

KAZHYKEN M. HOW THE OPENING OF “SILK ROAD ECONOMIC BELT” OFFERS OPPORTUNITIES FOR KAZAKHSTAN ECONOMY

The Chinese global megaproject “Silk Road Economic Belt” was announced five years ago which transforms the entire Eurasian continent. The Chinese developed concrete plans in the coming years, to begin the construction of a comprehensive infrastructure (transport, production, energy), thus driving regional and international trade. Along with formation of “belt” infrastructure, new economic institutions will be created.

Chinese initiative “One Belt – One Road” will undoubtedly make a significant contribution to the global trend of regional integration of national economies. Accordingly, this initiative for Kazakhstan can also become a largescale integration project, affecting all aspects of its development. This integration will undoubtedly have its own unique character, but the principles of rapprochement must certainly be based on liberal values: voluntary participation, freedom in decision making and equality in access to opportunities. These are the principles of soft economic integration, which does not require formation of supranational institutions, that is, guarantees the member countries preservation of full economic sovereignty.

Below, I will briefly describe eight of the most significant opportunities of many potentially available for Kazakhstani entrepreneurship.

◆ Firstly, Kazakhstan has the opportunity of soft integration into “Silk Road Economic Belt”.

Chinese initiative does not involve creation of supranational institutions, as in EU and EAEU. Moreover, creation of a “central government” is impossible if the project involves many countries of the continent with different models of political system. Therefore, participating countries of “Belt and Road” will have to find a universal format of cooperation using consensus. Such cooperation should be based on the principles of democracy, (subordination of the minority to the majority), with strict compliance to certain rules and regulations.

Soft integration is essentially a harmonious combination of freedoms and restrictions (requirements, prohibitions), incentives and sanctions that can be applied collectively or in one country. Obviously, there should be more freedoms than restrictions, incentives should be applied more often than sanctions. High degrees of freedoms mean multiple alternatives are available, for example, possibility of choosing the best option for transportation of goods through “Belts and Roads” corridors.

Under soft integration, it is possible to form transnational production systems (process chains, network structures), including a multinational value chain. In other words, production systems can be crossborder, which require a special legal framework conducive to joint development and implementation of “Belt and Road” development strategy.

One of the advantages of soft integration model in “Silk Road Economic Belt” is the sustainable development of Chinese economy, which gives participating countries confidence in the long-term prospects of the success of this plan.

◆ Secondly, the opportunity to participate in creation and use of transport corridors and their infrastructure.

The name “One Belt – One Road” presents a direct relationship between development of transport infrastructure and development of economy. The concept of transport infrastructure includes traditional types of transport (rail, road, water and air) pipeline transport (oil and gas pipelines), high-voltage power lines, digital information transmission cables and other physical objects of international communication. Transport infrastructure is the physical form of “Silk Road Economic Belt”, its network connecting many local facilities of production system linking to their national economies. Consequently, the megaproject will provide Kazakhstan with the opportunity to develop internal transport system within the international transport corridors, and interface it with transport infrastructure of countries located along “Belt and Road”.

Transport logistics is the integral component of modern transport industry. For consumer of transport services, transportation and logistics are one. In particular, effective implementation of multimodal transport or smooth operation of transport hubs is impossible without established system of transport logistics, which, in turn, consists of a set of elements that integrates this service, for example, through tariff formation along the entire cargo movement route, unified customs formalities etc. Without logistics, it is difficult to integrate into international transport corridors, reduce cost value and delivery time.

Kazakhstan will have the possibility of coordinated development and implementation of its transport policy with participating states of the megaproject. Accordingly, there will be an opportunity to participate in formation of “Belt and Road” market, including creation of general regulatory order in transport services markets. The main principle of general regulatory order is to provide all entities with free and equal access to transport infrastructure services of any country. Thus, the idea of institutional

alignment of land roads, air and sea routes, as well as supporting infrastructure (air navigation, ports, storage terminals, etc.) can be realized.

As a result of rational use of this opportunity, transport infrastructure of “Belt and Road” will connect Kazakhstani economy with distant foreign markets, minimizing the costs and shorten its distance from the world’s main markets.

◆ Thirdly, the opportunities for development of small and medium enterprises (abbreviated as SMEs).

“Silk Road Economic Belt” will mainly involve southern and western regions of Kazakhstan. This region is densely populated, with abundant lowcost labor, as well as favorable climatic conditions for development of SMEs. At present and in the foreseeable future, oil and gas pipelines will pass through these territories, which guarantee a high level of energy supply to production facilities. In addition to all the above, availability of diverse natural resources increases the potential for development of industrial production in these territories. Favorable conditions and resource potentials of southern and western regions of Kazakhstan can be effectively used in conjunction with “Belt and Road” development strategy, which will open up broad prospects for diversification and restructuring of the entire Kazakhstani economy.

◆ Fourth, the possibility of coordinated regulation of economic resources market.

Development of “Silk Road Economic Belt” will need a variety of economic resources, primarily labor, minerals and hydrocarbons. Obviously, the need for these resources will gradually grow. Economic resources are mobile, and usually flow to where they find the most effective use.

“Belt and Road” will involve a huge number of labor resources in its projects, which will direct migration flows. It is impossible to stop migration of labor, it is impossible to forbid people to migrate against their will in search of the best opportunities to apply their abilities, search for better living conditions. Migration is one of the most important human freedoms. Therefore, it is necessary to regulate labor migration in a coordinated manner according to unified rules that minimize risks, and to direct migration flows.

Hydrocarbon resources of Kazakhstan will continue to be an attractive commodity due to the growing economy of China. Other countries along “Belt and Road” have similar resources. Naturally, competition will arise between countries, in which there will be both winners and losers. Therefore, there will be a need for coordinated regulation of energy resources market in “Belt and Road” space in order to minimize losses of the parties.

◆ Fifth, the possibility of foreign trade development based on bilateral agreements.

“Belt and Road” megaproject opens access to a huge market of China for Kazakhstani entrepreneurs, which translates to one-third of the world market. In addition, markets for Asian countries with a population several times larger than the population of EAEU are opening up to domestic entrepreneurs. To get the maximum benefit, Kazakhstan needs to build trade relations with all trading partners within the mega-project.

Foreign trade should be built on a bilateral agreement for mutual trade. The agreement facilitates a gradual formation of national bilateral trade institutions, creation of a regulatory framework harmonized with the principles, norms and rules of WTO. A set of bilateral agreements may form the basis of a regional agreement on a common market (or specific markets). There are no obstacles to development of a coherent trading strategy, including a system of joint measures, solution of common tasks.

Within the framework of bilateral agreements, unification of rules and methods of supporting foreign trade entities is facilitated, which is extremely important to minimize occurrence of conflicts. Unified rules and methods should legally stimulate and support demand for Kazakh products from Chinese and foreign buyers and support reexport.

Due to mutual trade, numerous enterprises will emerge, using goods as intermediate products, which are transported along international transport routes in “Belt and Road”. Specializing in deep processing of raw materials and production of final products, such companies will become the links of international production systems. Manufactured products will be further reexported through the channels of “Silk Road Economic Belt”. In addition to all, maintaining of bilateral trade in national currencies will help stabilize exchange rate of Tenge. The system of bilateral trade agreements with countries along “Belt and Road” can create prerequisites for a radical adjustment of EAEU conditions, that is, will give strong arguments to depart from the concept of a rigid integration structure.

◆ Sixth, the possibility to coordinate financial regulation and control over financial flows.

In forming and operating “Belt and Road”, financial shocks and risks will inevitably happen. To minimize them, it is necessary to carry out prudent regulation of national financial system as well as crossborder financial flows. Prudent regulation is carried out jointly by the government and the national bank. Thus, Kazakhstan will have the opportunity to stabilize financial system, exercise strict control over financial flows that affect not only the balance of payments and the most important indicators of monetary system, but also economic security of the country.

Asian Infrastructure Investment Bank and New Silk Road Fund can become one of the major sources of funding for the banking system of Kazakhstan. The Charter of the Fund allows establishment of subfunds (subsidiary funds) in accordance with regional and sectoral needs, as well as the needs of certain categories of projects. China plans to encourage the government and entrepreneurs of Kazakhstan to cooperate in formation of these two financial institutions and use of their resources.

◆ Seventh, the possibility of political coordination of strategic decisionmaking on development issues of “Belt and Road”.

Political coordination is one of five areas of cooperation between the governments of the countries participating in the megaproject “One Belt – One Road”. The government of Kazakhstan will have the opportunity to coordinate with partners in “Belt and Road” to realize the best benefits from cooperation. However, such an opportunity is extremely difficult to put into practice, since it is necessary to find consensus between states with different political systems, political culture, strategic goals and priorities and, finally, different scales of economies, which is important. It is necessary to search and find a compromise, but it is not enough. A key success factor is a higher level of trust, which lies at the basis of mutual understanding.

◆ Eighth, the possibility of modernizing economic institutions and changing models of the economy.

All previous opportunities need modern economic institutions, and not only international ones that regulate creation and operation of the entire megaproject, but also the system of national institutions that regulate creation and functioning of “Belt and Road” component within state borders.

First of all, a strict legal definition of “Silk Road Economic Belt” should be adopted, outlining its spatial boundaries as international legal status and decision making format. Then the principles for formation of national institutions should be agreed.

Kazakhstan should accurately assess the opportunities that are present in trade and economic relations with China. At the same time, this trade relationship contains risks that must also be detected in a timely manner in order to avoid them or successfully overcome them. In other words, the government needs to learn how to predict diverse opportunities and risks that China’s dynamic economy and its “Belt and Road” initiative generates. This knowledge is necessary to develop a longterm strategy for Kazakhstan to actively adapt to economies of countries along “Belt and Road”, primarily to Chinese economy, and build profitable trade and economic relations with its powerful southern neighbor similar to ancient times.