“To what extent do Chinese plans coincide with Kazakhstan’s reindustrialization plans within an EaEU format, and more importantly how can cooperation with China expand without coming into conflict with Russia, who is already quite jealously views the pairing of the EaEU and Nurly Jol?” – this cabar.asia exclusive from Professor Konstantin Syroyezhkin is dedicated to an analysis of recent Sino-Kazakhstani agreements.

Currently, bilateral cooperation between China and Kazakhstan is developing within a framework of pairing the Chinese idea of forming the Silk Road Economic Belt (SREB) and the Kazakhstani state program Nurly Jol. All recent Sino-Kazakhstani agreements have been primarily directed at this.

Although there are a large number of problems for the SREB’s practical realization in Central Asia as well as the pairing of the SREB with the national development program, it nevertheless cannot be denied that Kazakhstan is further along in this process than any of the other Central Asian states.

The reason for this is quite easily explained. First of all, the SREB and the Nurly Jol program almost perfectly aligned. In any case, they are aligned in the areas related to the transit of goods from China through Kazakhstan as well as the development of Kazakhstani transportation and logistical infrastructure. Secondly, China offers generous loans and is prepared to finance not only SREB projects but also projects, which are planned for realization within the framework of the Nurly Jol program.

This would most likely explain why, regardless of Kazakhstan’s concerns of pairing the SREB and EaEU, a key aspect of Kazakhstan’s practical steps towards realizing the SREB are not bound by a triangle of the EaEU, SREB, and national interests, but rather are driven by the EaEU and SREB separately. Based on the signed agreements with the Chinese, the Kazakhstani Government has not even raised the question of linking all three concepts. The main emphasis of these documents has been linking the SREB with Nurly Jol.

Currently, a road map has been drafted that delineates broader cooperation between
Kazakhstan and China in practically every sphere of economic activity, and a joint working group has also been created for pairing the SREB and *Nurly Jol*. There are plans to widen and deepen cooperation in a few key areas.

### Specifics of the pairing process: infrastructure and logistics

The *first key area* is the development of a transit and transport corridor, the creation of logistical centers in Kazakhstan, and the streamlining of procedures (customs, tax, financial, etc.) with the goal of increasing the level of bilateral trade. The objective is to claim a portion of the trade flowing between China and Europe.

Currently, infrastructure projects are actively being realized.

The largest project will be the 2016 completion of the “Western Europe – Western China” international automobile transit corridor, which begins in St. Petersburg and ends in Lianyungang. Granted it has recently become obvious that this schedule will not be met. The problem is that 49 sections of the road do not meet the norms set out by the feasibility study. In several areas construction has not even begun, and this does not even begin to speak to the seriously high mortality rate on the construction sites. But the main problem facing this project is the absence of the Russian section of the road, without which the whole project falls apart.

The second key area is rail transportation. Completing the construction of the Horgoš – Almaty – Taraz – Shymkent – Kyzylorda – Aktau railroad and the Borzhakty – Ersai branch will be the basis for the Kuryk ferry complex’s infrastructure base on the Caspian Sea coast with a capacity of 4 million tons of cargo.

The final objective behind the building of rail infrastructure is an increase in the amount of cargo transit through Kazakhstan to 35 million tons annually. Additionally, there are plans to upgrade 650 locomotives, nearly 20,000 cargo and 1138 passenger cars, as well as the complete remodeling of 302 railroad stations by 2020.

The third key area is the modernization of the Caspian seaport in Aktau. Several projects in Aktau are currently being implemented to modernize and expand transshipment facilities with the goal of increasing the port’s capacity to 19 million tons by 2020.

Unfortunately practically nothing is as of now being done to build logistics centers in Kazakhstan. What is truly important is the simplification of customs and visa procedures, which does not require significant financial investment but does create the conditions
necessary for lowering the price of import-export operations and increasing the amount of bilateral trade.

Regardless of the dynamic development of economic contacts between the two states, one of the problems facing current Sino-Kazakhstani relations is a two-fold decrease in the amount of bilateral trade in the past few years. Moreover there has been a decrease in both the import of Chinese goods and the export of Kazakhstani products (see Table 1). This indicates that high-level promises to being bilateral trade up to 40 billion USD by 2020 (earlier the plan was to meet this by 2015) appear to be a bridge too far.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total According to Chinese data</th>
<th>Total According to Kazakh data</th>
<th>Export According to Chinese data</th>
<th>Export According to Kazakh data</th>
<th>Import According to Chinese data</th>
<th>Import According to Kazakh data</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>22.450</td>
<td>17.250</td>
<td>n/a</td>
<td>7.440</td>
<td>n/a</td>
<td>9.810</td>
</tr>
</tbody>
</table>

This is likely explained by the socio-economic problems both in Kazakhstan and China, a decrease in the purchasing power of Kazakhstani citizens, and a drop in the manufacturing of goods in Kazakhstan for export to China. However, these aforementioned problems also provide their own “contributions”.

Nevertheless, China remains Kazakhstan’s largest trade partner. It is in first place in imports from Kazakhstan and in second place in exports to Kazakhstan. This in particular leads to one of the problems facing bilateral relations, namely the dominance of Chinese goods in the Kazakhstani market.

There are a few interrelated issues at play here. First, it significantly harms Kazakhstan’s ability to implement its plans to rebuild its domestic manufacturing potential. Second, Sino-Kazakhstani trade relations are plagued by an incredibly high level of corruption (e.g. annually, there is a 4-6 million dollar difference in the official Chinese and Kazakhstani statistics). Third, even though there has been a decrease in the Xinjiang Uygur Autonomous Region’s share in Chinese trade with Kazakhstan, it remains impressive, particularly relative to the level of imports from China. This is to be expected considering this aspect of external trade activity is at the mercy of small businesses and “shuttle traders”.
In the near to mid-term it is doubtful that anything can truly impact these issues. Other than raw material exports, Kazakhstan is absolutely uncompetitive in comparison to China. Therefore Kazakhstan is doomed to a Chinese commodity boom, so one could say that the Chinese commodity expansion has for all intents and purposes taken place in Kazakhstan. Kazakhstan has basically become a raw material appendage of the Chinese economy.

Specifics of the pairing process: industrial projects

The second key area of the road map in linking the SREB and Nurly Jol is joint industrial projects. There are about 45 projects in the first group. 25 of these are already supported by signed agreements worth a total of 23 billion USD. According to Kazakhstani Vice Minister for Investment and Development Erlan Khairov, the general program for cooperation in the industrial and investment sphere calls for the completion of 51 projects financed by a promised 26 billion USD in Chinese investments.

According to Khairov, all of these projects “present unique productions through the use of modern technologies” that bring the promise of creating about 15,000 new jobs and significantly increase the qualifications of Kazakhstani specialists. They will be realized in the manufacturing and infrastructure sectors, namely in the metallurgical sphere, oil and gas production, chemical industry, automotive industry, energy, light manufacturing, transportation and logistics, innovative technologies, and the manufacture of consumer goods.

This seems attractive and certainly relevant for Kazakhstan and is in line with the Nurly Jol program. However, it would be better if the Ministry of Investment and Development would publish a complete list of these businesses. It would be even better if they published the actual Sino-Kazakhstani industrial and investment cooperation programs. At the very least, this would not only do away with a number of questions but also prevent the emergence of future waves of sinophobia.

For now, unfortunately, one thing is obvious – Kazakhstan is, without a doubt, the leader in attracting Chinese investment. As a result of President Nazarbayev’s visit to China in May 2014, the agreed-upon amount of Chinese investment in the Kazakhstani economy was 10 billion USD. In December 2014, several contracts worth 14 billion USD were signed in Kazakhstan during the visit of State Council Premier Li Keqiang. During Nazarbayev’s visit to China in September 2015, another 24 billion USD in contracts were signed. During Prime Minister Masimov’s December 2015 visit, an additional 10 billion USD in contracts were signed. In other words, in just the past two years, Kazakhstan and China have signed contracts worth 48 billion USD and the total amount of Chinese investment in the
Kazakhstan has risen above 70.6 billion USD.

It is not for me to judge whether or not this is good. What is most important is using these loans effectively. No less important is an understanding that the basis of the SREB is by no means a concern for the development of a transit country’s manufacturing potential. Above all the SREB is interested in intensive development of China’s western regions and their transformation into transport and logistical, economic, and eventually financial hubs for a Greater Central Asia.

By moving its excess industrial capacity outside of its own borders, China in this way is pursuing its own “Go Out” policy. Therefore it is necessary to look very closely at each and every concrete project to see whether or not it aligns with Kazakhstan’s national interests. For example, China is interested in exporting ecologically damaging industries. The question is how worthwhile would it be for Kazakhstan to allow these factories to be moved onto its territory.

Secondly, to what extent do Chinese plans coincide with Kazakhstan’s reindustrialization plans within an EaEU format, and more importantly how can cooperation with China expand without coming into conflict with Russia, who is already quite jealously views the pairing of the EaEU and Nurly Jol?

Thirdly, to what degree is Kazakhstan prepared to realize this program from a human resources and technological support perspective? Kazakhstan lacks the necessary professional and trained labor resources, as well as the know-how and technology for these given industries.

However, what is most disconcerting is that Chinese investment is followed by Chinese labor, which does not play to the best interests of a region like Central Asia with its own excess labor force. In any case, in the first 6-months of 2015, 12,360 Chinese citizens had already received work permits in Kazakhstan, up from 6,500 in 2014.

It is obvious that the level of Chinese labor migration will grow many times over with the start of the project to transfer excessive Chinese industrial capacity to Kazakhstan. As a WTO member, Kazakhstan can do nothing but rely on the goodwill of China to limit the flow of Chinese labor migration flows.

**Specifics of the pairing process: science and advanced technologies**

*The third key area* of the road map in linking the SREB and Nurly Jol is cooperation in high-
tech industries and sciences. Here the issue under discussion with China is a choice between one or two areas in which China and Kazakhstan will pursue cooperation on the level of scientific institutions and universities as well as in the creation of joint ventures.

For now there have been no concrete decisions taken regarding possible projects in this area. In any case, there is no information about these possible projects as of now. They will likely be related to those priority areas that were identified by China in its 13th five-year plan and are of doubtless interest to Kazakhstan. The main issue is providing staff to these future industries and businesses.

**Specifics of the pairing process: agriculture**

*The fourth key area of the road map in linking the SREB and Nurly Jol is cooperation in the agricultural sector. Regardless of the nationalists’ protests, China is already implementing 19 agricultural projects in Kazakhstan worth 1.7 billion USD. Additionally, there have been agreements reached regarding the establishment of a few large joint agricultural ventures.*

The Rifa Holding Group will invest in the construction of a meat packing plant in the East Kazakhstan region with an annual capacity to process 17,000 tons of mutton and beef as well as the construction of feedlots for 50,000 sheep and 1,000 heads of cattle. 80% of all production is aimed at export to the Chinese market, and the project is estimated to be worth 7.9 billion tenge.

The Chinese conglomerate CITIC signed an agreement with the Baiterek Holding company for several projects related to the creation of feedlots and poultry farms.

In the North Kazakhstan region, the AIJIU industrial group together with Total Impex will implement a 58 billion USD project involving the deep processing of oil and cereal crops. The factory has a projected annual capacity of 80,000 tons of vegetable oil, 200,000 tons of flour, and 200,000 tons of animal feed.

Cooperation in tomato production and processing in Kazakhstan has become a priority for the COFCO Group, which, together with Evrazia Agroholding is dedicated to the investment in the creation of clusters for the growing of tomatoes and production of tomato paste in a few Kazakhstani regions such as the Kyzylordo, East Kazakhstan, and West Kazakhstan regions. These projects are projected to be worth more than 80 million USD and produce 120,000 tons annually.

The Hong Kong based Oriental Patron financial group is preparing to invest in the
development of the Kazakhstani company, Kazeksportastyk, for developing the processing and the export of Kazakhstani agricultural products to Chinese markets. This is to be a nearly 500 million USD investment.

Although the moratorium on amendments to the Kazakhstani Land Code has been extended to 31 December 2012, it is thought that this will not heavily impact the growing cooperation between China and Kazakhstan in the agricultural sector. Moreover, this area of cooperation could be the most promising and mutually beneficial if the contracts are well drafted and aim to meet the interests of the state and not a few bureaucrats.

Everything presented up to this point indicates that aims of pairing the SREB and Nurly Jol have not only been identified but are even taking shape in the form of concrete projects. These projects only need to be properly financed. All that remains is to try to use the funds allocated as effectively as possible and fully take into consideration Kazakhstan’s national interests.

References:

[1] The stated aim of the Nurly Jol program is the formation of a single economic market by integrating the country’s macro-regions on the basis of building an effective infrastructure hub for long-term economic growth in Kazakhstan, as well as the implementation of anti-crisis measures to support specific sectors of the economy in case of deteriorating external market conditions.

[2] For example, it is agreed that China is to build the Big Almaty Ring Road (100 km) from Almaty to Ust-Kamenogorsk, from Ust-Kamenogorsk to BAKAD, along the border with China, and from Lake Alakol to Alashankou. Meanwhile, the involvement of Chinese experts is planned for the construction of these roads.


[4] It is difficult to say whether or not all of this will be realized. In the entire post-independence history of Kazakhstan, 1,600 km of new railroad have been built and 2,700 km
of exist railroad have been electrified.

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*The position of the author does not necessarily reflect the position of the cabar.asia editorial board.*

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