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**The China-Central Asia-West Asia Economic Corridor of the Belt and Road Initiative's
Economic Impact on Kazakhstan**

Challenges in the Global Economy

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The Economic Impacts of the Belt and Road Initiative on Kazakhstan

In September 2013, Chinese President Xi Jinping introduced an ambiguous, geoeconomic & geostrategic concept, “One Belt One Road,” during his visit to Kazakhstan. This global infrastructural development strategy was later defined as the Belt and Road Initiative, which is an umbrella for the concepts of the Silk Road Economic Belt and the 21st Century Maritime Silk Road. According to the official document published by the Chinese Government in 2015, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road," the main goals of the initiative were the deep integration of the markets, coordination of the economic policies, regional cooperation, and diversified trade and transport routes (Chin & Lau, 2015). In other words, the Belt and Road Initiative set out to accomplish more advanced transport connections and better economic integration of the member countries. The New Silk Road is a trade route, making way for cultural exchange between the countries involved, just like the historic Silk Road. However, it also aims for interconnection in finance, policies, and infrastructure. The Belt and Road Initiative "entails Chinese-led investments in infrastructure and development projects in dozens of countries, worth an estimated 1 trillion dollars – a magnitude unprecedented in the 21st Century" (Zogg, 2019).

Kazakhstan, whose energy and transport infrastructure China has already invested in prior to the BRI, is essential for the SREB, the land-based section of the BRI, since it occupies a crucial geostrategic position in the region. Kazakhstan, apart from its great landmass in Euroasia that makes it a linchpin for transport and trade links on the continent, holds large energy reserves. Moreover, it is the strongest economy in the region. Thus, “China considers Kazakhstan crucial for transit, a source of energy, and as a stable neighbour of its unstable Xinjiang province” (Zogg, 2019). Likewise, the Kazakhstani government, who announced Nurly Zhol, a domestic economic stimulus plan, in 2014, embraced Chinese efforts to turn

Kazakhstan into a regional transit hub under the BRI as these efforts suit their book. In other words, the main goal of the Nurly Zhol policy was to establish Kazakhstan as the primary logistic and transport hub in the region, and the Chinese infrastructural investments to Kazakhstan under the BRI would help Kazakhstan to complete the mission. Therefore, the Kazakhstani government, which signed a joint plan to unite Nurly Zhol and the SREB in 2016, undertook a strong partnership with China for the BRI, and it was seen as a win-win situation. Today, the estimations of the economic impacts of the BRI to Kazakhstan are still optimistic. However, the analysis of the economic indicators such as GDP and FDI reveals the fact that Kazakhstan's cooperation with China under the BRI has not yet led to a direct economic advancement for the country.

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2019&locations=KZ&start=2010>

Looking at the World Bank statistics, Kazakhstan's GDP in current US dollars was 237 billion USD in 2013, when the BRI was announced. After a gradual decline, it plummeted to 135 billion USD in 2016 due to the oil price plunge and the devaluation. Then, the GDP of Kazakhstan started to grow slowly. It was standing on 180 billion USD in 2019. Due to the

significant effects of the oil prices on the rise and fall of the nation's GDP during the specified period of time, it is hard to notice a direct effect of the BRI.

The FDI of Kazakhstan, on the other hand, was 10 billion USD in 2013, according to The Global Economy. As a result of Chinese investments under the BRI, the nation's FDI rose dramatically, reaching 17 billion USD in 2016. However, it started the fall down seriously after 2016, hitting 3,5 billion USD in 2019. This shows that Kazakhstan's being a transport hub of the SREB has not yet led to foreign direct investments other than the initial Chinese investments.

<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2019&locations=KZ&start=2010>

Lastly, Kazakhstan had a positive current account balance in 2013, with 1,95 billion USD. However, since 2015, the nation has a negative current account balance, standing on minus 6,5 billion USD in 2019. This shows that Kazakhstan had to resort to external loans in order to finance infrastructure projects, despite the Chinese investments.

There are many doubts about the advantageousness of the BRI for the economy of Kazakhstan. Since Kazakhstan's economy is terribly oil-dependent and its exports are mostly limited to natural resources, its role within the BRI is confined to being a transit hub for the Chinese merchandise. Therefore, it is questionable if the improved infrastructure and faster transit can liberalize the Kazakh economy.

Furthermore, it remains highly dubious who is really profiting from transit incomes: the Kazakh state-owned pipeline companies, the state-owned railways or state-owned container holders? From the experience with oil exports from Kazakhstan, we may doubt if the general public is going to benefit from such profits adequately. In other words, there seems to be no direct connection between an increase of transit or a building of another logistic hub and the boost in the economy or its modernization. Moreover,

the problematic transit of political power alongside the corrupted state structures of the Central Asian states could be a hindrance for foreign investment (Shakhanova, 2019). There also doubts about the promised contribution of Kazakhstan's participation in the BRI to employment within the country. Systematically, Chinese funding tends to serve Chinese interests. "A loan granted by a Chinese bank is reinvested in the Chinese company that gets the contract, which brings Chinese equipment and a Chinese workforce to implement the project" (Nabiyeva, 2019). Thus, the Kazakhstani government's promise to create 20,000 new jobs within the BRI projects is doubtful. Moreover, there are concerns about the effectiveness of BRI projects. In 2018, "a study by a US consultancy found that 32 % of the BRI projects, worth 419 billion US dollars, have run into 'trouble,' such as performance delays, public opposition, and national security controversies" (Nabiyeva, 2019). Nevertheless, World Bank's "Kazakhstan Country Case Study" suggests that the finalization of BRI transport projects will decrease the shipment time and thus increase non-oil exports, the GDP, and the FDI of Kazakhstan.

According to the Case Study, "the BRI-induced fall in shipment time will raise exports and also change the composition towards more time-sensitive non-oil items. Higher FDI inflows into increasingly profitable opportunities in those exports and greater access to imported inputs will boost GDP" (World Bank, 2020). While the impact of improved infrastructure alone on Kazakhstan's GDP is estimated by the World Bank at around 6.5 percent, an increase in FDI inflows to Kazakhstan is also expected as "a reduction in shipment time raises competitiveness of exports . . . and thus encourages additional foreign investment in them" (World Bank, 2020). However, there are significant but neglected factors for Kazakhstan to make use of the mentioned advantages.

Firstly, complementary reforms should be implemented by the Kazakhstani government to enhance the benefits of BRI projects. Without the accompanying logistic reforms and

regulatory procedures, the developed infrastructure and the estimated fall in shipment time can induce economic growth up to a certain extent. “Reforms that improve trade facilitation, promote better logistics and transport services, and liberalize the country’s trade further are likely to magnify the impact” (World Bank, 2020). Furthermore, the Kazakhstani government should establish regulations that will reduce the existing trade restrictions and abolish the current constraints to agriculture production in order to augment the advantages. Also, to prevent spatial inequality and create a better economic integration within the country, policies that will promote labor mobility should be developed and implemented so that the BRI-induced benefits of faster transportation can be enhanced. In short, “[t]he structures BRI projects are embedded in, the local regulatory environment and development efforts, will determine whether Kazakhstan can increase its share in value chains and attract further investments to strengthen sectors like agriculture or manufacturing” (Zogg, 2019).

Secondly, the lack of accountability and transparency of both Kazakhstani and Chinese governments and the insufficient information about the Chinese-Kazakh cooperation under the BRI compromise the economic and social benefits that Kazakhstan aims to get from its participation in the SREB. There have been serious allegations of malpractice involved in major projects in Kazakhstan, casting doubt on their expediency.

An infrastructure project in Kazakhstan’s capital is daily commuters’ visible reminder of such malpractice: pillars for a light railway, for which Kazakhstan borrowed 1.5 billion dollars from the Chinese Bank of International Development, currently stand across the capital like a skeleton. The project was halted after funds started disappearing and the Chinese donor pulled out (Zogg, 2019).

This situation does not only put the expected economic development in jeopardy but also repels foreign investors.

A crucial step, which would help both Kazakhstan and China to gain public support for their bilateral cooperation, would be ensuring transparency and public access to information on joint agreements and Chinese loans. Scrutiny of the planned projects by civil society and through public hearings would also provide necessary checks and balances (Nabiyeva, 2019).

In conclusion, it can be said that Kazakhstan, which is a front runner for China's BRI, is determined to secure its place as the transit hub of Euroasia. Even though the estimations paint a promising picture for the future, Kazakhstan's strong participation in the BRI has not yet been reflected in the economic indicators. While there are doubts if this partnership is profitable for Kazakhstan or not, only time will tell about the cost-effectiveness and success of it. Nonetheless, it is fair to say that infrastructural investments do not necessarily and directly bring economic growth. The accompanying actions of the Kazakhstani government will designate whether this cooperation is actually a win-win situation.

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