Central Asia: Central Piece of the New Silk Road

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ABSTRACT

In this review the author examines the history, present day statistics and future implications of the Silk Road on Central Asian countries. While at first glance the Ancient Silk Road and the New Silk Road do not have much in common, when one looks a little closer, one starts to see the similarities. The author examines the motivations behind China’s One Belt One Road initiative; takes a look at what has already been implemented, and what still needs to be done. While ex-Soviet Central Asia states are similar in their cultural and historical backgrounds, they differ substantially in their current economic realities. The author identifies an apparent leader, Kazakhstan that is on a definite path of reform and opened the Astana International Financial Centre on January 1, 2018 as a door into the future of better multilateral relations in Eurasia.
PART I. HISTORY

I. The Origins of the Silk Route

Central Asia, as its name indicates, has a central geographical position on the Eurasian continent, trying to find the correct balance between its globally significant neighbours, Russia, China and India. Though its recent history connects it mostly to the former Soviet Bloc countries, previously it was central to the Silk Road, which spanned from China to Europe.

The first person to coin the term the “Great Silk Road” was German researcher Ferdinand Richthofen in his fundamental work “China” in 1877, but the first name that comes to mind in relation to the Silk Road is of course Marco Polo. In his famous book “The Description of the World”, Marco covers the area from Venice through Northern Africa, Constantinople and Jerusalem to China under Kublai Khan’s Mongolian Rule, containing historical observations and detailed descriptions of cultures and geography, although the exact route of his journey is unknown (Figure I.1).

The origins of the Silk Route go back to the Roman Empire, 2nd century B.C., when the West began buying Silk from the East exchanging it for wool, gold and silver. Being 6,400 km in length, this predominantly caravan tract spanned from Xi’an, following the Great Wall of China, making its way through Pamir’s Mountains, crossing Afghanistan and reaching the Levant from where the merchandise was sent by sea across the Mediterranean to Europe. Practically no one travelled the entire route as goods were passed from middleman to middleman (Figure I.2).

With the fall of the Roman Empire and the rise of Arabian power in the Levant, the Silk Route became increasingly unsafe and lost its significance.
However, in the 13th century two major events changed the course of history.

First, crusaders conquered Constantinople in 1204 assuring safe passage for Occident into the Orient. Saint Louis IX, King of France, led the seventh and eighth Crusades during which he died in 1270 in Tunisia.

Second, the Silk Road was also revived from the other end, thanks to the Mongols, as Genghis Khan conquered the entire territory from the Göktürks in 1220 and subsequently gave it to his son Chagatai to become Chagatai Khanate. Later, the Western part of Turkestan became part of the Timurid Empire, while the Eastern area, Mogulistan, came under the rule of Genghis Khan’s descendants.

It is during these interesting times that Marco Polo and his family made their trip. They departed from Venice in 1271 and returned back home in 1295 after 17 years in China. Marco Polo managed to leave China in 1292 as consort to a Mongol princess who was sent to Persia.

Upon his return, while in prison with a writer Rustichello after he was captured by rival Genovese, Marco had an idea to put his memoirs into writing and published The Description of the World, which later earned an unofficial title IlMilione (The Million Lies) as what Marco described was simply beyond most Occidentals’ comprehension (Figure I.3).

Being a symbol of luxury sold at a high price and at the same time light and compact to carry, SILK was the main commodity to be traded on the Silk Road, in addition to other major commodities including gold, jade, tea, fine porcelain, furs, sugar and spices. Though most goods moved from East to West, wool, rugs and carpets were highly appreciated in China, as the concept of weaving was unknown there. Finally,
one would need to mention the slave and animal trades, the latter namely horses, camels, lions, etc.

Merchandise exchange of the Silk Road is summarised in the below table.

<table>
<thead>
<tr>
<th>Goods transported East to West</th>
<th>Goods Transported West to East</th>
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</thead>
<tbody>
<tr>
<td><strong>STORE of VALUE:</strong></td>
<td><strong>STORE of VALUE:</strong></td>
</tr>
<tr>
<td>GOLD</td>
<td>GOLD and gold embroidery</td>
</tr>
<tr>
<td>JADE</td>
<td>SILVER</td>
</tr>
<tr>
<td>Corals</td>
<td>Semi-precious STONES</td>
</tr>
<tr>
<td>Amber</td>
<td>Art</td>
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<tr>
<td>Asbestos</td>
<td></td>
</tr>
<tr>
<td><strong>BRONZE or ornaments, MIRRORS</strong></td>
<td></td>
</tr>
<tr>
<td>FABRICS:</td>
<td><strong>FABRICS:</strong></td>
</tr>
<tr>
<td>SILK</td>
<td><strong>WOOL GOODS:</strong></td>
</tr>
<tr>
<td>Skins</td>
<td>carpets, tapestries, curtains, blankets and rugs (from Central Asia &amp; East Mediterranean)</td>
</tr>
<tr>
<td>Porcelain / CHINA</td>
<td>Skins, furs</td>
</tr>
<tr>
<td>Ceramic and Iron items</td>
<td><strong>COTTON</strong></td>
</tr>
<tr>
<td><strong>BRONZE</strong> Weapons</td>
<td></td>
</tr>
<tr>
<td><strong>PAPER</strong></td>
<td><strong>GLASS</strong> (from Samarkand)</td>
</tr>
<tr>
<td><strong>ANIMALS:</strong> Ivory, Rhino Horns, Turtle shells</td>
<td><strong>MILITARY</strong> Equipment</td>
</tr>
<tr>
<td><strong>AG &amp; FOOD:</strong> TEA, RICE, SPICES (glaze and cinnamon, ginger), SUGAR</td>
<td><strong>ANIMALS:</strong> Horses, Camels, Hunting Dogs, Leopards, Lions, Fur Animals, Cattle</td>
</tr>
<tr>
<td><strong>CHINESE MEDICINE</strong></td>
<td><strong>AG &amp; FOOD:</strong> Seeds of lucerne, Seeds of GRAPE, String beans, Onions, Cucumbers, Carrots, Pomegranates, Figs, Watermelons, Melons, Peaches, HONEY</td>
</tr>
<tr>
<td>PARFUMERY and fragrance</td>
<td><strong>SLAVES</strong></td>
</tr>
</tbody>
</table>
On the flip side, the Silk Route was not only a source of enrichment and cultural exchange, for in the mid-14th Century it also carried westward plague bacteria that was responsible for the devastating BLACK DEATH PANDEMIC in Europe, which killed 50 million people or a remarkable 60% of the entire European population, which was the World’s greatest epidemic (Figure I.4).

In the mid XIXth Century, the Russian Empire in its fight for a COTTON-producing region after the United States embargoed cotton supplies, conquered Central Asia and integrated it into its territory under the name of TURKESTAN. Later, after the Revolution of 1917, the land was split into a few Republics that belonged to the Soviet Union. Both the Russian Empire and the Soviet Union were Slavic-majority countries, and currently there are still more than sevenmillion Russians and half a million Ukrainians living in the Central Asian Bloc.

My family history is directly connected with the region as my great-great-grandfather, Vladimir Trubchaninov, was Governor General of Turkestan of the Russian Empire of the late XIXth Century and my family lived in Samarkand (modern Uzbekistan). I have subsequently found a record of a Russian kupets (i.e. merchant) in Samarkand with the same name dating back to 1850. Though I grew up in Leningrad region thousands of kilometres away, and most of my family archives were lost during the Revolution, Civil War and Stalin Purges, I have a personal curiosity or even perhaps a call of blood, which leads me to explore Central Asia and the Silk Road (Figure I.5).
I. Figures

**Figure I.1.** Source: Tarsem Sigh's Marco Polo Movie, filofilia.com

**Figure I.2.** Source: Encyclopaedia Britannica Inc.
Figure I.3. Source: Marco Polo portrait photo

Figure I.4. Source: The Triumph Of Death — Pieter Bruegel The Elder, The Black Death, Two Monkeys, & The Eighty Years War. Fragment of the painting.
PART II. PRESENT DAY

II.a. Modern Definitions of Central Asia

The first person to define Central Asia was a German geographer Alexander von Humboldt in 1843 “Asie Centrale” based on his 1829 expedition on Tsar Nicolas I personal invitation that took 8 months, bringing him 15,500 kilometres to the east of Saint-Petersburg stopping at 658 post stations using 12,244 horses.
In Russian language, we need to distinguish Средняя Азия (Srednyaya Aziya or “Middle Asia”), the narrower definition, only including non-Slavic lands within Russia’s borders; and Центральная Азия (Tsentralnaya Aziya or “Central Asia”), the wider definition that also comprises territories that were never part of Russia.

During Soviet times, only four Republics, Uzbekistan, Tajikistan, Kyrgyzstan and Turkmenistan constituted this region with Kazakhstan being mentioned apart. In 1992, on the Central Asian Summit Kazakhstan’s President Norsultan Nazarbayev proposed to abandon “Central Asia and Kazakhstan” definition and substitute it with “Central Asia” comprising 5 countries.

Also known as TURKESTAN (literally “Land of the Turks” in Persian ترکستان), the Central Asian region is a land locked mass spanning from Siberia in the North, Tibet, India and Afghanistan in the South, the Caspian Sea in the West and the Gobi Desert in the East (Figure II.a.1).

The UNESCO History of the Civilizations of Central Asia, published in 1992, defines the region as "Afghanistan, north-eastern Iran, Pakistan, northern India, western China, Mongolia and the former Soviet Central Asian republics" (Figure II.a.2).

One can see via Figure II.a.2 that the territory of Central Asia is significant in size and though fragmented into multiple independent states, as well as partly belonging to neighbouring superpowers, it shares a somewhat common ethnic, cultural and historical background. In addition, we need to mention that Azerbaijan, Georgia and the North Caucasus were traditionally crossed by the Silk Road as well, but are not considered part of Central Asia. Finally, the geographic centre of Asia is situated in Kyzyl, Republic of Tuva in Russia (Figure II.a.3).
II.a. Figures

Figure II.a.1. Source: Wikipedia. Map of Turkestan with modern state borders. The area covers a large number of countries including: Russia (Tatarstan and parts of Siberia), Mongolia, the Chinese autonomous province of Xinjiang (also known as East Turkestan or Chinese Turkestan), Kazakhstan, Turkmenistan, Tajikistan, Uzbekistan, Kyrgyzstan, and parts of Afghanistan.

Figure II.a.2. Source: About Central Asia: Central Asia travel. History of Central Asia ...OrexCA.com
ii.b. Key Current Statistics

Population

Central Asia, counting only the five independent countries, has a population of about 70 million: Kazakhstan (18 million), Kyrgyzstan (6 million), Tajikistan (9 million), Turkmenistan (6 million), and finally Uzbekistan (31 million). Afghanistan and Mongolia with their 35 million and 3 million-person populations accordingly add to the 70 million above to total approximately 108 million people.

Calculating a more exact population according to the wider UNESCO definition is much more difficult as Central Asian peoples are dispersed across regions in China, Russia, India, Iran and Pakistan.
Central Asia boasts a 4 million km-squared territory (or 6.22 million including Mongolia and Afghanistan, though much bigger according to UNESCO). It is not only rich in resources, but also strategically located in the heart of Eurasia on the intersection of modern trade routes, highways, train tracks and pipelines to facilitate movement of people, goods, resources and ideas. As a matter of comparison, Russia, the biggest country in the world, is 17 million km-squared and the USA and China are 9.8 and 9.6 million km-squared respectively.

### Gini Index

Disparity of income among households within an economy as measured by Gini Index indicates a certain improvement from the years that followed the collapse of the Soviet Union (Figure II.b.1).

Kazakhstan’s Gini Index as depicted in Figure II.b.1 has decreased from 35 between 1996 to 2001 to the historical level of around 25-26 in 2015, just like in 1988. Uzbekistan’s Gini index reached as high as 45 in 1998, but more recent data is missing. Turkmenistan’s situation is similar with a reading of 41 in 1998 and a lack of later statistics. Kyrgyzstan’s road to a more balanced society is quite impressive, decreasing from a high of 55 in 1995 to around 28 in 2015 (Figure II.b.2). Tajikistan is the only country where Gini Index has actually risen. It went from 29.5 in 2000 to 34 in 2015, which is a signal of greater inequality within the society.
Mongolia saw a slight improvement from 35 in 2007 to 32 in 2014, while data for Afghanistan is missing. As a matter of comparison, let’s look at some other statistics: The American dream actually works for a certain elite, as the Gini indicator was 41 in 2013 and has stayed in the 40 plus range for more than a decade.

China’s society is as split as America’s with a Gini Coefficient of 42 in 2012, having consistently risen from below 30 in 1980s. India has done slightly better with a Gini at 35 in 2011. Russia has significantly improved from the highs of 50 for the Gini Index in 1995, but is still very much unequal, having read 38 in 2015 (Figure II.b.3).

GDP

A quick look at GDP figures shows recovery of the Central Asian region after declaration of independence from the Soviet Union in the early 90s.

Kazakhstan’s GDP represents only 0.22% of the global GDP (as compared to 30% for the USA, 18% for China, 3.65% for India and 2% for Russia) at $133.66 billion in 2016, but it is significantly higher, almost 8 times, than that of $16.90 billion in 1999 (Figure II.b.4). Kazakhstan’s GDP mirrors Russian GDP trend with a drop in the oil price (Figure II.b.5).

Uzbekistan’s GDP is exactly half of that of Kazakhstan’s at $67.22 billion and representing 0.11% of global GDP in 2016. This is an all-time-high, increasing almost 7-fold from a low of $9.69 billion in 2002.

Tajikistan contributed 0.01% to global GDP at $6.95 billion in 2016, but grew more than 8 times from $0.86 billion in 2000.

Kyrgyzstan’s GDP follows the same dynamics with $6.55 billion in 2016, which represents 0.01% of global GDP, recovering from the lows of $1.25 billion in 1999.
Turkmenistan is situated in between Uzbekistan and Tajikistan / Kyrgyzstan in terms of contribution to global GDP at 0.06% and $36.18 billion, which is an impressive 15 times more than the low of $2.37 billion in 1987.

Mongolia, though it has never been part of the Soviet Union, was definitely under its influence and followed the same path after its disintegration, recovering 14.5 times to $11.16 billion in 2016 (0.02% of global GDP) from a low of $0.77 billion in 1993 (Figure II.b.6).

Last but not least, Afghanistan quite surprisingly contributes 0.03% to the world economy, **which is more than Mongolia and Tajikistan combined.** In 2016 it produced $19.47 billion, which is significantly better than $2.5 billion in 1991.

It will be really interesting to re-examine the GDP numbers for these Central Asian countries in five or ten years after OBOR is fully implemented.

**GDP per Capita**

Now let us compare Income per Capita between Central Asian states, their big neighbours, China, Russia and India, as well as the US.

Kazakhstan shows impressive growth from $4,000 to $10,570 over about 20 years (Figure II.b.7). Uzbekistan’s GDP per Capita increased in a similar way, but coming from a lower base it only reached about $2,000. Tajikistan’s Income per Capita is currently at $2,762, which is just slightly higher than Uzbekistan’s. Kyrgyzstan seems to be the poorest ex-Soviet nation with income per capita of only $1,038. Turkmenistan’s GDP per capita stands at $6,986, making it the second richest country after Kazakhstan in the ex-Soviet Bloc.
Mongolia’s GDP per capita is $3,894, earning it third place. Afghanistan’s situation is the worst with an income per capita of only $596.

People in the USA earn significantly more than those in Central Asian countries, with a GDP per capita of $52,194. China’s income per capita is $6,894, putting it on par with Turkmenistan, while India’s is a mere $1,861, which is comparable with Uzbekistan. Finally, Russia’s income per capita is $11,099, having decreased from a high of $11,615 USD in 2013, which is explained by a lower oil price. Interesting to note, Russia and Kazakhstan are aligned in their indicators.

### Unemployment

<table>
<thead>
<tr>
<th>Unemployment</th>
<th>in %</th>
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<tbody>
<tr>
<td><strong>Central Asian Countries</strong></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>5.0</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>2.2</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>8.9</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>2.4</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>8.6</td>
</tr>
<tr>
<td>Mongolia</td>
<td>9.1</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>8.5</td>
</tr>
<tr>
<td><strong>Comparison Countries</strong></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>4.1</td>
</tr>
<tr>
<td>China</td>
<td>3.9</td>
</tr>
<tr>
<td>India</td>
<td>3.5</td>
</tr>
<tr>
<td>Russia</td>
<td>5.1</td>
</tr>
</tbody>
</table>

As one can see from the table, Central Asian states vary in their declared unemployment statistics from the lows of 2.2% and 2.4% for Tajikistan and Kyrgyzstan accordingly to the highs of more than 8% for Afghanistan, Turkmenistan, Uzbekistan and Mongolia that closes the list with 9.1% of unemployed population.

Kazakhstan with its 5% unemployment figure is closer to the surrounding China, India and Russia, and not far away from 4.1% unemployment in the USA.
FDI

Next economic indicator that I wish to discuss here for shedding light on the current state of Central Asian countries is FDI, Foreign Direct Investment.

Kazakhstan’s last published statistic of $5 billion FDI in the second quarter of 2017 is slightly less than the al-time-high of $8.2 billion in the first quarter of 2012 but is drastically more than $0.86 billion in the first quarter of 2002, showing again a stunning recovery. On an approximate annual basis, foreign investments represent 15% of Kazakhstan’s GDP and with the opening of the Astana International Financial Centre on January 1, 2018 will presumably continue to grow (Figure II.b.8).

Tajikistan had FDI of 4.95% in 2016 as investors put their money to work in this country.

Uzbekistan’s FDI is significantly lower, at only $66 million, which is 0.1% of its GDP, and though they are eying rapid development of their neighbours, the shape of Uzbekistan’s current economy does not attract significant foreign investment.

Turkmenistan’s data could not be retrieved.

Kyrgyzstan’s FDI stands at a negative $48 million in the first quarter of 2017 (equivalent to -2.92% of GDP), which is its all-time-low, coming down from a peak of $693 million in the fourth quarter of 2011.

Mongolia attracted $16 billion in the second quarter of 2017, which is just slightly less than its average of $17 billion between 2010 and 2017, but coming down from its top of $21 billion in the first quarter of 2016. The lowest known FDI figure was $8 billion in the fourth quarter of 2010. Interesting to put these numbers into perspective, as GDP in 2016 was $11 billion, **FDI seems to be weighting more than the domestic economy.**
Afghanistan’s FDI of 0.83% in 2015 shows that the economy is mainly inward oriented.

FDI into the US economy was $46 billion in the second quarter of 2017 (approximately 1% of the USA economy); China’s FDI on a quarterly basis in 2017 was $33 billion, which is 1.18% of Chinese GDP; India saw FDI of $11 billion invested in its economy between August and October 2017, 1.94% of Gross Domestic Product; and FDI in Russia totalled $12.5 billion in the second quarter of 2017, representing 3.89% of annual GDP.

Comparatively speaking, Mongolia with its $16 billion last quarterly FDI is situated after the USA, China on the upper side and Russia and India on the lower side. Kazakhstan with its $5 billion last quarterly FDI is not far behind.

However, it is noteworthy to say that the rest of Central Asian states are clearly overlooked and currently not favoured by the investors but this may change in the near future with the New Silk Road, so called One Belt One Road Initiative by the Chinese government to better connect Asia to Europe and to modernise the infrastructure in the whole Eurasian region.

<table>
<thead>
<tr>
<th>Corruption Ranking out of 175 Countries</th>
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<tbody>
<tr>
<td><strong>Central Asian Countries</strong></td>
</tr>
<tr>
<td>Kazakhstan</td>
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<td>Tajikistan</td>
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<td>Uzbekistan</td>
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<td>Kyrgyzstan</td>
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<td>USA</td>
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<td>China</td>
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<tr>
<td>India</td>
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<td>Russia</td>
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</table>

A big part of the explanation as to why investors are shying away from the Central Asian region is the height of corruption for operating a business in the local environment. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very...
clean). Alternatively, all countries are ranked from 1 (best) to 175 (worst) in terms of corruption. As one can see, a lot still needs to be done to bring the Central Asian region into compliance with world standards for conducting business. The only exception is Mongolia, ranked 87, which is more comparable to China and India, both ranked 79, in terms of corruption, than to Central Asian states situated in the range 131-169.

Kazakhstan is the country that is the closest to its big neighbour, Russia, with the same score of 131 or 29/100.

II.b. Figures

Figure II.b.1. Kazakhstan’s Gini Index, World Bank Estimate.

Figure II.b.2. Kyrgyzstan’s Gini Index, World Bank Estimate.
Figure II.b.3. Russia’s Gini Index, World Bank Estimate.

Figure II.b.4. Kazakhstan’s GDP, World Bank Estimate.

Figure II.b.5. Russia’s GDP, World Bank Estimate.
Figure II.b.6. Mongolia’s GDP, World Bank Estimate.

Figure II.b.7. Kazakhstan’s GDP per Capita, World Bank Estimate.
PART III. THE NEW SILK ROAD

III.a. OBOR reshaping the Eurasian continent

What can really change this region’s dynamics is China’s $1 trillion One Belt One Road (OBOR) strategy (sometimes referred to as Belt and Road Initiative (BRI), the Silk Road Economic Belt (SREB), or the New Silk Road) that is strategically centred around the countries under our study for the Belt, the over-the-land part, as opposed to the Road, the sea route.

However, Asian Infrastructure deficit is a gigantic $8 trillion, and Chinese OBOR is only the first stepping-stone to fulfilling this need.

To understand why OBOR was launched, one should remember 2009, which saw the biggest drop in trade over the past 20 years (in value terms), or 22% of world merchandise exports, and China’s aspiration to take a larger role in global trading.
OBOR was unveiled in September 2013 to counter the effects of the GFC and to find an external source of growth for the Chinese economy.

According to “The Geopolitics of Energy Cooperation in China’s Belt and Road Initiative”, p.10, which was written by Dr.KaHo YU, Associate, Geopolitics of Energy Project, Harvard University Kennedy School, BRI is “vast, complex and difficult to comprehend”, and due to “transnational scale of projects… requires wider consensus on energy cooperation for more countries and regions involved in BRI”, p.9.

Other motivations underpinning OBOR are summarized in the Figure III.a.1.

Major investment areas are infrastructure, construction materials, railways and highways, ports, automobiles, real estate, power grid, as well as iron and steel(Figure III.a.2).

China has great interest in building its neighbours’ infrastructure through real estate investment because the industry has the capacity to absorb large number of Chinese workers. Large-scale infrastructure projects cannot succeed without local governments’ involvement and endorsement. They also employ locals, and benefit the countries where these infrastructure projects are being constructed in the long term by diminishing the costs of transportation and shortening the transit of goods.

On the other hand, five independent Central Asian countries experience a number of conflicts of interest. They need to reconcile historical ties with Russia and the current economic dominance of China, two superpowers with different agendas. How well they may adapt to these constraints will determine the success of OBOR because these countries play the role of real gateways to European and other markets that need to be traversed for any transit of merchandise or commodities.
The Russian-Chinese dichotomy is also reflected in the trade balance between Central Asian countries:

- **EXPORTS are bigger to Russia than China** in the framework of *Eurasian Economic Union*, which is principally influenced by Russia (Figure III.a.3).

- **IMPORTS are more significant from China rather than Russia** as China is definitely a worldwide leader in production and manufacturing.

**Eurasian Economic Union** comprises 5 countries: Russia, Kazakhstan, Belarus, Armenia, and Kyrgyzstan. Its main objective is to ensure free movement of capital and labour between the participating states. The union is very rich in natural resources and one of the top producers in agriculture.

Up until September 2017, **Kazakhstan and China have signed agreements on 52 projects worth more than $24 billion** within the OBOR framework.

In 2013, trade between China and five Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) totalled $50 billion, a significant increase from $1 billion in 2002. It is important to note that **80% of Chinese Central Asian trade is with Kazakhstan**, which has a dominant role over other ex-Soviet states due to it having the biggest territory, being richer in land and mineral resources and having more favourable geographic conditions (in terms of high mountains and elevation) than its neighbours (Figure III.a.4).

Kazakhstan’s former capital, **Almaty**, is home to 2 million inhabitants making it **the biggest city of the Central Asian region**, and thus the largest market place. Astana, however, is growing rapidly since it became the new capital in 1997 and currently has 0.835 million inhabitants. Kazakhstan is also young in terms of its demographics with a median age of 30.3 years and a birth rate of 2.597, which is much higher than in most developed Western countries. It is well known that
favourable demographics are often associated with good GDP growth potential. However, Almaty is situated on the ‘Ring of Fire’, a fault line, which badly devastated the city in 1911 earthquake. The risk of experiencing another earthquake is high since the seismic conditions are worsening worldwide with simultaneous eruptions of many volcanoes around the globe. My father, Dr. Victor Zemtsov, a senior scientist in geophysics at the Academy of Sciences of Russia, studied the tectonic movements of the continents. He predicted that we are entering a new 25-year cycle of increased seismic activity in his research “Evolution of Rotation Structures in the Earth’s Geological History”. Therefore, this risk needs to be incorporated in scenario analysis for all OBOR projects.

The Chinese trade with countries participating in OBOR exceeded $1 trillion by 2015, while Chinese firms invested nearly $15 billion in OBOR countries throughout the same time period, according to Xi Jinping’s comment in Uzbekistan.

While the modern Silk Road significantly differs from the old one, it is interesting to compare the merchandise being transported. The number one commodity traded today by volume is oil and oil related products, which shows the contemporary world’s dependence on energy.

The second resource needed is water. Some countries like Kyrgyzstan are abundant with it, while others (Kazakhstan) lack it for irrigation and agriculture. At the same time, China is water-hungry as it pursues its goals of harnessing hydropower through the construction of dams.

The only goods that are traded just like in the ancient times are gold, jewellery and diamonds. However, we notice that quite a few of products are actually technology-based. In the old times, the technology was related to silk, porcelain and paper
making, while now the know-how stems around phone devices, computers, automobiles, aircrafts, medical equipment and biotechnology. Weapons trade, as well as the drugs trade (heroin route from Afghanistan to Europe and Russia) do not make it into official statistics, and are difficult to estimate, but unfortunately, we all know that both still thrive. Slavery was abolished many years ago, and many animals are in the red list subject to extinction, but human and animal trafficking persists. Migrants are also used to this route (Figure III.a.5).

According to the Baker McKenzie report “Belt and Road: What you need to know”, “The Belt is a land corridor that passes through Central Asia before reaching Europe and connects two of the world’s largest economies, China and Europe. The route will emerge as a major logistics corridor and create new opportunities for Central Asia and Eastern Europe as both a transhipment hub and commodities supplier”.

**China’s strategic priorities for the new Silk Road are:**

1. Support China’s “Go-Global” policy through internationalisation of Chinese firms and creation of multinationals and supply-chains.
2. Increase exports to OBOR countries and reduce China’s industrial oversupply.
   China is already growing its trade with Central Asian and other OBOR countries at a faster rate than its exports to the developed world.
3. Promote industrial restructuring as participating in OBOR Chinese firms will have to compete on tenders against other international companies. This will force them to improve transparency, corporate governance and employ foreign workers.
4. Strengthen China’s geopolitical role in Eurasia from both economic and political points of view.
5. Strengthen the RMB, though there is little evidence to prove this up to now.

OBOR concerns 60+ countries in Asia, Middle East, Eastern Africa, and Eastern Europe, an area that is home to 69% of world population and producing 51% of global GDP, incorporating bilateral and multilateral agreements. It is a historical multi-decade initiative to improve world-wide connectivity.

From a financial point of view, Chinese companies benefit from the assistance of the China Development Bank, Export-Import Bank of China and Silk Road Fund, established in 2014 with $40 billion specifically for this purpose. An additional 100 RMB billion in funding will be added to the capital of the Silk Road Fund. Other projects in OBOR countries may be financed by Asian Infrastructure Development Bank, established in 2015, with $100 billion of capital, as well as by New Development Bank, established in 2014, along with the World Bank. However, it is important to notice that private companies and governments in OBOR countries are encouraged to participate in the development of this initiative. Many have already created joint ventures and profitable partnerships with Chinese counterparts, and this trend should continue to grow, especially through the process of competitive tenders.

Competition is fierce between Chinese, Japanese and South Korean firms. The Baker McKenzie report gives an estimate of $350 billion investment in projects in OBOR over the next 5 years. MOU’s have been signed with both Mongolia and Pakistan if we speak only about Central Asian states. Out of OBOR’s six land trade corridors three involve Central Asian states as is shown in the map, Figure III.a.6:

- China-Central Asia-Western Asia, non-active
- New Eurasian Land Bridge, active
- China-Mongolia-Russia, semi-active
Chinese companies focus on Asia’s rising middle-class because it is a ripe market for electronics, online business and real estate. Here are five main sectors that are driving OBOR with the biggest effect on Chinese economy:

- **Energy, Mining and Infrastructure**: Energy is the main focus of OBOR. However, construction of highways, roads and railways is strategically important for transportation of commodities and labour.

- **Technology, Media and Telecommunications**: The demand for smartphones and internet-based services may well be tremendous.

- **Consumer Goods, Retail and Food**: Increased household income will spur the demand.

- **Industrial, Manufacturing and Transportation**: Chinese companies will accelerate acquisition of technologies. They will also build local factories to bypass import barriers.

- **Financial Institutions**: There is a rich opportunity set for small and medium sized players to participate.

**The opportunity set for international companies in OBOR:**

- **Partnerships**: It is better for both parties to have a local partner who understands country-specific regulations and has good relationships with the local government and community.

- **Supply**: Local and international companies can supply products and components to Chinese SOEs.

- **Services**: Local and international service companies will have an ample opportunity to work on project due diligence, business structuring, contract...
negotiation, labour and tax regulations, provide insurance and manage CSR obligations for big infrastructure projects that may be harmful to the environment or affect nearby communities.

- **M&A**: Back in 2012 I worked for an Investment Banking boutique examining M&A deal flow between CIS and Russia on one hand and China and South-East Asia on the other. I was quite surprised to learn how small the transaction volume between these two neighbouring regions was. Five years later, the Investment Banking landscape has certainly changed with a richer opportunity set, but this is still just the beginning. From my point of view, as companies are competing for best technologies and access to commodities along OBOR routes, this will inevitably result in a higher volume of transactions.

- **Financing**: Foreign asset managers, both traditional and alternative, will come along SOEs and banks to participate in the market upside.

And while the above mentioned opportunities exist for global companies domiciled around the globe, Central Asian land-locked states will benefit from the new transportation infrastructure, logistics parks, energy and industrial projects.

It is of course understood that opportunities do not come without associated risks, **political risk** being one of the major challenges for doing business in the OBOR region. Other risks to mitigate are **environmental, reputational, legal, regulatory, social responsibility, cultural integration and protectionism-related issues**. Therefore, companies hoping to be successful in their investments in OBOR countries need to be well advised and have a robust continuity plan.

Concurrently, OBOR faces **technical limitations**. The railroad width is 1.52 meters for Russian trains on one hand and 1.435 meters for Chinese trains on the other. Therefore, customs at the China-Central Asia border need to clear both paperwork
and physically change the undercarriage. This process may take up to 79 days, which makes it the least efficient customs check in the world, thus negating any positive outcome of a shorter distance and sabotaging the whole purpose of OBOR, making it less attractive versus the Maritime Silk Road.

Thanks to the Kazakhstan Embassy in Singapore, Australia and New Zealand, I am attaching the map of customs centres as Kazakhstan is working on enhancing their efficiency (Figure III.a.7).

Above mentioned corruption is another risk parameter to take into account. 30% of investment is usually lost in Central Asian ex-Soviet states, and an astonishing 80% vanishes in third party hands in Pakistan. China itself has an issue with corruption, and no business can be done without the necessary “guanxi” (i.e. connections).

III.a. Figures

<table>
<thead>
<tr>
<th>Reason</th>
<th>Citation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationalisation of the Yuan</td>
<td>Chatham House (2017) [20]</td>
</tr>
<tr>
<td>Infrastructure development in Asia</td>
<td>Lim 2016 [6]</td>
</tr>
<tr>
<td>Consume overproduction, overcapacity, excess products</td>
<td>Lim 2016 [6]</td>
</tr>
<tr>
<td>Improve regional transport links</td>
<td>Lain and Pantucci 2015 [29]</td>
</tr>
<tr>
<td>Gain access to natural resources, oil, gas</td>
<td>Tang 2015 [30]</td>
</tr>
<tr>
<td>Increase Chinese soft power and good will</td>
<td>Sidaway and Woon 2017 [4]</td>
</tr>
<tr>
<td>Foreign policy initiative</td>
<td>Lim 2016 [6]</td>
</tr>
<tr>
<td>Sino-centric unipolar Asia</td>
<td>Malik in Sulekha 2017 [31]</td>
</tr>
<tr>
<td>Road to empire</td>
<td>Financial Times 2015 [32]</td>
</tr>
<tr>
<td>Enhance Chinese social stability and security</td>
<td>Rolland 2017 [3]</td>
</tr>
<tr>
<td>Central Asia as “key areas” for China’s national energy security</td>
<td>Rolland 2017 [3]</td>
</tr>
<tr>
<td>Integrate Eurasian continent by 2050</td>
<td>Rolland 2017 [3]</td>
</tr>
</tbody>
</table>

Figure III.a.1. Source: “Central Asian ‘Characteristics’ on China’s New Silk Road: The Role of Landscape and the Politics of Infrastructure”, Troy Sternberg, Ariell Ahearn and Fiona McConnell, p.3.
Figure III.a.2. Source: “Central Asian ‘Characteristics’ on China’s New Silk Road: The Role of Landscape and the Politics of Infrastructure”, Troy Sternberg, Ariell Ahearn and Fiona McConnell, p.3.

Figure III.a.3. Source: The AIFC Presentation to introduce it to Singapore Investment and Diplomatic Community on September 13th, 2017.
Table 3. Physical factors in Central Asia.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Kyrgyzstan</th>
<th>Kazakhstan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Border with China, km</td>
<td>1063</td>
<td>1765</td>
</tr>
<tr>
<td>Elevation in metres, mean</td>
<td>2988</td>
<td>387</td>
</tr>
<tr>
<td>Temperature, annual mean</td>
<td>5</td>
<td>2.2</td>
</tr>
<tr>
<td>Precipitation, annual mean</td>
<td>375</td>
<td>275</td>
</tr>
<tr>
<td>Deserts, %</td>
<td>10</td>
<td>&gt;80</td>
</tr>
<tr>
<td>Arable land, %</td>
<td>6.7</td>
<td>8.9</td>
</tr>
<tr>
<td>Agriculture, % of water</td>
<td>93</td>
<td>66</td>
</tr>
<tr>
<td>Population density, km²</td>
<td>27</td>
<td>6</td>
</tr>
</tbody>
</table>

Figure III.a.4. Source: “Central Asian ‘Characteristics’ on China’s New Silk Road: The Role of Landscape and the Politics of Infrastructure”, Troy Sternberg, Ariell Ahearn and Fiona McConnell, p.7.

Figure III.a.5. Source: Internet.
Figure III.a.6. Source: “Belt and Road: What you need to know”, Baker McKenzie report.

Figure III.a.7. Source: Kazakhstan Embassy to Singapore, Australia and New Zealand
III.b.Kazakhstan’s Role on the New Silk Road

Kazakhstan has shown remarkable economic progress and recovery after the collapse of the Soviet Union.

Kazakhstan’s GDP growth in the first ten months of 2017 reached 4% thanks to the country’s efforts on the path to economic reform spurring both private investment and consumer spending.

According to PWC and the World Bank, Kazakhstan comes 18th in terms of favourability of the investment climate out of 189 countries. Kazakhstan is also 36th out of 190 countries on the World Bank Doing Business ranking. Improvements were recorded for all ten indicators, including “Protection of Minority Investors”, and “Enforcing Contracts”. Nevertheless, Kazakhstan’s government is focused to further promote Kazakhstan in Doing Business rating, thus it prepared 7th package of legislative amendments to improve business environment at national and sub-national levels. It is therefore not surprising, based on the above, as well as its strategic geographic location and political stability that Kazakhstan has become a real centre-point on the new Silk Road.

One can clearly see from Figure III.b.1 the dominance of Kazakhstan versus neighbouring Kyrgyzstan both in terms of the dollar value of investments and the number of projects.

Figure III.b.2 shows Kazakhstan as the Eurasian Logistic Hub in connection with China’s One Belt One Road.

Due to its location in the centre of the overland trade bridge between Europe and Asia, and Kazakhstan’s policy on a good-neighbourhood and reduction of trade barriers, it has direct access to large markets - the EAEU, Russia, China and other countries in Central Asia. Significant prospects for investors are revealed by
integration within the Eurasian Economic Union. This is a unified customs and border-free market with a value of approximately $4 trillion and a population of more than 180 million people.

Kazakhstan’s investments in logistical development are organised as per Figure III.b.3 and Figure III.b.4.

In terms of domestic development, in November 2014 Kazakhstan’s President Nursultan Nazarbayev commenced a $9 billion economic stimulus plan to modernise infrastructure, NurlyZhol:

- Transportation and logistics infrastructure
- Industrial infrastructure
- Energy infrastructure
- Public utilities infrastructure
- Housing infrastructure
- Social and education infrastructure
- Small and medium-sized enterprises

By 2020, NurlyZhol is planned to finalise $40 billion of projects and employ 200,000 workers. So far in 2016 alone, the program generated 105,000 jobs and contributed 1% growth to GDP. Also, 611 km of roads were commissioned in 2016 as part of NurlyZhol. President Nazarbayev said that, due to NurlyZhol, Kazakhstan is in the beginning of a "complex global transformation". NurlyZhol is designed to turn Kazakhstan into a key Eurasian transport and logistics hub through the modernization of roads, railways and ports, among others projects.
NurlyZhol is closely associated with Chinese mega project “One Belt One Road” covering a great part of Eurasia. It is estimated that in the period 2014-2019 NurlyZhol will contribute 15.7% to GDP growth.

Other government-initiated programs include:

- Innovative and industrial development program
- Competitive Leaders – National Champions Program
- Business road map 2020 with 9,537 approved projects with subsidised amount of 145 billion Tenge (worth $436 million)
- Productivity 2020: subsidising entrepreneurs. In the period 2011-2015, 140 young enterprises benefited from Productivity 2020

Since 2014, Kazakhstan carried out large-scale construction of infrastructure and created a “transport and logistics leg” to integrate its economy with key world markets (Figure III.b.5).

- The construction of almost 3 thousand kilometres of the Kazakhstan section of the "Western Europe - Western China" International Transit Corridor has been completed. This will shorten the time of cargo transportation from the port of Lianyungang in China to St. Petersburg in Russia to just 10 days.
- A new "Kazakhstan - Turkmenistan - Iran" railroad corridor with a total length of about 900 km has been constructed to connect Central Asian countries with the Persian Gulf and the Bandar Abbas port in the south of Iran.
- The construction of the second railroad track of the Almaty-Shu section was completed, which increased the capacity of one of the busiest transit line sections on the "China - Central Asian countries” route by four times.
- Kazakhstan built a "Khorgos - Eastern Gate" dry port on the border with China. This is the first land port in Kazakhstan and the largest logistics park in Central Asia.
- The Aktau port on the Caspian Sea, west Kazakhstan, was expanded. A new Kuryk port with a system of new ferry complexes was built. Such measures will increase the loading capacity of Kazakhstan's ports to 24.5 million tons yearly.
- These steps remove infrastructure constraints and shorten cargo transportation time from north to south and from east to west.
- Astana strategic goal is to make Kazakhstan a major transport and logistics hub in Central Asia.
- In the nearest two or three years (by 2020), Kazakhstan plans to increase its traffic in transit to 2 million containers and receive revenues from transit up to $5 billion (Figure III.b.6, Figure III.b.7 and Figure III.b.8).

Second large-scale wave of privatization (the first wave was implemented in 1990s after defining private property rights in the Constitution) is implemented in Kazakhstan and provides investors with great opportunities. The government is realising a policy of denationalisation of the economy. About 900 companies, 902 to be exact, will move into a competitive environment. The most attractive ones are 65 top companies of state property and quasi-public sector (57 companies of national holding companies). Over the past ten years, Kazakhstan’s economy attracted about $250 billion of foreign direct investment in various sectors. The Investment Ombudsman is available for the protection of the rights of foreign investors. The government has
also undertaken crucial measures to spur investment and entrepreneurship development.

**Business de-regulation:**
- 60% reduction in requirements for monitoring and control of small and medium enterprises;
- 3-fold reduction in the number of licences and permits required;
- 40% reduction in planned tax inspections.

**Curbing red-tape and increasing on-line services through E-government:**
- New draft of the Tax Code incorporates protection of interests of taxpayers. All ambiguities and inaccuracies will be interpreted in favour of taxpayers.
- New Subsoil and Mineral Resources Management Code provides for possibility of rendering mineral resources management rights for a period reduced from 18 months to 10 days applicable to solid commercial minerals.
- Customs Code stipulates priority of electronic declaration, allowing 6-fold reduction in time required for release of goods by customs to 4 hours.
- Draft Law on governance of free economic and industrial zones includes simplification of licensing procedures and new additional benefits for investors.
- Speaking of importance of contribution by local executive authorities to improvement of investment climate, a new system of appraisal was introduced to measure the regions of ease doing business. The main
focus is on enhancing protection of investors’ rights and ensuring transparency in allocation of land for industrial entities.

**Protection of private property, rule of law and transparency** are the guiding principles for the work of Kazakhstan’s government in 2018. The key points of work are ensuring the inviolability of private property and the rule of law. Commencing in 2018, Kazakhstan provides access to the settlement of possible disputes using the rules of English law. In addition, a tailored road map is ready for implementation of OECD member-states recommendations, standards and best practices in the national legislation.

Kazakhstan’s government intends to create the best business conditions in the areas of **public advisory and consultancy services** to investors as feedback to be provided in the English language within ten days of their application filing. Public services will be made available to foreigners in the English language starting from 2020. All key regulatory and legislative documents are to be published in English on key ministries’ websites. Measures were also taken for **simplification of immigration procedures**, i.e. introduction of electronic visas for foreign investors, enhanced border control, registration and security.

Policy of developing state-of-the-art knowledge-intensive manufacturing and upgrading of basic sectors of the economy and agro-industry provides great opportunities to investors, as these industries become recipients of large-scale investments under the umbrella of **Kazakhstan’s Modernization 3.0**.

Kazakhstan continues diversifying its economy and invites investors into the sectors of metallurgy, oil processing, chemicals and machine building.
There are a lot of mining projects in Kazakhstan in the field of design and development of production of copper, gold, rare metals and rare-earth elements, including lithium and vanadium, phosphate raw material, and many others. For further development of the manufacturing industry, Kazakhstan is interested in investments in geological exploration and new technologies for enrichment and processing of raw materials.

On the eve of the New Year 2018 President of Kazakhstan signed the Code "On Subsoil and Subsoil Use" aimed at improving the subsoil use regulation system, as well as the Law "On Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Subsoil Use", aimed at bringing the legislation into conformity with the newly adopted Code of the Republic of Kazakhstan "On Subsoil and Subsoil Use".

The new Code "On Subsoil and Subsoil Use" covers the following conceptual changes:

- Simplifying granting of subsurface right in a similar way to the Australian model by introducing a licensing procedure based on “first come first served” principle
- Transition to the international procedure of reserves appraisal
- Granting public access to geological information and its digitalization
- Revising the list of the common commercial minerals
- Strengthening the field decommissioning provision in order to ensure the environmental safety of the country upon mine closure
- Providing guarantees for the stability of the existing contracts on subsoil use
Kazakhstan has started a large-scale modernization of its agro-industrial complex boosting opportunities in the **food industry**. It is one of the global leaders in the production of **wheat flour**.

Kazakhstan’s government **renounced trade restrictions** with China and other neighbouring markets making the sector of intensive and export-oriented agribusiness particularly attractive.

Thanks to major investments in the **innovative industrialization** of the country over the past eight years, industrial enterprises could introduce advanced technologies, automation and robotic production.

In 2016, in collaboration with a German partner, Fraunhofer Institute for Applied Research, Astana assessed the readiness of 500 enterprises of the processing and mining sectors for such modernization and prepared a roadmap for technological upgrade and digitization of the basic sectors of the economy. The government adopted a “**Digital Kazakhstan**” state program.

The implementation of new **large-scale reform** (f.e. constitutional reform, a new economic growth model) marks the country's entry into a new stage of development and will significantly advance Kazakhstan on its way to the top 30 developed countries of the world.

In 2000, Kazakhstan established a **National Oil Fund** in order to accumulate and invest all government oil proceeds. Due to its substantial growth, it is now ranked as **the 17th largest SWF** in the world and **8th biggest oil fund** according to the SWF Institute.

Moreover, **Integrated Accumulative Pension Fund** was established in 2013 by merging 9 private pension funds in order to improve operational efficiency and
increase investment returns. Current assets under management are 6.6 billion Tenge, which is approximately 14% of GDP.

In 2008, yet another fund was established: “Samruk-Kazyna” SWF after merging two funds. It serves as a financial and investment corporation managing state-owned enterprises. As of 2015, the fund comprised 545 companies with 332,000 employees. In the period 2016-2020, Kazakhstan’s government will privatise 216 of companies from “Samruk-Kazyna” SWF (Figure III.b.9).

Along with its strategic geographic location, the above-mentioned measures ensure Kazakhstan’s leading place among Central Asian states in terms of competitiveness on the New Silk Road.

III.b. Figures

Table 4. Chinese investments in Central Asia.

<table>
<thead>
<tr>
<th>Country</th>
<th>Project</th>
<th>Cost-US $</th>
<th>Year Signed/Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>Zhongfu Investment Group into oilseed processing</td>
<td>$1.2 billion</td>
<td>2016</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>MangistauMunairGas (50%)</td>
<td>$2.6 billion</td>
<td>2009</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Kazakh port of Central Asia-China gas pipeline</td>
<td>$6.7 billion</td>
<td>2009</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Ekibastuz GRES-2 Power Plant</td>
<td>$400 million</td>
<td>2016</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Kazakh-Chinese Oil Pipeline</td>
<td>$3 billion</td>
<td>2006</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>Zhongda Oil Refinery</td>
<td>$430 million</td>
<td>2013</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>Kyrgyz port of Turkmenistan-China gas pipeline</td>
<td>$1.4 billion</td>
<td>2016</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>North-South Highway</td>
<td>$400 million</td>
<td>2013</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>Thermal power plant</td>
<td>$386 million</td>
<td>2014</td>
</tr>
</tbody>
</table>

Tang/IFMSO [30]; see additional references

Table 5. Proposed One Belt, One Road (OBOR) investments.

<table>
<thead>
<tr>
<th>Country</th>
<th>Potential OBOR Investments</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>China-Central Asian pipeline</td>
<td>Natural gas</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Eurasian Land bridge</td>
<td>Railway corridor</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>China-Central Asia-West Asia corridor</td>
<td>China to Iran rail link</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Khorgos-Aktau railway</td>
<td>Caspian to China link</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>China-Kyrgyzstan-Uzbekistan railway</td>
<td>High-speed rail</td>
</tr>
</tbody>
</table>


Figure III.b.1. Source: “Central Asian ‘Characteristics’ on China’s New Silk Road: The Role of Landscape and the Politics of Infrastructure”, Troy Sternberg, Ariell Ahearn and Fiona McConnell, p.8.
Figure III.b.2. Source: Kazakhstan Embassy to Singapore, Australia and New Zealand.

Figure III.b.3. Source: Kazakhstan Embassy to Singapore, Australia and New Zealand.
Figure III.b.4. Source: Kazakhstan Embassy to Singapore, Australia and New Zealand.

Figure III.b.5. Source: The AIFC Presentation to introduce it to Singapore Investment and Diplomatic Community on September 13th, 2017.
### Financial model

#### Transport and logistics center in Aktobe

<table>
<thead>
<tr>
<th>Category</th>
<th>Unit</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net internal value (NPV)</td>
<td>KZT</td>
<td>8 233 381 504</td>
</tr>
<tr>
<td>Internal rate of return (IRR)</td>
<td>%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Payback period (PBP)</td>
<td>years</td>
<td>19</td>
</tr>
<tr>
<td>Discounted payback period (DPBP)</td>
<td>years</td>
<td>23</td>
</tr>
</tbody>
</table>

#### Current status:

- On March 27, 2017 the project of feasibility study “Construction of transport and logistics center in Aktobe city” received a positive opinion of RSE “State Examination”.
- Executive committee of the Almaty region granted a land plot of 45.1 hectares in the area of the industrial zone bordering the land plot of “ARZ” LLP.
- To this day, measures for formalization of title documents for the land plot are being taken. It’s planned to begin development of design and estimate documentation.

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**Figure III.b.6. Source: Kazakhstan Embassy to Singapore, Australia and New Zealand.**

**Figure III.b.7. Source: Kazakhstan Embassy to Singapore, Australia and New Zealand.**
TLC ADVANTAGES FOR THE ACTIVITY OF EEA PARTICIPANTS

1. Favorable location
   - Direct access to the railway station
   - Astana-Karaganda highway, ring road
   - City area (bus stop, traffic lights)
   - Convenient access roads to the old and new parts of the city, airport.

2. Developed Infrastructure
   (within one area)
   - CCC (Custom Clearance Center)
   - Warehouse and container yard
   - Alternative temperature mode for storage
   - Private railway spur with motive-power unit
   - 2 Custom bounded warehouses (covered and open)
   - KTZ cashier desk (railway station)
   - KTZ acceptance/delivery inspectors
   - Government control authorities offices
   - Veterinary inspection rooms
   - motor-truck scale
   - "KazPocita" JSC cash office and exchange center
   - Banks payment terminals and POS-terminals
   - Food courts
   - Parking area

Figure III.b.8. Source: Kazakhstan Embassy to Singapore, Australia and New Zealand.

Figure III.b.9 Source: The AIFC Presentation to introduce it to Singapore Investment and Diplomatic Community on September 13th, 2017.
III.c. The AIFC: Kazakhstan’s Door into the Future

My hometown, Saint-Petersburg in Russia, which was founded by Peter the Great in 1703 and became the capital in 1712, was also called the “Window to Europe” as it was a sea port and naval base, protected by the fortress of Kronstadt.

The Eiffel Tower was constructed for the World Expo of 1889, marking the 100\textsuperscript{th} anniversary of the French Revolution and storming of the Bastille.

Kazakhstan built the Astana International Financial Centre (the AIFC) for the 2017 World Expo, more than one hundred years after the construction of the Eiffel Tower. It is the country’s new “financial hub”, which is opening a door for cross-Eurasian trade. Just like Peter the Great envisioned, strategic importance of the seaports for facilitation of transport and Russia’s geopolitical position, Kazakhstan sees an immense opportunity to attract foreign investments through the AIFC (Figure III.c.1).

AIFC’s main goal is to stimulate innovative activities like Fintech and create favourable conditions for investors.

Starting on January 1, 2018, financial institutions and enterprises are able to register at the AIFC. Financial Centre’s competitiveness is depicted in Figure III.c.2.

The AIFC is a modern financial tool for integration with international exchanges. The AIFC offers concessional tax, visa and labour regimes.

The AIFC operates in accordance with principles and norms of British common law and with the court procedures carried out in English. The International Arbitration Centre operates on its territory in order to settle disputes. Starting on January 1, 2018, this Arbitration Centre operates under the extraterritoriality principle. Any investor is able to launch a legal procedure at the AIFC regardless of the place of implementation of a project within the territory of Kazakhstan. The Independent Court also opened
its doors on the first day of 2018. Judges have already been selected, and the rules and regulations of the AIFC have both been established.

In order to apply British common law on the territory of the AIFC and to adopt English as a working language, Kazakhstan’s Constitution has been amended and a new Constitutional Law has been voted and passed (Figure III.c.3).

On the same date, the AIFC Stock Exchange started to operate, providing investors with additional liquidity and enterprises with further access to capital. In the second part of the year, Kazakhstan will commence the privatisation of Samruk-Kazyna as well as its biggest subsidiaries Eyr-Astana and KazAtomProm.

The AIFC has already signed a partnership agreement with the Shanghai Stock Exchange that is going to be AIFC’s biggest Shareholder, as well as with Nasdaq that will provide the AIFC with the latest technology. This will indeed be beneficial for AIFC’s establishment and development.

The Shanghai Stock Exchange is the world’s fourth biggest in terms of market capitalisation, and is the President of the International Stock Exchange Federation. A partnership between the AIFC Stock Exchange and the Shanghai Stock Exchange will greatly enhance the development of Kazakhstan-China relations, as well as connections with the international financial community. Also, it is possible that the AIFC will become an offshore RMB trading centre in the near future.

AIFC aims to be the main venue for investments not only in Kazakhstan but also related to surrounding Central Asian states, Russia and Eurasian Economic Union (Figure III.c.4).
Kazakhstan’s strategic goal for the AIFC is to be included in the top 20 Asian Financial Centres before 2028.

The government adopted a “100 Concrete Steps” Plan to be able to achieve Kazakhstan’s dream: to become one of the 30 developed countries of the world by 2050.

III.c. Figures

Figure III.c.1. Source: The AIFC Presentation to introduce it to Singapore
Investment and Diplomatic Community on September 13th, 2017.

**PORTER’S MODEL: FINANCIAL CENTRE COMPETITIVENESS**

Financial centre competitiveness framework is derived from Michael Porter’s diamond model that analyses the level of competition within the industry.

![Diagram of Porter’s Model](image)

Source: Anatomy of Financial Center’s global competitiveness in the context of Michael Porter’s model of national competitive advantages: A theoretical analysis.

Figure III.c.2. Source: The AIFC Presentation to introduce it to Singapore Investment and Diplomatic Community on September 13th, 2017.

**LEGAL BASIS FOR AIFC**

“...I signed a decree on the establishment of the Astana International Financial Centre. It will be based on the principles of English law, the preferential tax regime and an independent financial court...”

Nursultan Nazarbayev
President of the Republic of Kazakhstan

Establishment of the AIFC is a part of the "100 Concrete Steps" Presidential initiative aimed at delivering Five institutional reforms.

Figure III.c.3. Source: The AIFC Presentation to introduce it to Singapore Investment and Diplomatic Community on September 13th, 2017.
CONCLUSION

The Silk Road is probably the oldest and most important trade route in the world. Starting in the second century BC, travelled by many historical figures like Marco Polo, sometimes going into oblivion due to geo-political factors, sometimes thriving allowing for a rich merchandise exchange, the Silk Route has always allowed for the transfer of technology and commodities.

The gateway to the Silk Road is the land-locked Central Asia, which used to be very rich thanks to the trade. Cities like Samarkand and Bukhara stole the breath of visitors. Today, Central Asian states are clearly under-researched, and comparatively poorer than their big neighbours, Russia, China and India.

China’s “One Belt One Road”, also known as the New Silk Road, is an outstanding opportunity for Central Asia to grow and prosper. It is an unprecedented Chinese program that will modernise and standardise infrastructure, allowing for shorter transit time of goods between Asia and Europe.
While all independent ex-Soviet states share a similar cultural and historic background, they differ significantly in their level of development. Such discrepancies can be explained by varying geographic (land territory, mountains, seismic zones, deserts, elevation level), geophysics (whether the country is rich in natural resources) and their specific geopolitical situation (ties with Russia, conflict prone zones).

Out of all Central Asian countries, Mongolia is the one that receives the most FDI, most probably due to its lower corruption than other countries of the Bloc.

Kazakhstan has implemented a wide spectrum of reform, created several SWFs and founded the Astana International Financial Centre to improve the liquidity of the financial markets and to facilitate cross-border trade.

While there are still quite a few hurdles on the way, the New Silk Road definitely opens endless opportunities both for Central Asian countries and for foreign investors. It permits multilateral collaboration and its success depends on how well each strategic project is integrated into the local environment. It is therefore of paramount importance to do a scenario analysis and foresee all associated risks. Endorsed by Russia, the Astana Financial Centre aims to become a true regional financial hub bridging Russian and Chinese investors and becoming a worldwide asset management platform.

No one can predict the future, especially in the times of increased tension between North Korea, Israel, the USA and Russia, to name just a few, but we do hope that we will see more constructive collaboration, progress and enriching trade, rather than missile launches and certainly not a World War III.