



## CHINA'S TRANSFER OF PRODUCTION FACILITIES TO CENTRAL ASIA: KAZAKHSTAN CASE

In the early 2000s, in order to reduce the costs of production, a large number of Western companies moved their industrial facilities to regions with an undeveloped market, cheap labor and low industrial costs for environment. In this regard, the countries of the Asia-Pacific region, especially China, which has become the "world's factory", perfectly matched the mentioned criteria. However, after the 2008 crisis, Beijing announced reorientation towards a domestic consumption-led model of economy instead of an export-oriented one.

In March 2015, the Chinese government announced a new program for the steel industry aimed to support metallurgical enterprises, which would agree to make transfers of their manufacturing facilities outside the country. This program together with the State Council's decision to reduce steel production by 80 million tons for five years in six leading industrial provinces of the country have become an integral part of China's long-term strategy to reform the industry. It is expected that after China's programs for the infrastructure development of the country will be completed, there would be a dramatic drop in demand for building materials. However, according to the China Iron and Steel Association (CISA), overcapacity and overproduction in steel industry is growing progressively. For instance, only in the last two years, steel production capacity in China increased by 200 million tons to up to 1.1 billion tons per year, while the actual demand did not exceed 750 million tons in 2014. As a result, China initiated the process of moving production facilities to the territories of the neighboring countries and regions, where, as China believes, the steel demand is growing, while the rate of increase in steelmaking capacity is rather modest.

In addition, the decision to launch the transfer of production facilities abroad is caused by domestic environmental challenges. To date, one of the biggest China's environmental problems is industrial emissions. According to available statistical data on air pollution, more than 90% of the Chinese cities are exposed to pollution levels that exceed international limits. Therefore, in order to cope with the environmental contamination and harmful emissions from the most heavily polluting industries such as steel, cement, petrochemical, chemical and non-ferrous industries, the Chinese authorities adopted the 12th Five-Year Plan for Air Pollution Prevention and Control in Key Areas.

Despite the fact that originally Central Asia was not among the regions with promising

import capacities for Chinese goods, under the Silk Road Economic Belt (SREB) initiative China decided to relocate a number of production facilities to the regional countries. Beijing is interested in developing infrastructure and industry in the neighboring Central Asian countries since it views them as a promising transit corridor connecting China with its main trading partner, the EU. The region can also provide foreign enterprises with cheap labor and opportunities for promoting the Chinese management and business culture. For instance, in 2016, Beijing and Astana adopted a program towards transferring production facilities from China to Kazakhstan. According to the program, 51 investment projects under the Kazakhstani-Chinese industrial and investment cooperation at a total cost of \$26.2 billion include both transferring existing industries from China to Kazakhstan and establishing new industries in the country. All the projects are implemented in the processing industry as well as in infrastructure, in particular in metallurgy, oil and gas processing, chemical industry, machine engineering, energy production, consumer industry, agricultural processing, transport and logistics, new technologies and manufacture of consumer goods. New enterprises will be established in almost every region of Kazakhstan, but most of the projects will be implemented in the North Kazakhstan, East Kazakhstan, Almaty and South Kazakhstan regions. Moreover, China's \$40 billion Silk Road Fund agreed to contribute \$2 billion to the China-Kazakhstan Joint Foundation "Silk Road", which is aimed to support capacity building cooperation between China and Kazakhstan and investments in related projects.

During the official visit of the President of China, Xi Jinping, to Astana held on June 8, 2017, the President of Kazakhstan, Nursultan Nazarbayev, stated that the Chinese side had already launched three enterprises in the country, including the production of JAC vehicles by the small parts assembly method at the Kostanay-based SaryarkaAvtoProm. It should also be noted that the following large industrial projects are scheduled for 2018-2022:

- The construction of the country's first high-tech factory for the production of large-diameter welded steel pipes for the transportation of oil, gas, water and oil products, and for their usage in the mining, construction, chemical and power industries. The project is implemented in Almaty, on the territory of the Industrial Zone in the Alatau district, by a specially created company, namely, Asia Steel

Pipe Corporation LLP. The estimated annual capacity of the plant will be up to 100 thousand tons of pipes with diameters ranging from 355 mm to 1420 mm.;

- The construction of the KazMinerals JSC copper factory in the East Kazakhstan region with the capacity of up to 300,000 tons of copper per year. The project will enable Kazakhstan to become a major copper-smelting hub;

- The construction of the second phase of the electrolytic plant for the production of primary aluminum. This project will allow processing up to 85% of all extracted alumina in Kazakhstan. Now it is exported as a raw material;

- The establishment of an integrated gas chemical facility, which will allow producing up to 500 tons of polypropylene per annum.

According to the Ministry of Agriculture of Kazakhstan, six out of 51 investment projects are related to the processing of agricultural products. In fact, in August 2017, within the framework of the Kazakhstan-China Business Forum, the parties signed agreements on the following projects that will be launched on the territory of Kazakhstan:

- The establishment of a joint venture for establishing a new modern industrial chain in agriculture and cattle breeding. The agreement is signed between the Chinese Davo Industrial Ltd and the Kazakhstani China-Kazakhstan Modern Agricultural Development Co.;

- The construction of an agricultural park. The agreement is signed between Henan Jinyuanhai seed industry Co., the group of companies "Zhannur Astana" and the company One Plus One Natural Flour Co.

In conclusion, it is expected that within the framework of the China-Kazakhstan industrial and investment cooperation, the Kazakh side will act as a major shareholder of 23 out of 51 joint Chinese-Kazakh projects. Moreover, the implementation of the projects, which should comply with the local environmental standards, is expected to create about 20,000 jobs and substantially upgrade professional qualifications of Kazakhstani specialists. Therefore, it could be easily seen that one of the main objectives of the Chinese program of the transfer of enterprises abroad is not so much of finding promising markets for the Chinese export products as of addressing issues related to the needs of the economic recovery. Moreover, the program correlates with the Chinese "Going Outside" Strategy, which aims to facilitate Chinese outbound investment necessary to maintain economic growth.

## Politics, Foreign Affairs and Security

- The new Government of Kyrgyzstan under the leadership of Sapar Isakov took the oath in the presence of President Almazbek Atambayev. The Government in Kyrgyzstan was replaced after Sooronbai Jeenbekov left office because of his participation in the forthcoming presidential elections.
- During the first Summit of the Organization of Islamic Cooperation (OIC) on science and technologies held in Astana, the representatives of 56 OIC member countries and other international and regional organizations determined priorities, goals, and objectives in the field of science, technology and innovation development.
- During his official visit to Bishkek, the President of Uzbekistan, Shavkat Mirziyoyev, and his Kyrgyz counterpart, Almazbek Atambayev, discussed current economic relations between the two states. As a result of the visit, a package of documents on the issues of trade, tax legislation, the activities of border officials, education, science and technology was signed. Moreover, the parties inked the Joint action plan on further deepening and expanding cooperation between the border regions 2017-2019 and Agreement on interregional cooperation between the Parliaments.
- During his official visit to Astana, the President of Poland, Andrzej Duda, and his Kazakhstani counterpart, Nursultan Nazarbayev, discussed the regional and global issues, as well as the current development of the Kazakh-Polish economic relations.
- During his official visit to Baku, the First Deputy Defense Minister of Russia, Army General Valery Gerasimov, and the First Deputy Minister of Defense of Azerbaijan, Colonel General Najmeddin Sadikov, discussed the current state of military and military-technical cooperation and the prospects for developing relations in military education between the two countries.
- During his official visit to Tashkent, the Secretary of the Political and Legal Commission of the Central Committee of the Communist Party of China, Co-Chairman of the Uzbek-Chinese Intergovernmental Cooperation Committee, Meng Jianzhu, and the President of Uzbekistan, Shavkat Mirziyoyev, exchanged views on prospects of practical cooperation between Uzbekistan and China in trade and economic, investment, financial and transport-communication spheres.
- During his official visit to Baku, the Minister of Foreign Affairs of Turkey, Mevlut Cavusoglu, and the President of

Azerbaijan, Ilham Aliyev, discussed further prospects for strengthening the economic cooperation in the fields of trade, investments, energy and transport infrastructure.

## Economy, Finance and Energy

- According to the Head of the Department of Russia and the CIS countries of the South Korean International Trade Association, Lee Keun-Wha, the country's exports to Russia in 2017 increased by more than 60%, while import has gone up 45%, as of the end of July. It was also noted that the Korean cars, cell phones and construction equipment hit sales record in Russia in the first half of this year.
- As a result of the state visit of the President of Tajikistan, Emomali Rahmon, to Beijing, China agreed to allocate \$230 million grant and \$79 million soft loan to Tajikistan. As part of the agreement signed by the Governments of the two countries, the Chinese side will also provide soft loans for the construction of a 500 kV high-voltage power transmission lines in Tajikistan.
- The Central Bank of Uzbekistan announced that they devalued their national currency - soum - by 3,889.65 soums or 92.38% from 4,210.35 soums to 8,100 per US dollar. The Central Bank also devalued soum against other currencies. It was noted that the approximate equilibrium level of the exchange rate is currently about 8,000-8,150 soums per US dollar.
- The Deputy Energy Minister of Azerbaijan, Gulmammad Javadov and the President of European Bank for Reconstruction and Development (EBRD), Suma Chakrabarti, signed a Memorandum of Intent on Strategic Road Map for the development of utilities in the country. Since cooperating with Azerbaijan in 1992, EBRD has allocated \$1.7 billion for the implementation of 151 projects in the country.
- During the Second International Fruit and Vegetable Fair held in Tashkent, the hosting country signed contracts for the supply of fruits and vegetables to foreign countries for \$1.2 billion. It was noted that more than 350 foreign companies participated in the Fair, including the companies from Russia, Belarus, Singapore, Korea, Japan, Ukraine, Sweden, Portugal and Saudi Arabia.
- The Baku Stock Exchange reported that in January-August 2017 period, the total turnover of the stock transactions amounted to about \$3.87 billion, which is by 2.2 times more than in the same period of 2016. In January-August 2017, the volume of the government securities market totaled \$1.39 billion,

which is a 6.7-fold increase over the year, while corporate securities market turnover and derivatives market volume reached \$0.69 billion showing 15.7-fold growth.

- The Ministry of Finance of Kyrgyzstan stated that the country's economy in the next three years would comprise on the average 4.5%. In particular, the economic growth will reach 3.6%, 4.8% and 5.2% in 2018, 2019 and 2020, respectively. It was also noted that inflation in the next three years would keep at 4.5% and 5.7%.

## Society and Culture

- The President of Russia, Vladimir Putin, awarded the Chinese Vice Premier, Wang Yang, with the Order of Friendship. The Order was awarded because of the input of the Vice Premier to the relationship between Russia and China.
- At the closing ceremony of EXPO-2017 in Astana the President of Kazakhstan, Nursultan Nazarbayev, announced that about 4 million people visited the international specialized exhibition. According to the announcement, every sixth visitor was a foreigner. It was also noted that the most popular pavilion of the exhibition was Kazakhstan's Nur-Alem sphere.
- The Central Electoral Commission of Kyrgyzstan reported that it accredited 86 observers for the presidential elections scheduled for October 15. It was also stated that the representatives of 15 international organizations received accreditation. Observers from 27 countries will monitor the voting day. The election commission informed that 42 long-term observers of the OSCE / ODIHR mission and eight from the CIS mission started their work separately.
- The Permanent Delegation of Azerbaijan to UNESCO stated that the country allocated more than \$1.5 million for girls education in four African countries through UNESCO projects. The projects cover Kenya, Tanzania, Uganda and Liberia.
- The Ministry of Defense and Aerospace Industry of Kazakhstan reported that three launches are planned during September 2017 from Baikonur. It is planned that Proton-M will take Spanish satellite Amazonas-5 and Chinese communication satellite AsiaSat-9 to the orbit, while Soyuz MS-06 will transport three members of the Expedition 53 crew to the International Space Station.