, and Kyrgyzstan—are all destined to benefit from China's OBOR initiative and could become an economic hub within Eurasia.

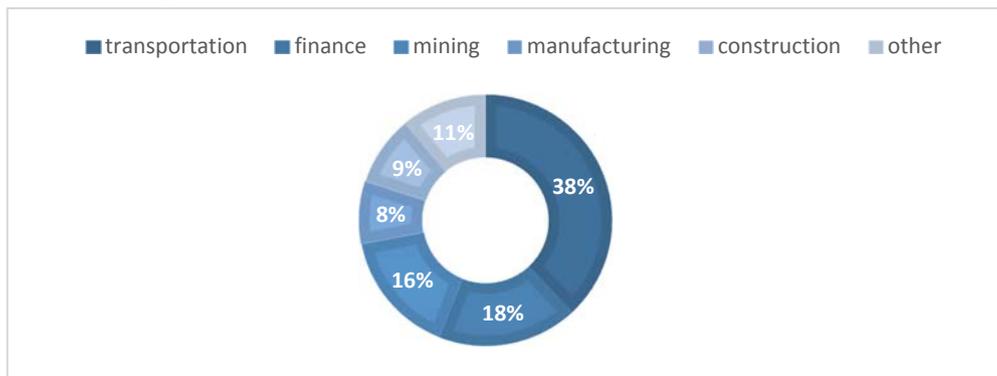
Kazakhstan is the "buckle" of China's One Belt One Road initiative, and through the Central Asia Regional Economic Cooperation (CAREC) and Corridor Investment Programs, multilateral institutions and development banks have funneled billions of dollars in loans and grants to fund an international corridor that will connect China to Western Europe. This, along with other international infrastructure initiatives, is part of China's economic strategy to utilize its excess industrial capacity (and workers) while also revitalizing one of the world's oldest trade routes for modern use. The New Silk Road will serve as an outlet for Chinese exports, as well as a secure route for energy imports, both of which are Chinese strategic imperatives.

## 2. Impact on Kazakhstan

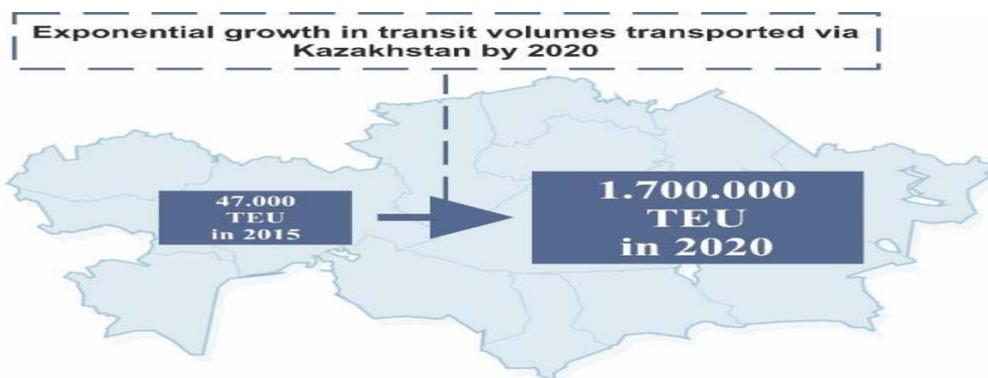
### 2.1. Economic Intimacy between Kazakhstan and China

Kazakhstan has been one of the biggest recipient of Chinese FDI in Central Asia, with the total FDI stock amounting to USD 15.2bln at the end of 2016. Transportation, finance, mining and manufacturing were the main beneficiaries of China's investments.

## 2.2. The B&R' Importance to Kazakhstan



**Fig 1.** Chinese FDI stock distribution in 2016



**Fig 2.** B&R initiative synergy with Nurly Zhol program

Program implementation in Kazakhstan is expected to be faster than in other Participating countries due to substantial synergies with Nurly Zhol program and optimized legal and regulatory framework. The majority of Nurly Zhol projects may be considered as a part of a broader B&R framework, as they directly contribute to the improvement of Kazakhstan’s infrastructure and EU-Asia transit potential.

In particular, Khorgos Gateway, a dry port on the China-Kazakhstan border, currently represents a key logistics hub on the New Silk Rod. The facility, which was specifically designed to process containerized cargo, is expected to considerably increase Kazakhstan’s transit capacity, with the total project cost to date amounting to over USD230 mln. Khorgos may process more than 16,000 containers daily, offering a range of logistics solutions, including freight reloading, formation of container trains and documentary support. In May 2017, as a part of B&R program implementation, China’s investors, COSCO Shipping and Lianyungang port, agreed to further develop Khorgos’s infrastructure base, acquiring 49% stake in the terminal. Another key logistics project, Kuryk seaport, which is located in Mangistau region, will significantly increase Kazakhstan’s marine transit capacity. Enabling direct reloading from trains and trucks to ferries, the port is expected to stimulate freight shipments to Europe and Middle East via Azerbaijan and Iran. Construction of the first project’s phase was completed in December 2016, with the total of 44 logistics facilities commencing their operations. To date, Kuryk has processed more than 400,000 tons of cargo, with 1 mln tons estimated to be processed in 2017. Other main infrastructure projects in Kazakhstan, which could be attributable to B&R, include several railways and logistics hubs in Astana and Shymkent.

### 2.3. Kazakhstan’s Economic Benefit from B&R Program

Kazakhstan’s economy is expected to benefit from B&R program implementation, with Asia-EU-Asia transit volumes transported via Kazakhstan forecasted to increase to 1,700,000 TEU by 2020 from 47,400 TEU in 2015, according to McKinsey estimates. So far, Kazakhstan government has spent more than USD9bln of infrastructure in addition to B&R financing, already substantially has modernized rail and road infrastructure and optimized legal and regulatory Infrastructure framework.

In January 2017, the first container train from China arrived to London, covering a distance of 7,500 miles. It had passed through Kazakhstan, Russia, Belarus, Poland, Germany, Belgium and France, finally crossing under the English Channel into Britain. The total duration of the trip amounted to 18 days, implying almost 2 times faster cargo delivery time, compared to the marine transportation.

Consequently, industries, which are primarily engaged into transportation or processing of containerized cargo, are expected to outperform the overall Kazakhstan’s economy over the medium term, with the growth exceeding GDP growth. These industries comprise rail and road transportation, logistics and marine, rail and road infrastructure.

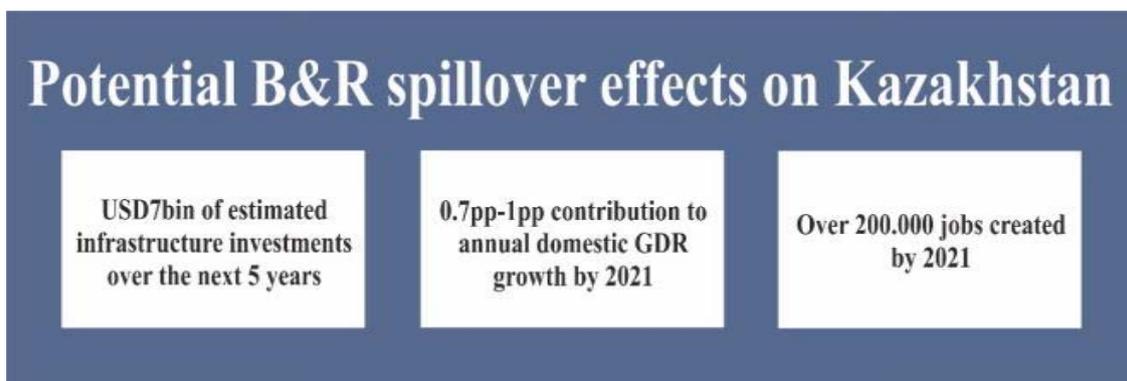


Fig 3. Potential B&R spillover



Fig 4. USD-CNY exchange rate and effects on Kazakhstan

Data resource: China’s FX reserves dynamics (2014-2017)

B&R is forecasted to contribute additional 0.7pp-1pp to annual Kazakhstan’s GDP growth by 2021, creating over 200,000 jobs. In addition, the country’s economy will considerably benefit from ongoing infrastructure improvements, with total investments size reaching more than USD7bln over next five years.

### 3. Risk and Potential Challenges

#### 3.1. Political and Cultural Differences Maybe Decrease the Performance

The gross capital formation constituted approximately 45% of China's GDP in 2015, making the country's capital-intensive growth model a compelling one to replicate in other emerging markets. However, political and cultural differences as well as significant divergence in policy efficacy between China and other B&R participants imply that project execution effectiveness may be impaired despite financial and human capital availability. In addition, long-term nature of infrastructure projects and political instability in some countries result in higher country risk premiums, driving cost of financing upward.

#### 3.2. The Risk from Exchange Rate

Volatile global macroeconomic environment resulted in depreciation of RMB and subsequent decline in China's foreign exchange reserves, reducing capital inflows into the country. In particular, foreign exchange reserves have decreased by approximately USD1tn since the peak in 2014, forcing China's government to introduce the measures restricting capital outflows.

This implies that the country's B&R funding capacity and policy support have deteriorated, compared to the period when China's international reserves experienced a strong upside momentum.

#### 3.3. The Risk From the Strategy Sustainability

While B&R initiative offers lucrative opportunities for Chinese companies to develop overseas business, an absolute size of monetary benefits remains small compared to China's investment scale, implying that B&R should substantially increase the number of participating countries in order to the program to become a viable revenue-hedging alternative.

#### 3.4. The Risk of Profitability Decline of China's Industrial Companies

Profitability composition indicates that China's industrial companies with relatively high international exposure tend to have the same or even lower margins than their domestically exposed comparables. The value of projects financed by AIIB and SRF stood at USD15bln, accounting for just 12% of B&R contracts signed over the past two years and partially reflecting an absence of economically-feasible projects at the current stage.

### 4. Conclusion

One Belt & One Road is the innovative policy and open the new era between China and its neighbouring countries. It must have a significant impact on world development and all of membership country will benefit from it.

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