

# “One Belt One Road” Strategy: the Views from Kazakhstan

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Policy makers in Kazakhstan were among the first in Central Asia to support the China-led “Silk Road Economic Belt” (SREB) initiative. However, recently they have begun to re-conceptualize their policies in the region pursuant to the region’s shifting geo-economics and geopolitics. Three fundamental shifts have influenced the emergence of the new Silk Road paradigm in the international relations in the greater Central Asia region. The first is the shift in international trade, investments and economic relations in the Eurasian region, as the decline in global oil prices negatively impacted the economic growth both in Kazakhstan and in neighboring countries. The second is the growth of land-based transportation and communication infrastructure networks, which could potentially open the door for greater regional trade. The third is the formation (albeit in the early stages) of a new regional trade bloc via attempts to unify tariffs, trade regimes, and regulations in order to develop even closer economic relations in the region.

Keywords: Silk Road Economic Belt (SREB), “One Belt One Road (OBOR),” Kazakhstan, China, USA, Russia, Security, transportation infrastructure,



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### ***The background of the changing geo-economic and geopolitical dynamics in the Central Asian Region***

The statements at the Astana Economic Forum in 2017 (AEF, 2017) and other public platforms suggest that Kazakhstan's policy makers have accepted the changing geopolitical and geoeconomic paradigm in the region. The AEF-2017 reflected the views of major international stakeholders and various groups, who presented the different visions for the development of the Silk Road infrastructure programs and networks, and their impact on the region's economic development. On the one hand, international organizations such as the Asian Development Bank (ADB) and United Nations Economic and Social Commission for Asia-Pacific (UN ESCAP) presented straightforward and technocratic visions of the development of the Silk Road programs, including potential consequences for economic growth and intra-regional trade.<sup>1</sup> On the other hand, a group of other stakeholders (consisting of individual states, intra-regional organizations, private corporations, and think tanks) argued that the Silk Road initiatives and programs will lead to extremely intertwined and complex changes. These changes would affect not only economic development in the region, but also the geoeconomic and geopolitical balances and influences.<sup>2</sup>

The recent changes in the regional policy setting, which have affected the policy strategies in Central Asia in general and in Kazakhstan in particular, have included three major shifts. The first is the unprecedented economic growth of the People's Republic of China in the 1990s and early 2000s, and the projection of the new economic power in the region and beyond through the OBOR infrastructure projects. The second factor is the changes in the policy thinking among the two regional super-powers – Astana and Tashkent,<sup>3</sup> both of which have finally accepted the fact that greater Central Asia should include Afghanistan. The “new thinking” suggests a deeper involvement and collaboration

1 UN ESCAP (2014) *Bridging Transport, ICT and Energy Infrastructure Gaps for Seamless Regional Connectivity*, Bangkok: UN ESCAP.  
Asian Development Bank (2017) *Georgia: Support for Silk Road Forum*. Asian Development Bank.

2 Pethiyagoda, K.(2017) ‘What’s driving China’s New Silk Road, and how should the West respond?’, *Brookings*, 17 May. Available at: <https://www.brookings.edu/blog/order-from-chaos/2017/05/17/whats-driving-chinas-new-silk-road-and-how-should-the-west-respond/>

3 President Islam Karimov of Uzbekistan passed away in September 2016 and the newly elected president of Uzbekistan has ordered to review some aspects of the country's foreign policy in general and in foreign policy relations with Kazakhstan in particular.

in the stabilization of Afghanistan, collaboration on the security-development nexus would enable the mitigation of security threats to economic growth and political stability in the region. Thirdly, the regional countries have accepted the failures of intra-regional integration, and begun to recognize that future development should take place within the institutional framework for development and greater supra-regional political and economic cooperation, potentially beyond the Shanghai Cooperation Organization (SCO), CIS and Customs Union.<sup>4</sup>

In this article, the author assesses the emerging Silk Road paradigm in Kazakhstan's foreign policy perceptions and as it pertains to the reshaping of regional partnerships. He addresses three questions. First, how does Kazakhstan accommodate the different political and economic initiatives introduced by China, the US, and Russia, which represent complementary though sometimes competing concepts for the architecture of a new regional and supra-regional order? Second, how do the policy makers in Kazakhstan view the Beijing-instigated SREB initiative, and how does it affect development in the countries bordering China, especially those along the ancient Great Silk Road (from China to Italy and beyond, crossing Greater Central Asia and Russia)? Third, what is the impact of the recent infrastructure projects and economic initiatives on Kazakhstan and Central Asian countries?

The author draws upon materials and reports presented at the Astana Economic Forum (AEF, 2017)<sup>5</sup> and G-Global Online forum<sup>6</sup> in order to reflect the national and regional policy discourse in regard to reshaping Kazakhstan's approach towards the Great Silk Road.

### ***Kazakhstan's Silk Road Policy Choices***

The new realities of the regional policy environment have also led to the changes in the foreign policy priorities, moving from political and economic intra-regional integration towards

4 For activities and treaties see Shanghai Cooperation Organisation: <http://www.sectsco.org/EN123/>

5 For more information see the official website of Astana Economic Forum : <http://forum-astana.org/en/program>

6 For more information see the official website of G-Global info-communication platform : <http://group-global.org/en>

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participation in supra-regional initiatives initiated by great powers and the international organizations. Indeed, there have been repeated efforts to revive economic cooperation between the Central Asian countries, not only by the national governments but also by several international players. In the end, three major visions for reviving the Great Silk Road have emerged.

Washington's "New Silk Road" (NSR) initiative is one such attempt, introduced in 2011 by then-Secretary of State Hillary Clinton.<sup>7</sup> The NSR was established with a single political objective: to stabilize Afghanistan, and by extension Central and South Asia, by promoting South–South cooperation, closer cultural and education links, and political dialogue. The anchor of the NSR initiative is support for the Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline (and possible oil pipeline), as well as connecting Central Asian electric power stations with potential customers in South Asia, especially Pakistan, to deliver the energy resources of Central Asia to South Asia.<sup>8</sup> In addition, the US government plans to spend between US\$3 and US\$8 billion dollars (2014-2018) on the development of transportation infrastructure in Afghanistan in order to boost the land trade both within the country and between South and Central Asia, utilizing existing motorways in Afghanistan.<sup>9</sup> Finally, it hopes to expand collaboration to other fields such as education, cultural exchanges, etc.<sup>10</sup> US President Donald Trump announced the new policies in Afghanistan in August 2017 without revealing the details; however, according to some experts, the new policy reflects a continuity of the NSR in many ways.<sup>11</sup>

7 US Department of State (2011) *New Silk Road Ministerials*. Washington, DC : Office of the Spokesperson. Available at: <https://2009-2017.state.gov/r/pa/prs/ps/2011/09/173765.htm> (accessed on March 25, 2016).

8 US Department of State (2013) , *New Silk Road and Regional Economic Integration*. : Washington, DC Robert O. Blake, Jr. Available at: <http://www.state.gov/p/sca/rls/rmks/2013/206167.htm> (accessed on March 25, 2016).

9 Washington Post (2016) *The U.S. spent billions building roads in Afghanistan. Now many of them are beyond repair*. Available at: [https://www.washingtonpost.com/news/worldviews/wp/2016/10/30/the-u-s-spent-billions-building-roads-in-afghanistan-now-many-of-them-are-beyond-repair/?utm\\_term=.bf708d56344b](https://www.washingtonpost.com/news/worldviews/wp/2016/10/30/the-u-s-spent-billions-building-roads-in-afghanistan-now-many-of-them-are-beyond-repair/?utm_term=.bf708d56344b) (accessed on August 24, 2017)

10 Eurasian Council on Foreign Affairs (ECFA) (2015), *The New Silk Road: A Path to Regional Security?*

11 Office of the Press Secretary of The White House (2017) *Remarks by President Trump on the strategy in Afghanistan and South Asia*. Available at: <https://www.whitehouse.gov/the-press-office/2017/08/21/remarks-president-trump-strategy-afghanistan-and-south-asia> (accessed on August 24, 2017).

Beijing announced the “**Silk Road Economic Belt**” (SREB) in 2013, which runs parallel to the “Maritime Silk Road” (MSR) as part of its “One Belt, One Road” (OBOR) initiative. The SREB was introduced as a mean for promoting East–West economic cooperation and stability in Central Eurasia by developing tools for building a joint supra-regional market and maintaining stable movement of goods, investments, and services. In fact, from the outset, Beijing highlighted economic issues and the need for economic and financial tools in promoting the SREB initiative. The main anchor for the SREB is the establishment of the Asian Infrastructure Investment Bank (AIIB) in 2014 as a financial tool for implementing the SREB and MSR.<sup>12</sup>

The **Eurasian Economic Union** (EAEU or EEU) was initiated by Kazakhstan with support of some CIS members in 1994, but the agreement not was officially signed by the leaders of Belarus, Kazakhstan, and Russia until May 29, 2014. It came into force on January 1, 2015, headquartered in Moscow. In the early stage, the consultations within the EAEU have focused, among other things, on economic cooperation and development of regional trade, which led to the creation of a Customs Union (Belarus, Kazakhstan, and Russia) in 2011, and the Eurasian Economic Space in 2012. Although the EAEU does not mention the revival of the Great Silk Road per se, its anchor for regional development is strengthening intra-regional trade via the unification of custom duties and other regulations between countries in the region, using mutual support to build internationally competitive economies.<sup>13</sup>

Common among all these three “Silk Road” initiatives is support for greater cooperation in Asia (Central Asia–East Asia and Central Asia–South Asia). The focus extends beyond regional security issues (NSR) and regional economic collaboration (SREB and EAEU), encompassing participation in the major international institutional networks and arrangements. In this context, it is interesting to note that experts and policy makers in Central Asia focus less on the regional initiatives and more on achieving greater global competitiveness

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<sup>12</sup> For more information see the official website of Asian Infrastructure Investment Bank: <https://www.aiib.org/en/index.html>

<sup>13</sup> For overview of activities between 2010 and 2016 and plans for future see: Sidorov, O. (2016), ‘Evraziiskii Ekonomicheskii Souz imeet...’ *LITER (newspaper)*. P. 10-11.

and integration into the global economy and global economic division of labor.<sup>14</sup>

### ***Silk Road Economic Belt initiative and infrastructure challenges***

Several experts from Kazakhstan suggested that geoeconomic calculations and cost-effectiveness analysis of Kazakhstan's participation in the SREB indicates that participation in the SREB merely as a transit country might negatively affect country's economy in the long term.<sup>15</sup> Therefore, the Kazakh government decided to take a proactive approach, promoting several global scale initiatives and projects, such as the Astana International Financial Center (AIFC), World Expo 2017 "Nurly Zhol" State program of infrastructure development, Khorog International

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Transit Hub (International dry port), and others, in addition to the traditional trade.<sup>16</sup> The country's policy planners have worked on the assumption that the national economy will benefit from providing a diversified set of services to global players (financial, banking, etc.), given the absence of reliable regional and supra-regional infrastructure, and the lack of direct inexpensive access to global markets for Kazakh export commodities. At the same time, they are eager to be connected to the continental SREB transportation infrastructure. Some international

experts have estimated that the lack of quality infrastructure — or so-called geographical disadvantage—knocks off at least one to two percent of GDP growth from economies in the region. Indeed, the underdevelopment of infrastructure combined with other legal and administrative barriers has created significant economic obstacles for international trade, affecting both imports and exports. For example, in Kazakhstan it costs US\$574 to complete the border compliance for exports. For comparison,

<sup>14</sup> For details, see: Eurasian Council on Foreign Affairs (ECFA) (2015) , *The New Silk Road: A Path to Regional Security?* Available at : [http://www.eurasiancouncilforeignaffairs.eu/wp-content/uploads/2015/12/ECFA-Occasional-Paper-The-New-Silk-Road-A-Path-to-Regional-Security\\_rev.pdf](http://www.eurasiancouncilforeignaffairs.eu/wp-content/uploads/2015/12/ECFA-Occasional-Paper-The-New-Silk-Road-A-Path-to-Regional-Security_rev.pdf) (accessed on March 25, 2016) .

<sup>15</sup> The personal interviews and observations of presentations at the Astana Economic Forum and G-Global discussion platform in June 2017 . <http://group-global.org/en>

<sup>16</sup> Ministry for investments and development (2016) *Information on implementation of national "Nurly Zhol" program for infrastructure development*. Kazakhstan: Ministry for investments and development. Available at : <http://www.mid.gov.kz/en/kategori/informaciya-o-realizacii-gosudarstvennoy-programmy-infrastrukturnogo-razvitiya-nurly-zhol>

among the OECD high income countries, the average cost is US\$160; and in Europe and the Central Asian region average the cost is US\$219.<sup>17</sup>

Therefore, the governments of Central Asian republics believe that building high quality transportation infrastructure and road networks along the international land-corridor between China and Europe is essential. Such an upgrade would not only connect Central Asian countries with those external markets, but also enable them to benefit from servicing the transportation of goods along this corridor, ultimately contributing to the economic growth. The issue of building new and high quality infrastructure is, however, very complex and entails several important components.

**Highways.** The experience of many countries around the world, including China, Russia and the US, suggests that the overland movement of certain goods and commodities can be economically efficient if trucks have access to good quality highways. This mode of transportation makes sense for moving goods and some commodities over short and mid-range distances. There is an opportunity to achieve increased economic activity and trade between countries within the ALLDC region if the quality of highways can be addressed. According to UN ESCAP estimates, up to 55 percent of the roads in the ALLDC region are in poor shape: 38 percent are at class III standard and 17 percent are below Class III standards.<sup>18</sup>

**Railroad Infrastructure.** The railroad infrastructure is especially important for moving large volumes of goods and commodities over long distances. Peak usage of the railroads in the Central Asian region and between the region and Russia and Eastern Europe occurred in the 1980s. Between 1991 and 2011 there has been a significant decline in use of railroads for trade within the ALLDC, and very slight progress in terms of moving goods by rail between Central Asia and China, Central Asia and Russia, and onwards to Europe. However, since 2011 Kazakhstan has made significant

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17 World Bank's Ease of Doing Business, (2015) *Cost to export: Border compliance (USD): The time and cost for border compliance include obtaining, preparing and submitting documents during port or border handling, customs clearance and inspection procedures.*

18 UN ESCAP (2014), *Bridging Transport, ICT and Energy Infrastructure Gaps for Seamless Regional Connectivity*, Bangkok: UN ESCAP.

investments into rebuilding its railway system,<sup>19</sup> and is actively participating in the China-led efforts to building a transcontinental railway system from Asia to Europe.

The Chinese experience in connecting its East coast with its Western provinces demonstrates the economic feasibility of using railroad networks effectively, a positive indicator for economic growth when the rail system connects China and Mongolia with Eastern and Western Europe via Central Asia and Russia.

**Pipelines and Asian Energy Highway.** Pipelines and the Asian Energy Highway (AEH) have slowly emerged as a trade and economic reality during the first decades of the 21st century. There are two components in promoting more effective cooperation in the energy sector. One is building gas and oil pipelines connecting Central Asian republics with China and East Asia. The second is building an efficient energy power grid to more effectively connect the different parts of the ALLDC region.

For example, the newly built Central Asia–China Gas Pipeline from Turkmenistan to China delivers 55 billion cubic meters per annum, or 20% of China’s annual natural gas consumption.<sup>20</sup> The recently built Kazakhstan–China Crude Oil Pipeline, which connects Kazakhstan with China, delivers 11.7 million tons of oil per annum.<sup>21</sup> There are long-term plans (until 2030 and even 2050) for additional oil and gas pipelines from Russia to China,

19 ‘BCG Review (Boston Consulting Group for the AEF) (2017) ‘Transportnaya infrastruktura Kazakhstana.’ *BCG Review*, P. 30-31.

20 The Central Asia-PRC Gas Pipeline starts at the Turkmen-Uzbek border city Gedaim, continues through Uzbekistan and southern Kazakhstan, and runs onwards into China’s Xinjiang Uygur Autonomous Region (Horgos city). As of 2016, the gas pipeline has three lines in parallel, each running for 1,830 kilometers. Construction of Line A/B commenced in July 2008. Line A (the gas pipe diameter is 1,067mm) became operational in December 2009, and Line B became operational in October 2010. A delivery capacity of 30 billion cubic meters per annum was reached by the end of 2011. Construction of Line C was started in September 2012. With a designed capacity of 25 billion cubic meters per annum, Line C’s pipe diameter is 1,219mm (152mm larger than Line A/B). The overall welding work on the pipeline was completed at the end of 2013. Upon completion of all supporting facilities of Line C by the end of 2015, the overall delivery capacity of the Central Asia-China Gas Pipeline will hit 55 billion cubic meters per annum. This equates to approximately 20% of China’s annual natural gas consumption. Overall, Turkmenistan delivered 125 billion cubic meters of natural gas to China from 2009 to August 2015.

21 Construction of the 963 km Kazakhstan-China pipeline entails two stages. The first step was the implementation of the Atasu-Alashankou project, construction of which was conducted in accordance with the Framework Agreement between the Government of the Republic of Kazakhstan and the Government of the People’s Republic of China on development of comprehensive cooperation in oil and gas fields (Beijing, May 17, 2004). Within the second stage it is planned to gradually increase the capacity of the Kazakhstan-China transport system across all sites from Atyrau to Alashankou up to 20 mt/y, proportional to growing demand for export capacities and the requirements of the domestic market.

which will be major factors in boosting trade turnover between the countries along the Great Silk Road.

An important consequence of infrastructure development between 2005 and 2016 is that trade (especially in energy) between China and Greater Central Asia has significantly increased, at the expense of trade between the European Union (EU) and Greater Central Asia, as energy and commodities trade shifts from the traditional orientation towards Western European markets to the newly opened East Asian markets.

### ***Implications of the Silk Road Initiatives: The case of Kazakhstan***

Kazakhstan's government has for several years been working closely with the World Bank to reform its economic and financial institutions. This includes efforts to address specific areas that according to the World Bank's Global Competitiveness Index would help the country upgrade its institutional and legal frameworks to international standards.

The governments of Kazakhstan as well as other Central Asian republics have embraced the SREB and the EAEU as an opportunity to deal with major challenges. These include three important aspects of development: (a) upgrading their aging highway and railway infrastructure; (b) attracting foreign direct investment (FDI); and (c) boosting trade and economic cooperation in a difficult period, following a sharp decline in energy and other commodity prices on the international market.

In terms of infrastructure development, according to the official newspaper *Kazakhstanskaya Pravda*, *Kazakhstan's government invested 1.5 trillion tenge (about US\$4.4 billion) between 2011 and 2016 in transportation and communication infrastructure.*<sup>22</sup> In addition, China has provided significant financial and technical resources to Kazakhstan for rebuilding, and has in some areas constructed completely new systems. Distances are enormous in Kazakhstan, which is the ninth largest country in the world, and the lack of international-quality highways and railways significantly undermines the country's attractiveness to international investors and increases the cost of doing business.

<sup>22</sup> Kazakhstanskaya Pravda newspaper (2016) *Kazakhstanskaya Pravda*, p. 12.

Officials in Kazakhstan believe that the Chinese infrastructure investments will also help the country become more competitive as a transit country for overland transport of containers between China and the EU. According to *Kazakhstanskaya Pravda*, the country plans to implement eleven projects jointly with China, at a total cost of 2.5 trillion tenge (US\$7.4 billion) within the next few years in order to increase cargo, especially container transit capacity, several times over.<sup>23</sup>

Improving the investment climate and investment volumes is priority for the government of Kazakhstan, as total FDI declined from US\$13.5 billion in 2011 to US\$7.6 billion in 2014.<sup>24</sup>

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Over the last decade, China has become a major investor, and several bilateral agreements and MOUs have helped improve the investment climate and investment volumes. Kazakhstan has attracted Chinese investments not only in its road infrastructure, but also energy, communications, manufacturing, tourism, and, most recently, the agricultural sector. Some estimates suggest that Chinese FDI from in Kazakhstan has nearly doubled during the last four to five years.<sup>25</sup>

International trade is a area of great concern for Astana, as it urgently needs to diversify trade in light of the sharp decline in energy revenues from Western markets. The growing trade with China has helped soften the negative impact of volatility in international commodity markets. According to official estimates, trade between China and Kazakhstan increased from US\$337 million in the mid-1990s to US\$22 billion in 2014. Importantly, since the introduction of the SREB, the two countries have signed trade deals and investment projects valued at US\$70 billion, although several projects have been delayed for various reasons.

### **Conclusion**

The geopolitics of the 20th century divided the Eurasian space into four main regional macro-blocs: East Asia, Europe, core Eurasia (USSR) and South Asia. However, the geo-economic shifts of

23 Kazakhstanskaya Pravda newspaper (2016) *Kazakhstanskaya Pravda*, p. 12.

24 World bank (2016) *World Bank Development Indicators. The World Bank Group*

25 Kalis N.A. (2014) 'Chinese Investment in Kazakhstan: An Assessment', *International Journal of Scientific Research and Education*, pp. 264-274.

Also: O'Neill (2014) , Daniel, 'Risky Business: The Political Economy of Chinese Investment in Kazakhstan', *Journal of International Studies*.

the 21st century and new SREB initiatives have transformed the “regional blocs” paradigm – including the regional political integration mentality and regional free trade blocs - by offering to bypass regional integration and embrace economic globalization and integration into the global economy.

In order to realize this potential, not only Astana and Beijing but also Moscow (albeit cautiously) have embraced the SREB and NSR initiatives by seeking ways to collaborate that will benefit all major players. This collaboration may contribute to synergies between programs in areas of economic cooperation, improve transnational and regional business integration, and support capacity building in business and management in both the private and public sectors in countries along the Great Silk Road.

In this regard, current trends in economic development, investment, trade and building infrastructure projects, especially in large global hubs such as Dubai, Qatar, Hong Kong and others, suggest an interesting alternative to intra-regional integration or regional blocs. However, this alternative vision is contingent on new roads and communication infrastructures along the Silk Road to connect Kazakhstan and Central Asia with global markets.

Thus, Kazakhstan’s policy planners are betting big and seriously hoping that China —with its strong experience in international trade, business and investments—will continue collaborating with Central Asian partners to connect them to global markets.

This would contribute significantly to Kazakhstan’s economic growth beyond commodity exports, due to the implementation of the Beijing-led program of building an “economic belt of prosperity” in the Silk Road region, and recalibrating trade and economic relations from their traditional orientation towards Western European markets, resulting in greater integration in East Asian markets.