Kazakhstan Belt and Road Initiative: The road to somewhere

Khorgos, a new state-of-the-art port in the middle of the Kazakh desert, sums up the grand ambitions of the Belt and Road Initiative. But it is as much driven and funded by Kazakhstan as it is by China. Rather than being a white elephant, it has real implications for trade.

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Bored of sitting in Belt and Road Initiative conferences looking at pretty maps and hearing grand statistics but with the nagging sense that nothing is actually happening? Then get yourself to Khorgos.

You can gain no clearer sense of Belt and Road's brazen ambition than the building of this port and its attendant city 1,500 miles from an ocean.

Here, in the desert on the Kazakhstan-China border, we can see genuine evidence of cross-cultural cooperation and serious investment in rail freight from China to central Asia and Europe and back, right on the line of an ancient Silk Road route.

But there is a twist. The port is on the Kazakhstan side of the border. It has not been funded by China, built by China or run by China. The whole impetus, financial and logistical, has come from the Kazakhstan side.

Khorgos doesn’t just show us the scope of Belt and Road, it shows that the new Silk Road is not a one-way street.

Kazakhstan is instrumental to Belt and Road. President Xi Jinping chose the capital, Astana, to announce the whole idea in September 2013, and there is some suggestion Xi got the idea from the Kazakh president, Nursultan Nazarbayev, in the first place: Nazarbayev had been talking about reviving Silk Road routes for years.

There is also a good reason to put a large container port here, despite being close to the Continental Pole of Inaccessibility, the point that is further from an ocean than any other place on Earth. A key component of China’s vision for Belt and Road is the revival of rail freight, from Chinese factories to central Asia and on to Europe; the route from Yiwu on China’s east coast to Madrid is considered the single longest rail route in the world, covering 13,000 kilometres (8,100 miles).

But the rail gauge in the former Soviet Union is different to that in China, which is why this port needs to exist: to take containers off trains from China and put them on trains that run on Kazakh and Russian tracks.

That is why Euromoney is here on an unseasonably warm spring morning in the Taklamakan desert looking at the buffers for six parallel rail lines, three with red Chinese flags on them, three with the light blue flag of Kazakhstan, watching John Deere agricultural equipment manufactured in Harbin and Tianjin being loaded on to one of the Kazakh-gauge trains. The lines are straddled by huge yellow gantry cranes more commonly seen in seaports like Singapore or Rotterdam.

Nearby is a separate area for containers to be sorted for maximum efficiency before being loaded on to the appropriate train, which can be half a mile long. There are warehouses, refrigeration facilities, a grain silo underway and, beyond them, plans for an industrial manufacturing zone on-site, including a canning plant.

The whole dry port facility has the capacity for 500,000 TEU (twenty-foot equivalent) containers. That looked absurd when first conceived as a target for 2020, but already volumes have doubled between 2016 and 2017 to exceed 100,000 a year. They will increase again when containers that now go through an older crossing in Dostyk start using this new route. A steady stream of trucks also go through and a new border crossing is about to open on a new highway when Euromoney visits.

The best sense of what has happened here can be gained by looking at a satellite image of the area from as recently as 2010. All you can see are sand dunes. There were more wild camels than residents.

One of the few buildings yet established on the Kazakh side of the zone

Now there are towers rising in abundance on the Chinese side in the city of Horgos (it has the same name on both sides of the border but is pronounced differently). Estimates vary on the current population, but there are at least 50,000 people here now and some say double that number. The Kazakh side of the residential development is smaller, reflecting the far more modest national population, but in a custom-built new town called Nurkent there are 4,000 residents, and you can see children in the school and families occupying well-made houses laid out like an American suburb.

Both sides of the border expect considerable growth. There are signs already to the town of Nurkent 2, although it does not yet exist – just a roundabout with a monument marking where the town will be.

Position

Despite its remoteness, its position is its main selling point. "The main value proposition for Khorgos is really its location," says Hicham Belmaachi, chief operating officer of SEZ Khorgos-Eastern Gate, the special economic zone that includes the dry port. He is an employee of Dubai Ports, which runs the facility and became a big investor in it in March.

"We are five days by train from eastern Chinese cities like Shanghai and Qinghai; from here to Europe is nine to 10 days."

Almaty, Kazakhstan's main commercial centre, has got a lot closer in terms of time over the last couple of years too: previously a five-hour drive, it has taken us two and a half this morning, although that was partly the result of the driver hitting 180 kilometres an hour on the empty new highway that is still not formally open.

Hicham Belmaachi, chief operating officer of SEZ Khorgos-Eastern Gate

Progress has been rapid recently. Belmaachi's presentation for visitors includes photos of absolute emptiness where buildings now stand, taken here as recently as 2014.

"Also, Khorgos is one of the main gates for the Eurasian Customs Union leaving China," adds Belmaachi, a Moroccan-born French national who is, like most people here, a long way from home. "When you clear goods here in Khorgos they can go anywhere: to Russia, Belarus, Kyrgyzstan, Armenia," without clearing further customs hurdles.

This morning's John Deere tractors are heading to Azerbaijan.The other really important thing about this remote place, 320km by road from Almaty and 660km from Urumqi on the Chinese side, is a thing called the ICBC (nothing to do with the bank – in fact, it is China Construction Bank whose three-language billboard dominates the border). ICBC in this part of the world stands for International Centre of Boundary Cooperation.

This is an experiment. It is a shared zone with 421 hectares on the Kazakhstan side and about 300 on the Chinese side, which Kazakhs and Chinese can enter with just their ID card, no passport. Any foreign national can enter with a passport, with no need for a visa.

The border runs through the middle of it, but travel within it is unimpeded. It feels strange to be able to walk across the border, where red and blue lines run between two towers whose feet straddle the frontier, without either a Chinese visa or any other impediment. People take selfies with one foot in each country.

It is even stranger that you go forward two hours in time when you take that step into China, which plays havoc with establishing what the opening and closing times are for anything from the vodka shops to the border itself.

In this zone there are tax breaks and no duty levied, with both countries' currencies (and others besides) accepted; the result in these early days is that it has become an enormous duty-free zone. On the far more developed Chinese side (the ICBC, when its location was allocated, included some pre-existing parts of the town in China), shopping centres hum with activity as visitors from Kazakhstan buy more or less anything they can think of.

There are the textiles and iPhones of dubious provenance, of course, but so much more: you can buy pneumatic pumping equipment, tractor tyres, bikes and guitars – we even find a basement-level shop selling cosmetic surgery machines.

Development on the Kazakh side is far more rudimentary, but there are two two-story duty-free stores for the Chinese to buy goods: Georgian wine, Russian vodka, matryoshka dolls, as well as, curiously, the staples of international duty free, from Scottish whisky to Chanel perfume and Breitling watches.

So far, the buying volumes dramatically favour central Asian people buying Chinese goods. The Chinese like to buy fine food and wine products but not in the same quantities that cross the border in the other direction, stacked in bundles and carted around on trolleys and minibuses. This is an imbalance also played out on the trains, which leave China full and come back much emptier.

The other striking thing is the scale of the ambition here. The ICBC has two headquarter buildings, one on each side of the border. In the Kazakh building, the ICBC's president, Kaharman Jazin, shows Euromoney a room-sized model of how their side of the zone will one day look. The plan involves a lot more than duty free. There is a theme park, to be called Happy Land, and a circus in a series of buildings shaped like leaves. There are hotels, offices, residences and exhibition centres, with futuristic architecture very much reminiscent of Kazakhstan's custom-built and equally remote capital city of Astana.

Perhaps three buildings out of the 100 or so on the model are operational today. However, Jazin says that the buildings in the current stage of development will be open by 2020 and the whole lot by 2023 – just five years from now.

On the Chinese side the models are bigger and filled with all manner of multimedia paraphernalia. If all of this is done, this will be a tourist destination, a hive of industry and trade, and a fully self-sufficient society, all in the middle of nowhere.

Yes and no

So, is this Belt and Road? From the Chinese perspective, yes it is everything BRI is supposed to be about. International connectivity; closer cooperation with neighbours; and more ways to export Chinese goods, both to neighbours and far beyond.

From the Kazakh side, the answer is also yes, if by that we mean greater trade links. Building ties with China is very important to Kazakhstan as it seeks to lessen its dependency on Russia.

But if by Belt and Road we mean China-led, China-funded development, with all of the geopolitical bargaining and soft lending that comes with it, then Kazakhstan would probably say no.

First, there is the port. The Kazakh government funded the building of the infrastructure and the port itself, whose workers live in a state-built village.

"Everything is Kazakhstan-funded," says Belmaachi. Its operation is contracted to Dubai Ports, which in March agreed to take a 51% stake in the whole Khorgos special economic zone that includes the port and the developing logistics and manufacturing hubs next to it.

It is true that Cosco, the Chinese state-owned shipping company, and the Port of Lianyungang took a 49% stake in the dry port (although not the neighbouring logistics and industrial zones of the broader SEZ) in 2017, but they did so after much of the infrastructure was put in. Their participation is part opportunistic investment, part an effort by China to demonstrate commitment. It is not a coincidence that the deal was signed on the sidelines of the Belt and Road summit in Beijing and it is understood that Cosco has been given as much as $26 billion by China Development Bank specifically to invest in BRI projects.

As for the ICBC, again the Kazakh side is Kazakh-funded. Jazin says the state put in $200 million of investment to build supporting infrastructure such as roads, power and sanitation. Everything that is then built and operating in the zone will be private sector (Jazin expects $3 billion of investment in total) and it is true that to date about half of this is Chinese. But already there is an intention to stop this being just a Chinese show.

"Today, half of the investors on our side are Chinese," Jazin says. "But we are trying to attract non-Chinese investors to keep it balanced."

In this respect, Kazakhstan is perhaps not entirely representative of how Belt and Road will go. It has mineral wealth, a sovereign wealth fund and an abundance of natural resources. Not everywhere has these advantages. Pakistan, for example, needs funding to build its infrastructure. Sri Lanka has accepted BRI funding too and not always for the wisest projects. Indonesia, with the Bandung railway, and Thailand, with its own rail network ambitions, are very happy to take Chinese money to get infrastructure built. Kazakhstan, wary of reliance and of foreign influence in general having only gained independence in 1991, has different priorities.

"ICBC is not just an integral part of One Belt One Road," says Jazin. "It gathers a lot of different initiatives into one project."

He calls it a “facilitation of interaction between countries.” And for him, the ICBC zone and the dry port are part of the same idea. “We consider this as a single platform. Where ICBC will be the platform for business – the showroom – the special economic zone will have the production side.”

Equation

Beyond all of this is the question of whether or not the whole thing is going to work. The success of the port as a commercial venture requires a few things to happen. First, people have to believe in the need for rail freight.

Here is the equation. Sending freight by sea from eastern Chinese ports to western European markets takes about twice as long as sending it by rail. Air freight, of course, can do it in a day, customs and availability notwithstanding.

Set against that, the cost of rail freight is ordinarily about three times more than sea, while air freight is of course vastly more expensive. Belmaachi says that for 40 cubic feet of cargo, going by sea will cost $2,500 to $3,000 and air freight anywhere from $30,000 to $50,000. Rail, ordinarily, will be about $10,000.

But subsidies complicate the picture: in some cases, the rail freight cost is around $4,000 to $5,000, less than twice the cost of sea, but that requires continuing subsidies from China, typically through state entities.

So, for whom does this equation work out? Anything high-volume and low-priority will still go by sea. Anything perishable will still go by air. Technology is an example of a market where rail will make more sense: high-value, with an urgency to get to market. HP has been a pioneer in this regard and was responsible for the first China-to-Europe train shipment to come through Khorgos. Car parts and non-perishable consumables, such as Georgian wine, are examples of commodities that will use it in the other direction.

More generally, rail is a quick way of reacting to spikes in demand. If there are goods that need to be shipped to meet a shortage but are too big for air freight, then rail will present an option.

It is an open question if all of this is enough to get to the target of 500,000 TEU by 2020 for the port, and even that does not necessarily mean that the freight routes are profitable – that is difficult if containers are only full in one direction. One only has to look at a map to see that getting goods from eastern China to central Asia by rail makes more sense than by sea, but for the routes to be profitable, they need to carry freight both ways.

Belmaachi presents rail as just one among several options and does not expect it to replace sea freight; a train might take 100 containers at the most, whereas a container ship can take 20,000.

“We’re not here to destabilize the world of trade at sea,” he says. “Our idea is to focus on a segment of the market that needs faster delivery time or use a route more efficient for this kind of cargo. We are bringing something different, and shippers always like to have different options so they are not stuck with one mode of transportation.”

Belmaachi adds that a key element of the offering will be the container yard where containers can be sorted, transferred and stored, maximizing efficiency. The long-term plan is that manufacturing takes place right here on the border so that goods can be shipped to meet European demand very quickly.

“If you have stock based in Khorgos, you can answer any demand in Europe in 10 days.” And he wants Khorgos to be multi-modal, well set up for trucks and with state-of-the-art digital connectivity, which is already evident in the elaborate security apparatus in place around the port.

Rail freight brings other challenges. Temperatures do not vary too much at sea. In Khorgos, they can vary by 80 degrees Celsius – minus 40 in the winter, plus 40 in the summer. The facility is set up for diesel-powered containers that provide heating for electrical components, for example, and for refrigerated cars (there is a section of its warehouse that is basically a huge fridge).

“We are still very far from optimization and efficiency,” says Belmaachi. “In Asia or Dubai, we see a lot of efficiency because of the concentration of volume through a single point. And when we focus all our flows in this one point, it will create this efficiency.”

The ambitions here can seem far-fetched, but then again building a brand-new capital city in the middle of nowhere was ambitious and Kazakhstan did that too.

“I used to work in Astana,” says Jazin. “I saw how it became a city in a few years. And I’m sure we will do better here.”