RESEARCH &
KNOWLEDGE MANAGEMENT

One Belt & One Road
Leveraging infrastructure value potential

SEPTEMBER 2017

CONTENTS

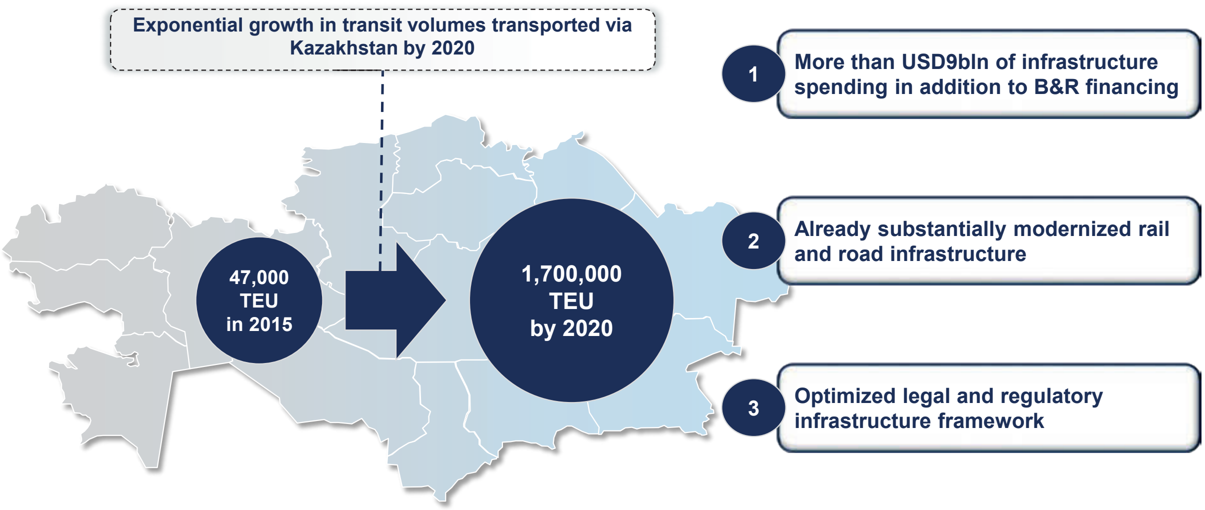
1. Key highlights

- One Belt & One Road (B&R) initiative comprises two physical routes, with several intermediate hubs along the way, connecting China with Europe, Africa and Southeast Asia. The initiative will concentrate on the investments in a wide array of assets, including ports, roads, railways, airports, power plants, oil and gas pipelines and refineries, with total cost of already arranged projects in Asia region amounting to USD250bln. In addition, China's government is expected to mobilize approximately USD1tln of state financing over the next 10 years to fund infrastructure spending in the countries along the B&R road.

- B&R is expected to have a positive impact on the regional trade, reducing logistics costs, driving new trade deals and facilitating the development of new manufacturing export hubs outside of China. In particular, the strongest momentum in external trade gains will be observable in emerging markets with below-average development, including Bangladesh, Cambodia, Laos, Pakistan, Myanmar. This is partially attributable to low-base effect and favorable positioning across coverage routes.

- On sectorial front, developing nations in Asia are expected to spend USD776bln annually to fund infrastructure projects by 2020, creating over 580 mln tons of annual cement demand, based on historical correlations with fixed-asset investment in the region. In addition, B&R program may also drive the demand to 272 mln tons of steel, reflecting 5% annual growth by 2020, as approximately 34 tons of steel products may be used for every USD1mln of investments in railways, supporting the performance of the region's construction and manufacturing sectors and boosting economic growth.

Kazakhstan: B&R initiative synergy with Nurly Zhol program



Source: KTZ, Mckinsey & Company, Samruk-Kazyna

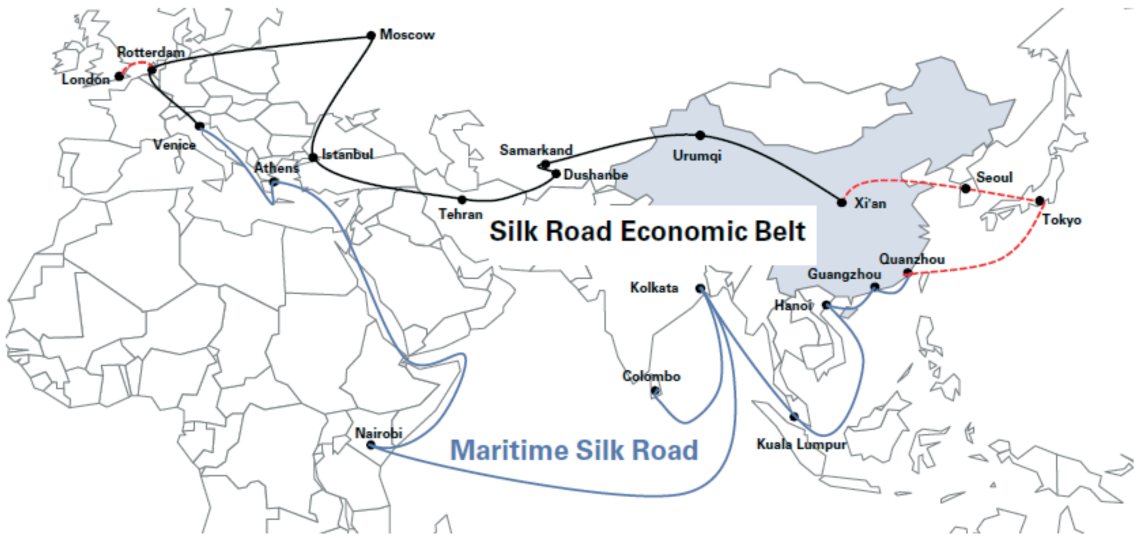
- B&R program implementation in Kazakhstan is expected to be faster than in other participating countries due to substantial synergies with Nurly Zhol program and optimized legal and regulatory environment. The majority of Nurly Zhol projects may be considered as a part of a broader B&R framework, as they directly contribute to the improvement of Kazakhstan's infrastructure and EU-Asia transit potential. Kazakhstan's economy is expected to benefit from B&R program implementation, with Asia-EU-Asia transit volumes transported via Kazakhstan forecasted to increase to 1,700,000 TEU by 2020 from 47,400 TEU in 2015.

2. Overview of One Belt & One Road initiative

The One Belt & One Road (B&R) program introduced by China's government to improve connectivity between the Asian, European and African continents, is anticipated to enhance trade flows and drive long-term regional economic growth. The initiative comprises two physical routes, with several intermediate hubs along the way, connecting China with Europe, Africa and Southeast Asia. It represents a collection of all current, planned and future infrastructure projects, accompanied by a variety of bilateral and regional trade agreements.

B&R will concentrate on the investments in a wide array of assets, including ports, roads, railways, airports, power plants, oil and gas pipelines and refineries, with total cost of already arranged projects in Asia region amounting to USD250bln. In addition, China's government is expected to mobilize approximately USD1tln of state financing over the next 10 years to fund infrastructure spending in the countries along the B&R road.

B&R initiative coverage map



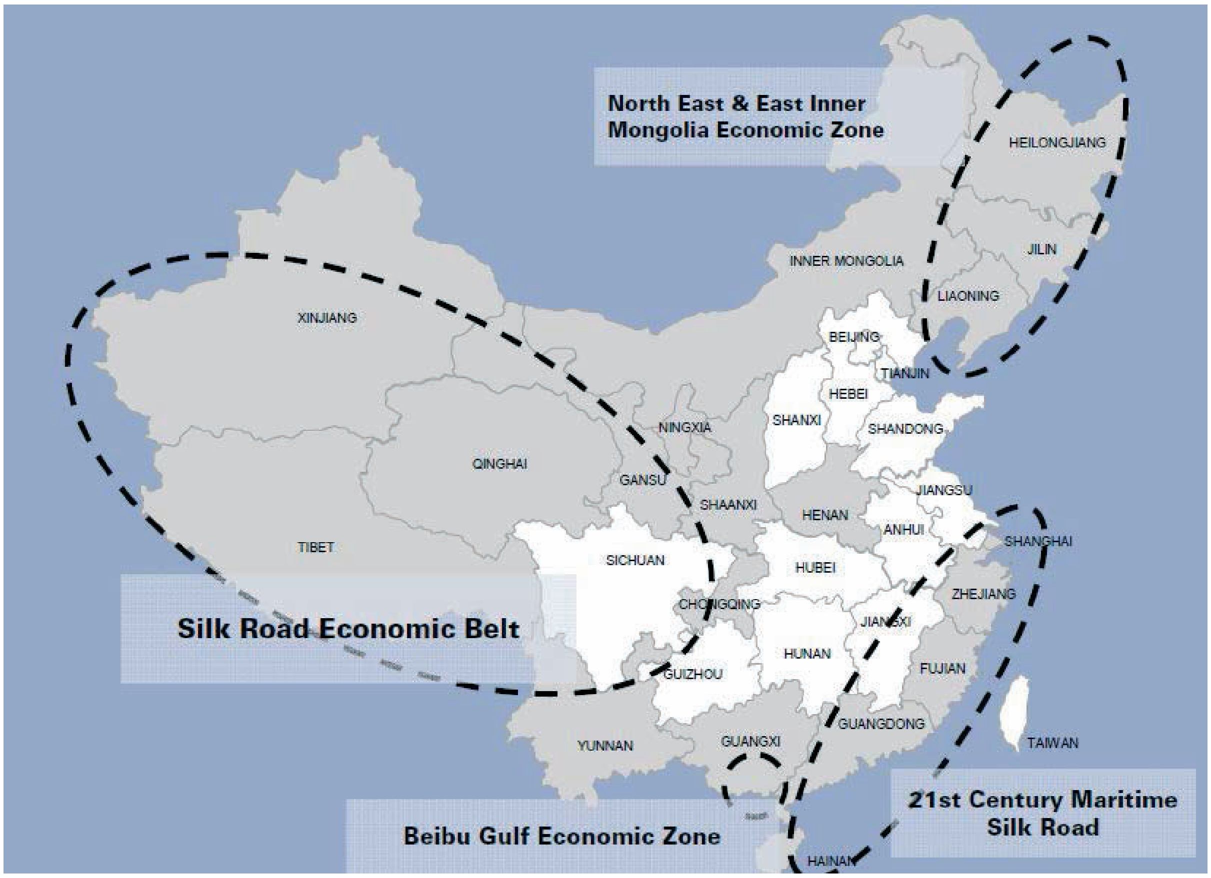
Source: Goldman Sachs

The program currently involves 69 countries, which have an aggregate population of 4.4bln, contributing approximately 29% to the world's total GDP in 2015. While the absolute population and economic size is significant, the average per capita GDP for these 69 countries amounted to USD5,400 compared to the world's average of USD10,000, reflecting the early development stage and strong growth potential in the region under B&R coverage.

The initiative will provide a connection between Asia, Europe and Africa via five routes, representing a synergy of The Silk Road Economic Belt and The 21st Century Maritime Silk Road programs. The Silk Road Economic Belt is expected to connect China to Europe and the Middle East through Central Asia and Russia and reinforce China's integration with Southeast Asia and South Asia regions. Meanwhile, The 21st Century Maritime Silk Road is aimed to improve marine infrastructure of China's coastal ports, linking the country with Europe through the South China Sea and Indian Ocean.

Concentrating on the above five roads, B&R will utilize global logistic corridors, core cities and key ports in order to increase the degree of cooperation across the participating countries, creating six international economic routes, including the New Eurasia Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar.

China's provinces B&R exposure map

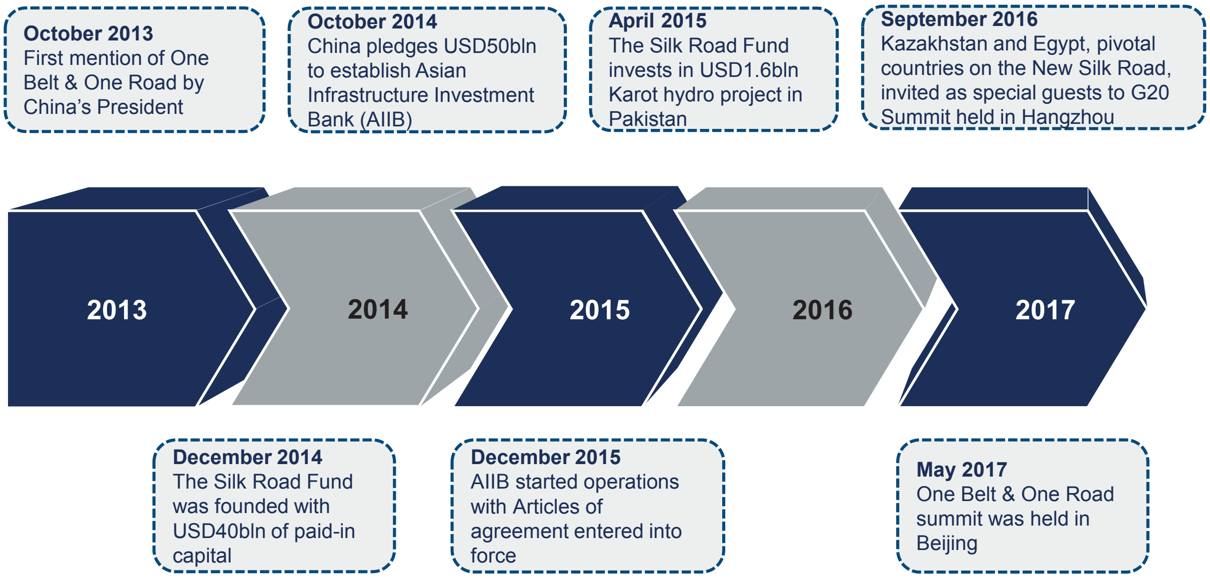


Source: Goldman Sachs

The program was firstly proposed by China's President Xi Jinping during his visit to Kazakhstan in 2013, where he highlighted the concept of Silk Road Economic Belt, aimed to reinforce economic ties across several regions. In October 2013, President Xi reiterated his B&R proposition in his speech at the Indonesian parliament, indicating willingness to strengthen cooperation with ASEAN countries and expanding B&R initiative's coverage to the construction of The 21st Century Silk Road on the Sea.

Premised on China's government information, B&R program is open to all states which are ready to contribute to regional economic development, with the participating countries not restricted to states on the ancient Silk Road route. Making substantial infrastructure spending, China plans to create a synergy loop, connecting East, Central, and South Asia to Europe, through Middle East and Africa.

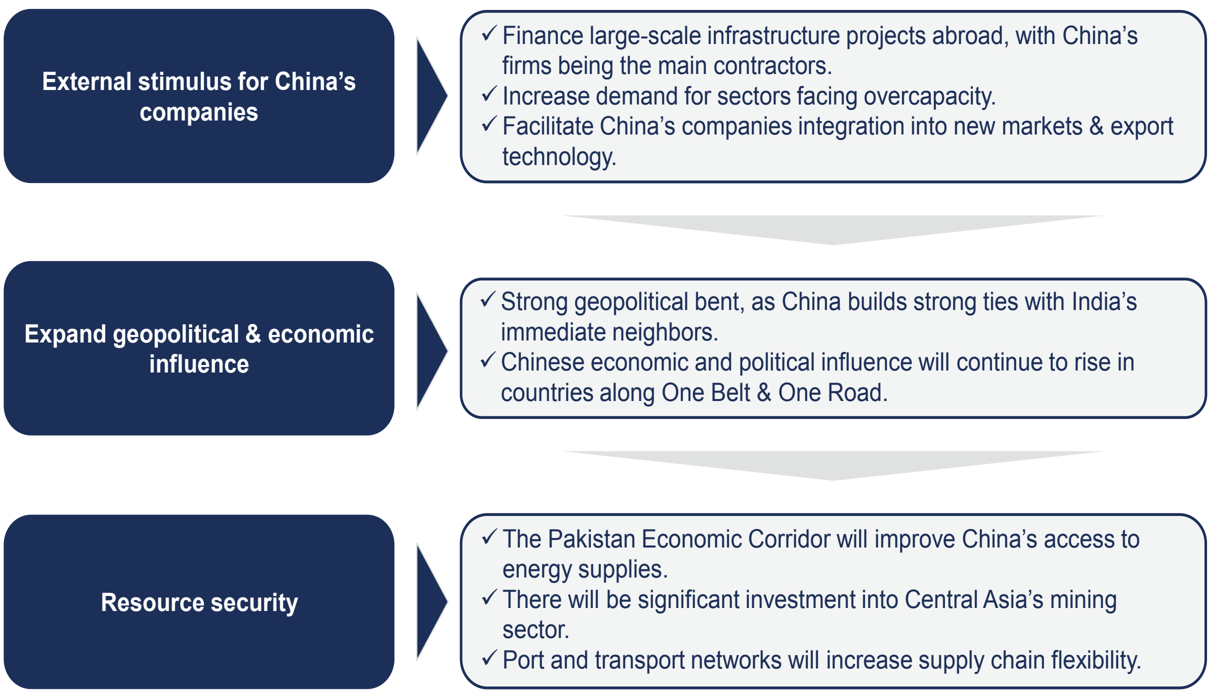
One Belt & One Road key milestones



Source: Goldman Sachs, Samruk-Kazyna

The geographical distribution of the initiative's coverage indicates that China's domestic provinces are also expected to have exposure to B&R program, utilizing value potential and benefits offered by infrastructure financing and efficiency improvements. In particular, 18 provinces and municipalities in mainland China have been selected as the primary contributors and beneficiaries of the initiative, integrating with some other key national economic development zones, including the North East & East Inner Mongolia Economic Zone and Guangxi Beibu Gulf Economic Zone.

Motivations behind One Belt & One Road



Source: BMI, Samruk-Kazyna

On motivations front, the main factors supporting the implementation of the initiative comprise several economic and geopolitical implications. In particular, while China has already developed productive trade relationships with other B&R countries, non-merchandising trade opportunities are still underutilized, with infrastructure improvements potentially leading to positive externalities and economic cooperation synergies between participants. Infrastructure capital spending is expected to create an additional demand for China's domestic companies, especially in sectors experiencing excess capacity, with China also exporting technological expertise and human capital on competitive terms.

Meanwhile, improved political and strategic collaboration between participating parties may help China source and secure commodities from emerging B&R countries, increasing the country's economic and political influence in the global arena, and maintaining its relevance in other competing multinational cooperative frameworks, such as the Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP). In addition, the initiative is expected to contribute to the diversification of China's foreign exchange reserves allocation, facilitating RMB internationalization via cross-border transactions and financing.

The majority of countries under B&R initiative require considerable capital investments. However, financial constraints, reflected in relatively high fiscal deficits and funding gaps, limit their infrastructure modernization capacity. Developing Asia nations, excluding China, will need to invest approximately USD584bln annually over the next 15 years in order to maintain their current growth momentum, eradicate poverty and respond to climate change. Consequently, China's relatively low-cost financing will minimize funding gaps, unlocking economies of scale via efficiency improvements. In addition, modernized infrastructure will provide emerging B&R states an opportunity to expand their presence in China's domestic market, benefiting from the country's unlimited demand potential.

Geopolitical implications of One Belt & One Road

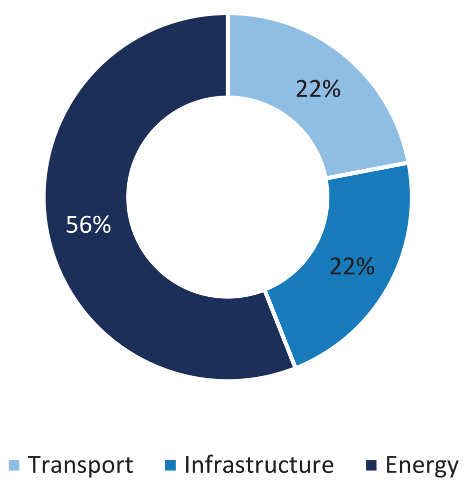
Contribution to the region's stability	One Belt & One Road has the potential to support the conditions for stability, development and human security in Central and South Asia (specifically Pakistan).
Improvement in cooperation	In Central Asia, the program could potentially stimulate greater cooperative efforts and political will among states to effectively address underlying regional hazards in the interest of mutual economic benefit.
Intensification of competition with India	In South Asia, the China–Pakistan Economic Corridor (CPEC) intensified historical competition between China and India over influence in South Asia as India strictly opposes One Belt & One Road.
No structural conflicts with Russia	Currently, the initiative does not structurally conflict with Russia's security or EEU objectives, whether nationally or in Central Asia.

Source: SIPRI, Samruk-Kazyna

3. Financing

The Silk Road Fund (SRF) and Asian Infrastructure Investment Bank (AIIB) are the two main institutions, established to provide financing under B&R initiative, with first phase equity contribution of USD10bln and USD18.4bln respectively. In addition, New Development Bank and Shanghai Cooperation Organization, incorporated in China, are expected to continue their ongoing support of B&R program, making infrastructure investments in member countries within the coverage.

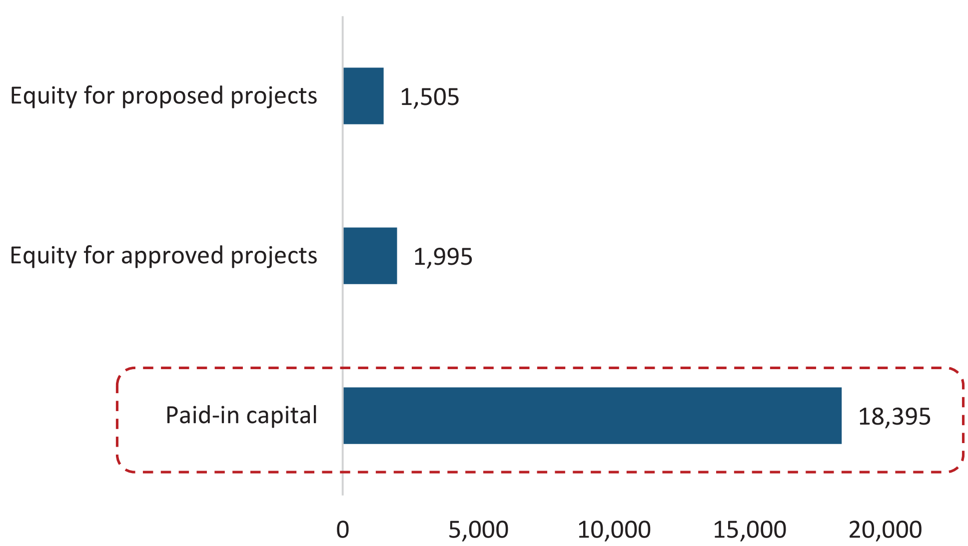
AIIB's investment portfolio composition (2016)



Source: AIIB, Samruk-Kazyna

While infrastructure financing is initially intended to target investments in the logistic sector and related infrastructure, the energy sector is a significant beneficiary of the program too. Compared to the transportation sector, preliminary data indicates that energy was a primary recipient of funding, with the approved energy projects in power and natural gas sub-sectors accounting for 56% of the total committed AIIB's investments.

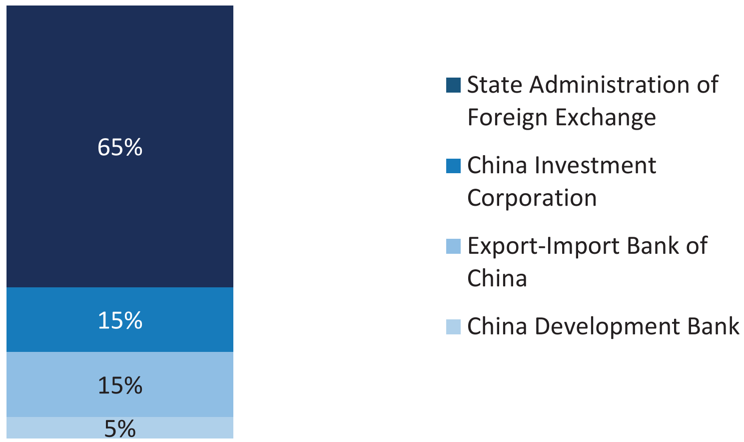
AIIB's equity utilization, USD mln (2016)



Source: AIIB, Samruk-Kazyna

AIIB was founded in October 2014, with a registered capital of USD100bln. Being a supranational institution, the bank is not subject to Basel 2 and Basel 3 regulations, implying potentially unlimited lending and borrowing capacity. According to AIIB's data, equity commitment of the bank's approved and proposed projects stood at USD3.5bln, constituting only 19% of the initial phase 1 equity contribution. Consequently, combined with a considerable infrastructure funding gap in emerging markets of Asia, this high level of unutilized equity commitment is expected to drive positive momentum of B&R infrastructure investments.

The Silk Road Fund's equity structure (2016)
USD10bln in total committed capital (phase 1)



Source: The Silk Road Fund, Samruk-Kazyna

Compared to AIIB, SRF's initial paid-in capital is provided exclusively by China, with the main focus on the elimination of connectivity issues in Asia via financing of transportation and power infrastructure projects. In addition, SRF's total capital size is not restricted by upper limit, implying the possibility of additional equity contributions from foreign countries and China's foreign exchange reserves, which contribute 65% of SRF's initial committed capital of USD40bln.

Selected projects of the Silk Road Fund

Date	Country	Sector	Project/Investment
Apr-15	Pakistan	Electricity	Karot Hydro Power project with installed capacity of 720MW
Jun-15	Italy	Automobile	Invested in Pirelli, one of the largest tire manufacturers with Chemchina
Aug-15	Kazakhstan	Finance	Contributed USD2bln to create the China-Kazakhstan Production capacity cooperation fund
Sep-15	Russia	Finance	Established investment fund to explore opportunities in Russia and China
Dec-15	Russia	Energy	Signed agreement with NOVATEK and acquired 9.9% stake in Yamal LNG
Jan-16	Saudi Arabia	Electricity	Signed MOU to jointly develop and invest in power projects in UAE and Egypt
Nov-16	Russia	Energy	Acquired 10% stake in SIBUR, Russia based energy company
Nov-16	France	Finance	Invested in fund management company that targeted French and other European companies

Source: Goldman Sachs, Samruk-Kazyna

4. B&R initiative value proposition and potential benefits

B&R infrastructure investments are expected to have a positive impact on the regional trade, reducing logistics costs, driving new trade deals and facilitating the development of new manufacturing export hubs outside of China. In particular, the strongest momentum in external trade gains will be observable in emerging markets with below-average development, including Bangladesh, Cambodia, Laos, Pakistan, Myanmar. This is partially attributable to low-base effect and favorable positioning across coverage routes.

According to official estimates, China has already signed approximately 13,000 investment contracts related to B&R since 2015, with an aggregate notional size of USD241bln. Meanwhile, the country's outbound direct investment into B&R countries gained momentum in the past two years, with a high concentration in sectors such as mining and manufacturing.

Number and value of construction contracts signed in B&R countries

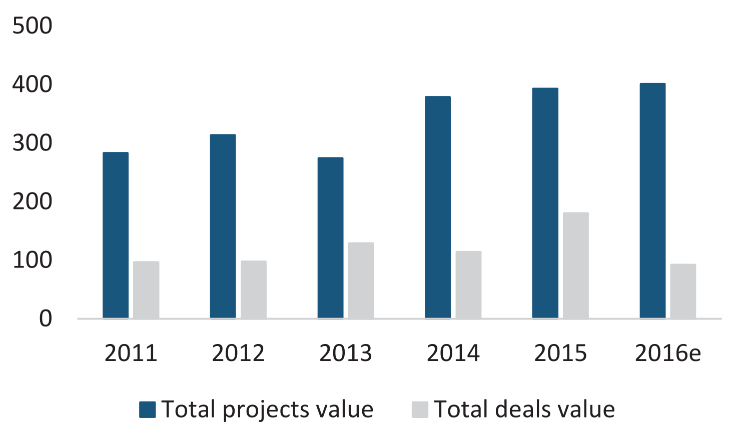
Key statistics	2015	2016	1Q17
Number of construction contracts signed in B&R countries	3,987	8,158	952
Contract value, USD bln	93	126	22

Source: MOFCOM, Samruk-Kazyna

In addition, in a bid to increase volume of RMB-denominated transactions in global markets, China has entered into currency swap agreements with 21 B&R states, with total outstanding loans from the China Development Bank and the Export-Import Bank of China, two of the three major policy banks in China, to the countries under B&R coverage amounting to USD200bln. Meanwhile, three state-owned banks, Bank of China, the Industrial and Commercial Bank of China and China Construction Bank, plan to finance more than 1,000 B&R-related projects, providing over USD500bln in loans and equity investments.

The majority of B&R countries are expected to unlock significant value potential, with Pakistan, Laos, Russia and Kazakhstan benefiting from large amount of infrastructure spending and subsequent efficiency gains. However, countries that are not directly participating in B&R program will still profit from China's rising fixed asset investments.

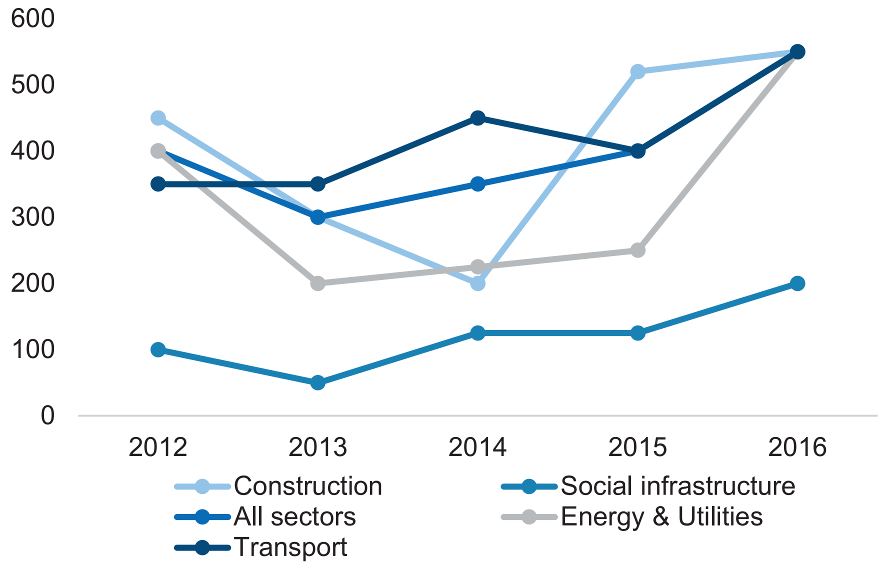
Total value of B&R projects and deals, USD bln (2011-2016)



Source: PWC, Samruk-Kazyna

Pakistan has been among the main recipients of China's investments, with the country involved in over 50 projects in Pakistan with the value of over USD73bln, accounting for 28% of Pakistan's GDP in 2016. Russia will also receive infrastructure financing, with the primary focus on transport and pipelines, while Bangladesh and Indonesia will be the primary beneficiaries of investments in Asia, improving the infrastructure value chain and facilitating their transformation into regional manufacturing hubs.

Average B&R project value across sectors, USD mln (2012-2016)



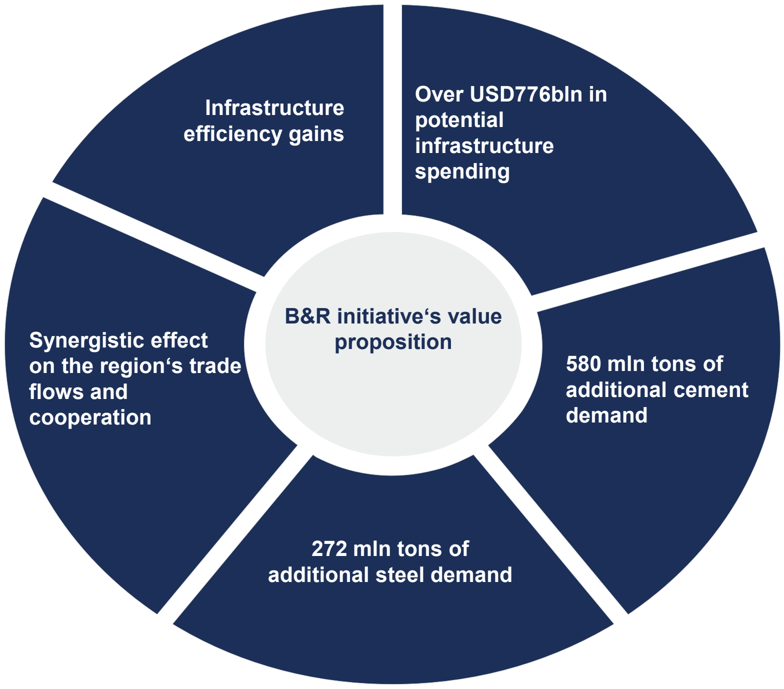
Source: PWC, Samruk-Kazyna

Being one of six corridors forming B&R initiative, Southeast Asia's economies are favorably positioned to gain from the associated boost in infrastructure. However, the activity in the opening years suggests that ASEAN region is a lower priority. The first investments by the Silk Road Fund were projects in the Pakistan corridor and in the Middle East, with other funding have been oriented westward. Meanwhile, China's AIIB is currently supporting efficiency upgrades in Indonesia and a power plant in Myanmar, with only one proposal out of 11 preliminary projects originated in ASEAN region.

Meanwhile, Russia stands to gain from closer cooperation with China, despite the two countries competition for influence in former-Soviet Central Asia. Consequently, aiming to balance the economic and strategic interests, the country is expected to become cooperative but cautious partner in B&R initiative. In particular, China's financing and investment in high-speed rail and energy projects may improve the infrastructure potential of Russia's pivot east, as slow growth and sanctions diminish EU's influence. In addition, B&R program will support Russia's and other Central Asia's countries integration efforts, linking the initiative with Eurasian Economic Union and creating a synergistic effect.

However, shifts in the global demand and China's competitiveness, not enhanced connectivity, are the main drivers and factors in trade between countries along B&R route, with the initiative not making a decisive impact so far. In particular, overall value of external trade between China and the participating countries declined by 3% in 2016, compared with a 9% increase in 2013, showing a significant correlation with China's overall trade. Meanwhile, the country's trade surplus with B&R countries is on a positive trend, increasing to USD250bln in 2016 from USD105bln in 2013 and raising serious doubts regarding the benefits for other B&R countries.

B&R initiative's value proposition to the participating countries



Source: Bloomberg, Samruk-Kazyna

On sectorial front, considerable infrastructure investments under B&R initiative will result in spillover effects in a form of additional demand for construction materials and services. In particular, developing nations in Asia are expected to spend USD776bln annually to fund infrastructure projects by 2020, creating over 580 mln tons of annual cement demand, based on historical correlations with fixed-asset investment in the region and accounting for more than 25% of China's cement production. Average per-capita cement output stood at 380 kg in Southeast Asia and 300 kg in Central Asia, being less than the global average of 600 kg and China's 1,800 kg and implying significant potential demand. In addition, B&R project may also drive the demand to 272 mln tons of steel, reflecting 5% annual growth by 2020, as approximately 34 tons of steel products may be used for every USD1mln of investments in railways. This is expected to support the performance of the region's construction and manufacturing sectors, boosting economic growth.

China conducted the Belt and Road Forum for International Cooperation in Beijing on 14-15 May 2017, which was a major international event for countries and parties interested to engage in consultation on the implementation of B&R initiative. It is expected to improve the cooperation and synergize development strategies among participating countries, with national governments, local authorities and enterprises signing cooperation agreements, creating policy measures and reaching practical results.

The forum, visited by more than 1,500 delegates from over 130 countries, including the leaders of states, was the highest-level conference on B&R program since its introduction by China's President in 2013. Delegates reached broad consensus and signed a joint communique, with the leaders reinforcing their commitment to create stable and sustainable financial support system for the development of B&R initiative.

Key deliverables of B&R Forum for Economic Cooperation and Development

1. MOUs with 11 countries and 9 international organizations
2. Economic and trade cooperation agreements with 30 countries
3. Contribution of additional RMB100bln to the Silk Road Fund
4. Raising lending capacity of China Development Bank and Export-Import Bank by RMB250bln and RMB130bln respectively
5. Establishment of the China-Russia Regional Cooperation Development Investment Fund with total equity of RMB100bln
6. Offering more than 2,500 short-term research visits to China for young foreign scientists, engineers and managers
7. China will provide assistance of over RMB60bln to developing countries participating in B&R initiative
8. China will provide emergency food aid worth RMB2bln to developing countries participating in B&R initiative
9. USD1bln equity contribution to the Assistance Fund for South-South Cooperation
10. China is expected to initiate 100 "happy home" projects, 100 poverty alleviation projects and 100 health care projects under B&R initiative

Source: B&R Forum's communique, Samruk-Kazyna

Major results of the forum include 76 deliverables, comprising more than 270 concrete results in five key areas covering policy, infrastructure, trade, financial and people-to-people connectivity, which are in line with B&R initiative's general framework. In particular, China signed memorandums of understanding on B&R cooperation with Mongolia, Pakistan, Nepal, Croatia, Montenegro, Bosnia and Herzegovina, Albania, Timor-Leste, Singapore, Myanmar and Malaysia. In addition, the country also signed collaboration documents with several international organizations, including the United Nations Development Program, the UN Industrial Development Organization, the UN Human Settlements Program, and the UN International Children's Fund.

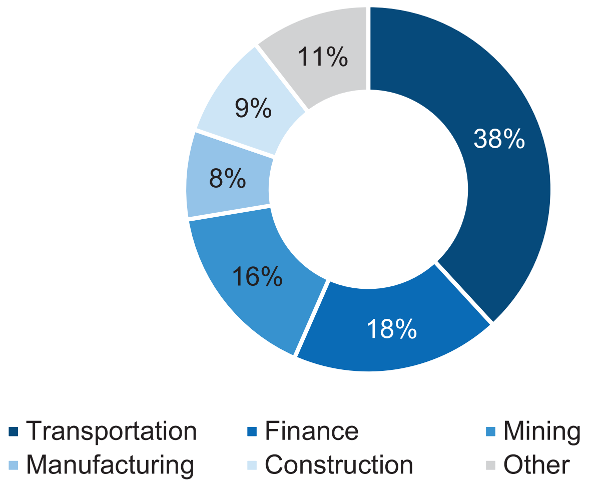
China's government also reached trade cooperation and economic agreements with 30 countries such as Vietnam, Pakistan, Sri Lanka, the Philippines, Indonesia, Uzbekistan and Belarus, reiterating the country's commitment to expand financing for the initiative. Consequently, the Silk Road Fund will be additionally capitalized by RMB100bln while the South-South Cooperation Assistance Fund will receive replenishment of USD1bln.

The forum also resulted in the establishment of the Asian Financial Cooperation Association, providing additional support to B&R. Meanwhile, in order to increase the degree of collaboration between the northeastern region of China and the Far East of Russia, the National Development and Reform Commission of China plans to create a China-Russia Regional Cooperation Development Investment Fund with a total initial equity of RMB100bln, with the first phase equity contributing reaching RMB10bln.

5. Impact on Kazakhstan

Kazakhstan has been one of the biggest recipient of Chinese FDI in Central Asia, with the total FDI stock amounting to USD15.2bln at the end of 2016. Transportation, finance, mining and manufacturing were the main beneficiaries of China's investments.

China's FDI stock distribution (2016)



Source: Committee on Statistics of the Republic of Kazakhstan, Samruk-Kazyna

B&R program implementation in Kazakhstan is expected to be faster than in other participating countries due to substantial synergies with Nurly Zhol program and optimized legal and regulatory framework. The majority of Nurly Zhol projects may be considered as a part of a broader B&R framework, as they directly contribute to the improvement of Kazakhstan's infrastructure and EU-Asia transit potential.

In particular, Khorgos Gateway, a dry port on the China-Kazakhstan border, currently represents a key logistics hub on the New Silk Rod. The facility, which was specifically designed to process containerized cargo, is expected to considerably increase Kazakhstan's transit capacity, with the total project cost to date amounting to over USD230mln. Khorgos may process more than 16,000 containers daily, offering a range of logistics solutions, including freight reloading, formation of container trains and documentary support. In May 2017, as a part of B&R program implementation, China's investors, COSCO Shipping and Lianyungang port, agreed to further develop Khorgos's infrastructure base, acquiring 49% stake in the terminal.

Another key logistics project, Kuryk seaport, which is located in Mangistau region, will significantly increase Kazakhstan's marine transit capacity. Enabling direct reloading from trains and trucks to ferries, the port is expected to stimulate freight shipments to Europe and Middle East via Azerbaijan and Iran. Construction of the first project's phase was completed in December 2016, with the total of 44 logistics facilities commencing their operations. To date, Kuryk has processed more than 400,000 tons of cargo, with 1 mln tons estimated to be processed in 2017. Other main infrastructure projects in Kazakhstan, which could be attributable to B&R, include several railways (Zhezkazgan – Beineu, Arkalyk – Shubarkol, Almaty – Shu) and logistics hubs in Astana and Shymkent.

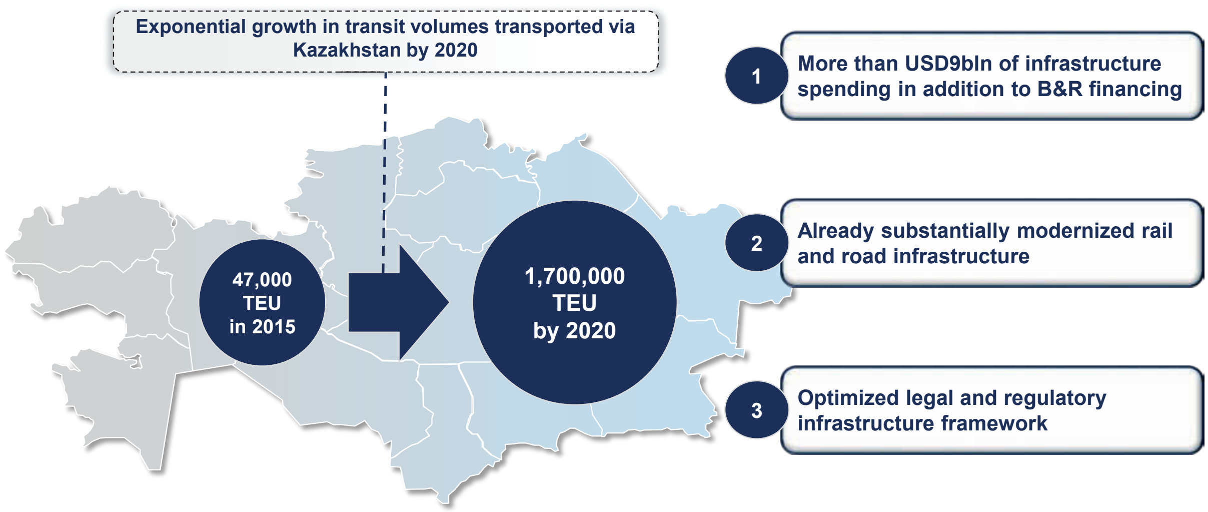
Main projects, considered as a part of B&R initiative in Kazakhstan

№	Project	Cost, USD mln	Development period
1	Khorgos terminal	239	2014-2020
2	Kuryk port in Mangistau region	280	2015-2018
3	Zhezkazgan-Beineu railway	1,203	2012-2017
4	Arkalyk-Shubarkol railway	261	2012-2017
5	Almaty1-Shu railway	110	2015-2017
6	New railway hub in Astana, including train station	603	2013-2017
7	Logistic terminal in Shymkent (Southern Kazakhstan region)	46	2014-2017
8	Logistic terminal in Astana	88	2014-2016
9	Modernization of Aktau port	121	2014-2017

Source: KTZ, Samruk-Kazyna

Kazakhstan's economy is expected to benefit from B&R program implementation, with Asia-EU-Asia transit volumes transported via Kazakhstan forecasted to increase to 1,700,000 TEU by 2020 from 47,400 TEU in 2015, according to McKinsey estimates.

B&R initiative synergy with Nurly Zhol program



Source: KTZ, Mckinsey & Company, Samruk-Kazyna

In January 2017, the first container train from China arrived to London, covering a distance of 7,500 miles. It had passed through Kazakhstan, Russia, Belarus, Poland, Germany, Belgium and France, finally crossing under the English Channel into Britain. The total duration of the trip amounted to 18 days, implying almost 2 times faster cargo delivery time, compared to the marine transportation.

Estimated cargo delivery time from Yiwu (China) to London

Source: KTZ, Samruk-Kazyna

Consequently, industries, which are primarily engaged into transportation or processing of containerized cargo, are expected to outperform the overall Kazakhstan's economy over the medium term, with the growth exceeding GDP growth. These industries comprise rail and road transportation, logistics and marine, rail and road infrastructure.

Source: SCMP, Samruk-Kazyna

B&R is forecasted to contribute additional 0.7pp-1pp to annual Kazakhstan's GDP growth by 2021, creating over 200,000 jobs. In addition, the country's economy will considerably benefit from ongoing infrastructure improvements, with total investments size reaching more than USD7bln over next five years.

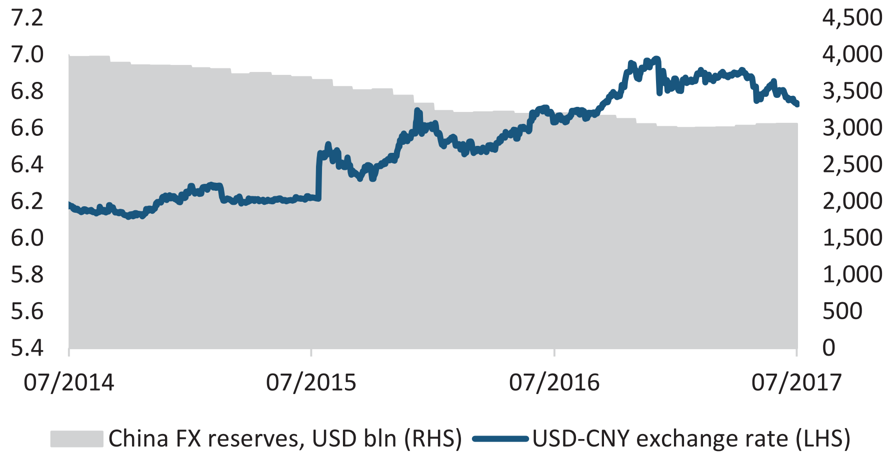
6. Risk and potential challenges

With B&R initiative leading to considerable economic and geopolitical implications over the long run, there are several factors limiting the program's potential:

- Volatile global macroeconomic environment resulted in depreciation of RMB and subsequent decline in China's foreign exchange reserves, reducing capital inflows into the country. In particular, foreign exchange reserves have decreased by approximately USD1tln since the peak in 2014, forcing China's government to introduce the measures restricting capital outflows.

This implies that the country's B&R funding capacity and policy support have deteriorated, compared to the period when China's international reserves experienced a strong upside momentum.

USD-CNY exchange rate and China's FX reserves dynamics (2014-2017)



Source: Bloomberg, Samruk-Kazyna

- The gross capital formation constituted approximately 45% of China's GDP in 2015, making the country's capital-intensive growth model a compelling one to replicate in other emerging markets. However, political and cultural differences as well as significant divergence in policy efficacy between China and other B&R participants imply that project execution effectiveness may be impaired despite financial and human capital availability. In addition, long-tern nature of infrastructure projects and political instability in some countries result in higher country risk premiums, driving cost of financing upward.

- While B&R initiative offers lucrative opportunities for Chinese companies to develop oversees business, an absolute size of monetary benefits remains small compared to China's investment scale, implying that B&R should substantially increase the number of participating countries in order to the program to become a viable revenue-hedging alternative.

- Profitability composition indicates that China's industrial companies with relatively high international exposure tend to have the same or even lower margins than their domestically-exposed comparables. The value of projects financed by AIIB and SRF stood at USD15bln, accounting for just 12% of B&R contracts signed over the past two years and partially reflecting an absence of economically-feasible projects at the current stage.

7. Conclusion

B&R infrastructure investments are expected to have a positive impact on the regional trade, reducing logistics costs, driving new trade deals and facilitating the development of new manufacturing export hubs outside of China. In particular, the strongest momentum in external trade gains will be observable in emerging markets with below-average development, including Bangladesh, Cambodia, Laos, Pakistan, Myanmar. This is partially attributable to low-base effect and favorable positioning across coverage routes.

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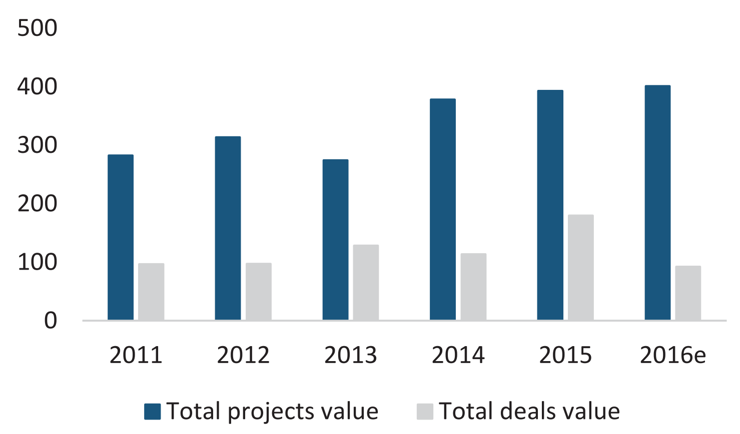
Total value of B&R projects and deals, USD bln (2011-2016)



Source: PWC, Samruk-Kazyna

On sectorial front, considerable infrastructure investments under B&R initiative will result in spillover effects in a form of additional demand for construction materials and services. In particular, developing nations in Asia are expected to spend USD776bln annually to fund infrastructure projects by 2020, creating over 580 mln tons of annual cement demand, based on historical correlations with fixed-asset investment in the region and accounting for more than 25% of China's cement production. Average per-capita cement output stood at 380 kg in Southeast Asia and 300 kg in Central Asia, being less than the global average of 600 kg and China's 1,800 kg and implying significant potential demand.

In addition, B&R project may also drive the demand to 272 mln tons of steel, reflecting 5% annual growth by 2020, as approximately 34 tons of steel products may be used for every USD1mln of investments in railways. This is expected to support the performance of the region's construction and manufacturing sectors, boosting economic growth.

Estimated cargo delivery time from Yiwu (China) to London

Source: KTZ, Samruk-Kazyna

Kazakhstan's economy is expected to benefit from B&R program implementation, with Asia-EU-Asia transit volumes transported via Kazakhstan forecasted to increase to 1,700,000 TEU by 2020 from 47,400 TEU in 2015. In January 2017, the first container train from China arrived to London, covering a distance of 7,500 miles. It had passed through Kazakhstan, Russia, Belarus, Poland, Germany, Belgium and France, finally crossing under the English Channel into Britain. The total duration of the trip amounted to 18 days, implying almost 2 times faster cargo delivery time, compared to the marine transportation.

Source: SCMP, Samruk-Kazyna

Consequently, industries, which are primarily engaged into transportation or processing of containerized cargo, are expected to outperform the overall Kazakhstan's economy over the medium term, with the growth exceeding GDP growth. These industries comprise rail and road transportation, logistics and marine, rail and road infrastructure.

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