



THE GEO-ECONOMIC IMPORTANCE OF THE KHORGOS GATEWAY: CURRENT DEVELOPMENTS

China is one of the major trade partners of Kazakhstan, actually it's the second trade partner after Russia. In order to strengthen the economic relations and to increase the effectiveness of cargo transportation from China to Europe through Kazakhstan, both sides initiated the Khorgos project. The Khorgos International Centre of Boundary Cooperation (ICBC) JSC was established based on the agreements between the governments of the two countries in 2005.

Since the amount of cargo transport between China and Europe has increased by 17 times during the last five years, it is not surprising that China's global transit shipping is expected to increase from 7 million 20-foot equivalent units (TEU) in 2010 to 17 million TEU in 2020. Aiming to attract 8% of this transit traffic, Kazakhstan announced that the Khorgos project facilities would be enlarged. In 2010 Kazakhstan and China signed an agreement on establishing a Khorgos Special Economic Zone (SEZ). According to the agreement, the Khorgos SEZ, in total, covers an area of 568 hectares which consists of logistic zone (189 hectares), industrial zone (230 hectares), and transport and logistics center, so called the "dry port" (149 hectares). Particularly, the major advantage of the "dry port" of the Khorgos is that it has an inland terminal for cargo transshipment and facilities to store containers allowing the cargos to be stored, organized and sent to different directions that will increase the efficiency of transshipment and reduce the transit time loss. In the framework of the First Phase of the Khorgos SEZ, which started in 2013, Kazakhstan's state railway company, "Kazakhstan Temir Zholy" (KTZ), conducted feasibility studies

and prepared business plans for the "dry port" project. Currently, the KTZ cooperates with the Dubai Port World (DP World) for operational management of the "dry port". The KTZ launched the engineering works of the "dry port" by supplying necessary financial resources in 2014. In December 2014 in order to shorten the transit time for delivering cargo from China to Europe, Kazakhstan took over the operations at the linkage of Zhetygen-Khorgos and Jezkazgan-Beineu railway routes connecting the Khorgos "dry port" with the Aktau port at the Caspian Sea shore. Due to the acceleration of the development of Kazakhstan's internal railroads, the cargo transportation period from Chongqing in China to Duisburg in Germany reduced to 11.5 days. Therefore, the First Phase of the Khorgos SEZ was completed when the "dry port" was officially put into operation on June 15, 2015. Since then, the Khorgos "dry port" has been able to deliver 162 trains with 8,532 TEU and it has been increasing its capacity continuously.

As for the Second Phase of the Khorgos SEZ, it is been planned that all preparation works related to putting the logistic and industrial zone facilities into operation would be completed in May 2016. The government of Kazakhstan intends to attract the attention of more than 50 world-known companies to the Khorgos SEZ industrial zone in order to contribute to the manufacturing sector of the country. So far, Toyota, DHL and HP has shown interest to open distribution centers among the Khorgos SEZ facilities. It should be admitted that manufacturing at the Khorgos SEZ area under the label of "Made in Kazakhstan" would allow companies

to export produced goods without any tariff barrier within the Eurasian Economic Union (EAEU). Therefore, it is a good opportunity for China to increase its trade with Kazakhstan, which reduced from \$22.7 billion in 2013 to \$17.1 billion in 2014 and is estimated at \$8.2 billion in January-September in 2015.

As of today, Kazakhstan has already spent \$300 million of \$1.1 billion for the development of the Khorgos SEZ while the Chinese side has already invested \$4 billion and is planning to invest \$600 million more within the framework of the investment agreement signed between the authorities of the Jiangsu province of China and Kazakhstan.

For China the Khorgos project will definitely become an essential part of the "Silk Road Economic Belt" (SREB) project aimed to strengthen the transportation routes and to enhance its economic relations with 65 countries along the route. Since China is planning to invest over \$50 billion into the SREB initiative development and is expecting to boost its trade by \$2.5 trillion in the next decade, the Khorgos SEZ will have an opportunity to function as a transit hub for cargo distribution along the Eurasian Region.

In terms of its economic benefits, the Khorgos project has a great potential to have a positive effect on the economic growth of the Almaty oblast, Kazakhstan and even of the Central Asian region as a whole with its flexibility to increase the transport capacity. The Khorgos gateway project is a beneficial project for Kazakhstan both economically and politically with a potential to increase and to diversify its trade with China and to boost its manufacturing sector.

Politics, Foreign Affairs and Security

- On November 24, 2015 a Turkish Air Force F-16 shot down a Russian Su-24 that had intruded into the Turkish airspace.
- On November 30, 2015 the President of Kazakhstan, Nursultan Nazarbayev, delivered his annual State - of - the - Nation Address, which outlined Kazakhstan's steps to be taken to amid the global financial crisis.
- As the last stopover on his Asian tour, the Prime Minister of Russia, Dmitry Medvedev, visited Cambodia where he held talks with the Prime Minister of the country, Hun Sen, and met with King Norodom Sihamoni. The parties signed 6 bilateral documents including a co-operation agreement between the Cambodian People's Party and the United Russia political party, an agreement on information exchange concerning money laundering and terrorism financing, two deals on investment, and two Memorandums of Understanding (MoU) between the national press agencies.
- During the meeting of the political subgroup of the Contact Group on the settlement in eastern Ukraine a wide range of issues related to reaching a negotiated settlement to the armed conflict in the Donbas region, such as local elections, amnesty, the lifting of the counter-terrorism operation regime by Kiev, economic blockade and amendments to the Ukrainian Constitution were discussed.
- The President of Russia, Vladimir Putin met with his French counterpart, Francois Hollande, in Moscow to discuss coordination of efforts to rebuff the ISIS and a number of other topical issues of the international agenda.
- According to the National Anti-Terrorism Committee of Russia, an anti-terrorism operation was launched in Russia's North Caucasian region of Dagestan, namely the Buinaksk, Karabudankhkent and Tabasaran districts.
- During the police special operation in the Nardaran township, located 25 km away from Baku, 4 members of the Muslim Unity Movement, created by Tale Baghirov, were killed and 14 members were arrested.

Economy, Finance and Energy

- On the sidelines of the 3rd Gas Exporting Countries Forum (GECF) Iranian and Russian officials signed seven MoUs in the fields of energy, oil, gas and elec-

tricity. Moreover, Tehran has signed an agreement, according to which Iran would sell 9 tons of 4% enriched uranium to Russia and in return, would import 140 tons of natural uranium within the framework of the Joint Comprehensive Plan of Action. It was also announced that Russia intended to extend a \$5 billion state loan to Iran to promote industrial cooperation.

- The Russian company Gazprom Neft announced that it started oil delivery to Uzbekistan increasing oil exports to the CIS countries by 68.6%. Oil delivery to the CIS countries has increased from 0.86 million to 1.4 million tons since the beginning of 2015.
- The Russian Railways and the Iran Railways have signed an agreement worth €1.2 billion to electrify the Garmsar – Sari – Gorgan – Inche Burun rail line, linking north-central Iran to the northeastern border of Turkmenistan. The implementation of the contract will improve the capacity of passenger trains and will raise transit to 8 million tons.
- In the framework of the 3rd GECF in Tehran, Iran and Turkmenistan signed two MOUs on electricity and transportation cooperation. The MOU on transmission of electricity from the Turkmen city of Mary to the Iranian city of Sarakhs was signed between the Energy Ministers of Iran and Turkmenistan.
- During the 31st meeting of the Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (OIC), which was held in Istanbul, the Minister of National Economy of Kazakhstan, Yerbolat Dossayev, signed a General Agreement on Trade, Economic and Technical Cooperation between the member countries of the OIC.
- PetroKazakhstan Oil Products signed an agreement with China Petroleum Engineering & Construction on the launch of the second phase of the modernization and reconstruction project of the oil refinery in Shymkent. According to the project, the oil refinery will boost its processing capacity from 5.25 million tons to 6 million tons and will also expand production of light oil products from 61% to 89% meeting the Euro-3 standards.
- The Senate of the Parliament of Kazakhstan has adopted the draft law on state budget for 2016-

2018, according to which, the nominal GDP would be expected to reach 45.5 trillion tenge in 2016 with subsequent increase to 63.9 trillion in 2020. The GDP per capita would increase from \$8,557 in 2016 to \$11,470 in 2020. The price of oil was considered at the level of \$40 per barrel in 2016-2017, and \$50 per barrel in 2018-2020.

- According to the Deputy Minister of Economic Development and Trade of Ukraine, Natalya Mikolskaya, export of goods and services decreased by 30.8% to \$34.3 billion in January - November 2015 compared with the same period of 2014. Ukrainian export to the European Union member states dropped by 30.4% to \$9.2 billion in 2015.
- According to the National Statistics Office of Georgia, the volume of Georgia's export to Turkey dropped by 18% or \$35 million in January-October 2015 compared to the same period of 2014 and reached \$160.5 million. Georgia's foreign trade turnover with Turkey reached \$1.2 billion in January-October 2015 or 22% less than that in the same period of 2014.

Society and Culture

- The Board of Executive Directors of the World Bank approved a total financing of \$16.11 million for the Kyrgyzstan Integrated Forest Ecosystem Management Project, \$6.6 million of which would be a concessional credit, while \$5.4 million would be granted.
- The 46th humanitarian aid convoy of the Russian Emergencies Ministry including more than 100 vehicles have delivered more than 1,000 tons of humanitarian cargo, mainly food and medications to the Donetsk and Lhansk regions.
- The Parliament of Tajikistan approved amendments related to the existing anti-terrorism law making it legal to block phone and Internet systems during the counterterrorism operations. Besides, the Tajik authorities have disrupted access to a number of popular social network services, including Twitter and Facebook.
- The Majlis of Turkmenistan has adopted the draft law "On Space Activity", which defines its legal, institutional and economic bases. It was also confirmed that after launching its first space satellite, TurkmenAlem 52E, into the orbit, Turkmenistan plans to launch the second space satellite.