RESEARCH & KNOWLEDGE MANAGEMENT

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One Belt & One Road
Leveraging Infrastructure Value Potential

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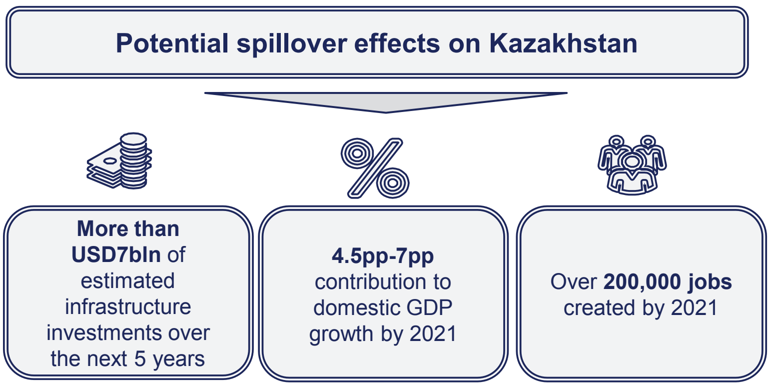
CONTENTS

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 a 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 the sectoral 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.



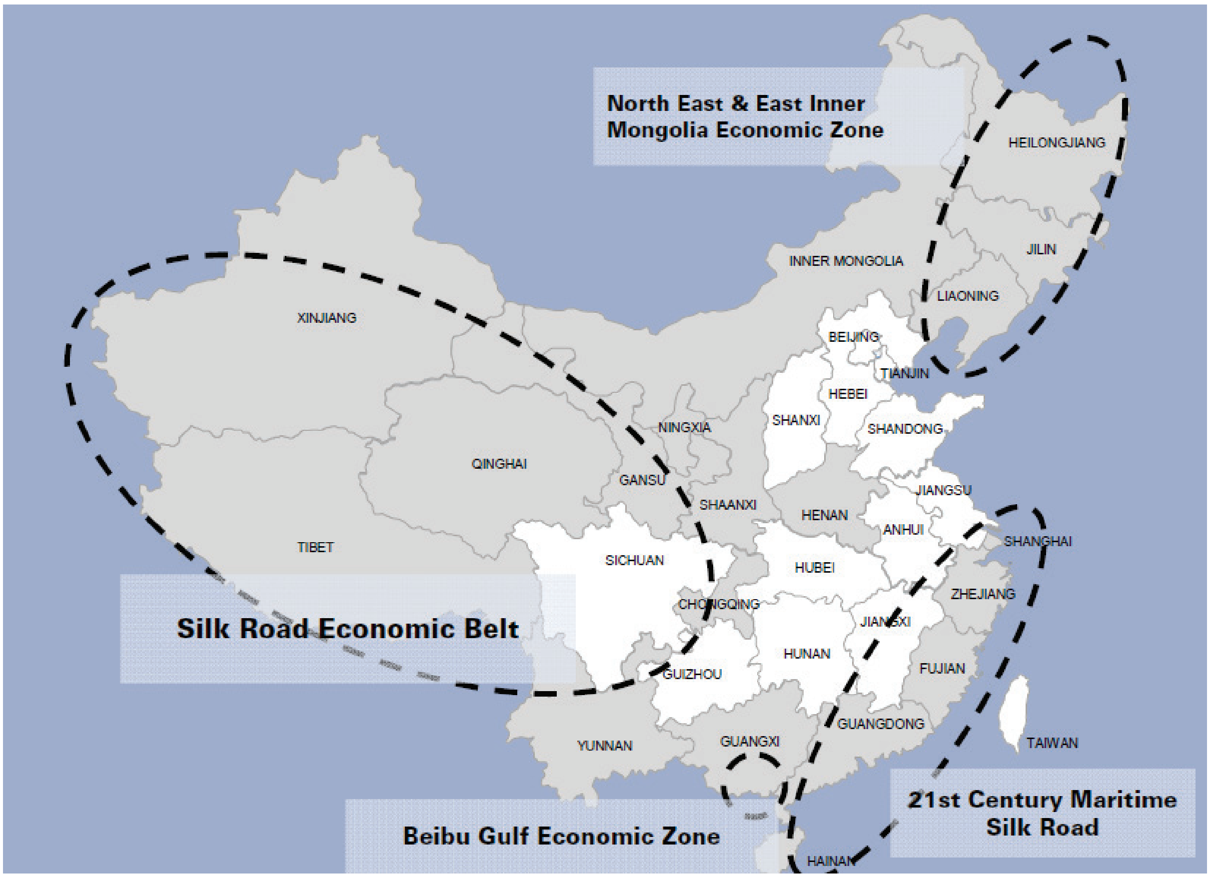
Source: SCMP, Samruk-Kazyna

- Over 2017, the volume of transit freight transported reached 17 mln tons, implying 17% YoY growth. Meanwhile, China-EU-China transit freight container traffic increased almost two times, amounting to 201,000 TEU, compared to 104,600 TEU in 2016. For 2018, transit container traffic is expected to reach 340,000 TEU (source: KTZ).

- Consequently, industries which are primarily engaged in transportation or processing of containerized cargo, are expected to outperform 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. B&R is forecasted to contribute additional 4.5%-7.0% to Kazakhstan's GDP growth by 2021, creating over 200,000 new jobs.

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 a 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 the Middle East and Africa.

One Belt & One Road key milestones

October 2013
First mention of One Belt & One Road by China's President

October 2014
China pledges USD50bln to establish Asian Infrastructure Investment Bank (AIIB)

April 2015
The Silk Road Fund invests in USD1.6bln Karot hydro project in Pakistan

September 2016
Kazakhstan and Egypt, pivotal countries on the New Silk Road, invited as special guests to G20 Summit held in Hangzhou

2013 | 2014 | 2015 | 2016 | 2017

December 2014
The Silk Road Fund was founded with USD40bln of paid-in capital

December 2015
AIIB started operations with Articles of agreement entered into force

May 2017
One Belt & One Road summit was held in Beijing

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

External stimulus for China's companies

- ✓ Finance large-scale infrastructure projects abroad, with China's firms being the main contractors.
- ✓ Increase demand for sectors facing overcapacity.
- ✓ Facilitate China's companies integration into new markets & export technology.

Expand geopolitical & economic influence

- ✓ Strong geopolitical bent, as China builds strong ties with India's immediate neighbors.
- ✓ Chinese economic and political influence will continue to rise in countries along One Belt & One Road.

Resource security

- ✓ The Pakistan Economic Corridor will improve China's access to energy supplies.
- ✓ There will be significant investment into Central Asia's mining sector.
- ✓ Port and transport networks will increase supply chain flexibility.

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.

Geopolitical implications of One Belt & One Road

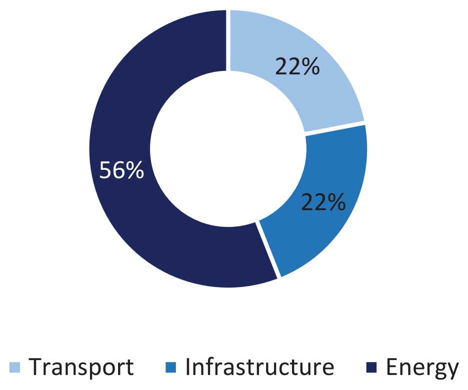
Contribution to the region's stability	One Belt & One Road has the potential to support the conditions for stability, development and human security in Central and South Asia (specifically Pakistan).
Improvement in cooperation	In Central Asia, the program could potentially stimulate greater cooperative 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 a 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.

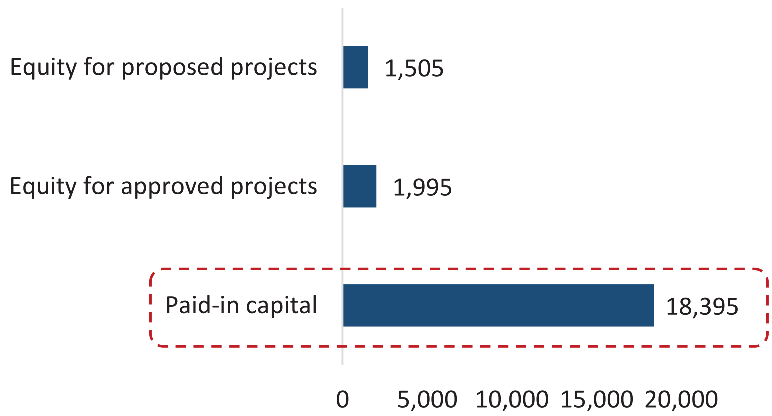
AIIB's investment portfolio composition (2016)



Source: AIIB, Samruk-Kazyna

While infrastructure financing is initially intended to target investments in the logistics sector and related infrastructure, the energy sector is a significant beneficiary of the program too. Compared to the transportation sector, preliminary data indicate 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.

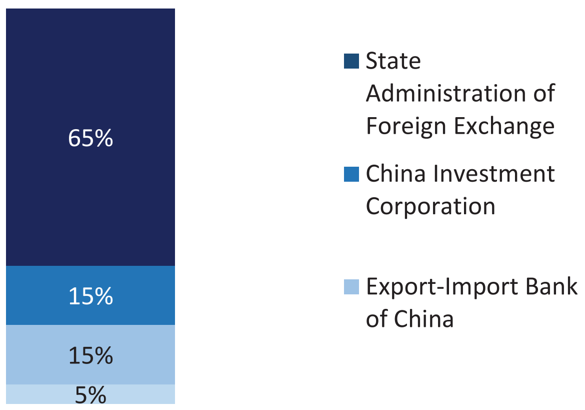
AIIB's equity utilization, USD mln (2016)



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 the 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 an 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 an 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 an 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. Global developments and value proposition

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.

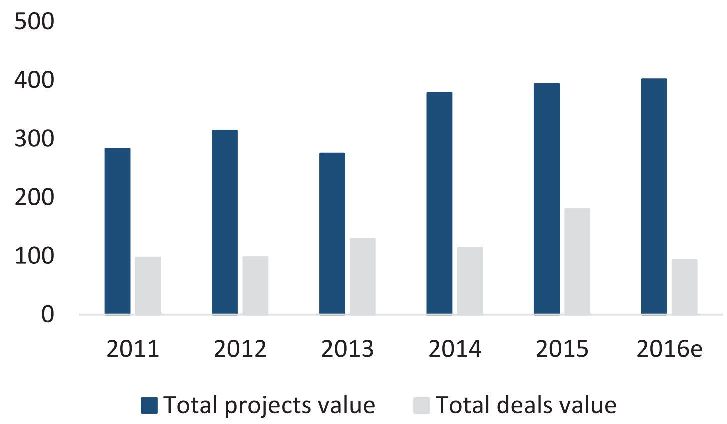
Number and value of construction contracts signed in B&R countries

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



Source: PWC, Samruk-Kazyna

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 creating 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, including more than 270 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.

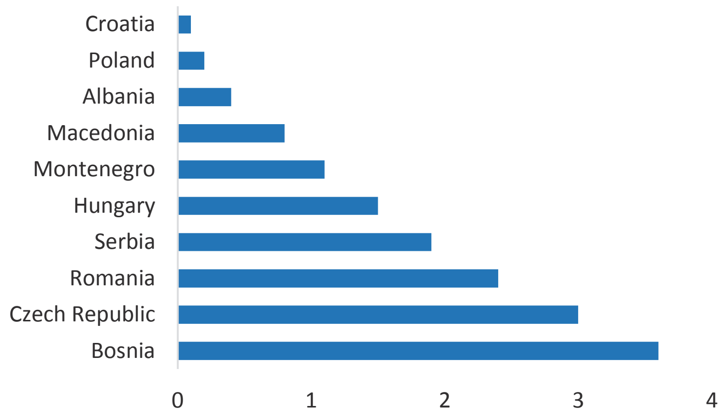
China’s government also reached trade cooperation and economic agreements with 30 countries such as Vietnam, Pakistan, Sri Lanka, the Philippines, Indonesia, Uzbekistan, and Belarus, reiterating the country’s commitment to expand financing for the initiative. Consequently, the Silk Road Fund will be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

Over 2H17, the implementation of One Belt & One Road program gained momentum, with the initiative coverage reaching Central and Eastern Europe. In a bid to facilitate financing of infrastructure and logistics projects in the European part of the New Silk Road, China has formed “16+1”, a group consisting of 16 countries in Central and Eastern Europe.

According to the Center for Strategic and International Studies (CSIS), China's firms have committed approximately USD15bln in financing for infrastructure and complementary industries since 2012, gradually building the framework for B&R expansion. In particular, Serbia, representing one of the beneficiaries of Chinese investments, received over USD1.9bln in infrastructure funding, while Hungary has attracted approximately USD1.5bln in financing, with the Czech Republic receiving over USD3bln.

China's cumulative infrastructure investments in Central and Eastern Europe, USD bln (2012-2016)



Source: FT, Samruk-Kazyna

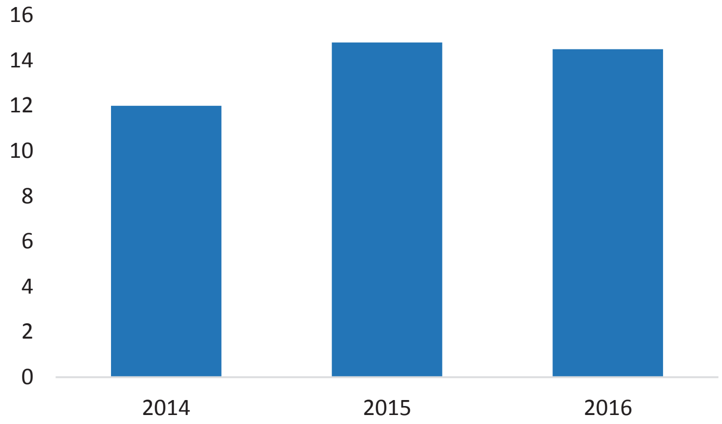
While being beneficial from economic side, B&R expansion into Eastern and Central Europe alerted some Western European countries, as China may potentially use gained political influence in the region to shape the common EU's policy toward itself. In addition, some of the countries in "16+1" group may leverage strong bilateral ties with China to strengthen their position within EU.

On South Asia front, China continued to increase its presence in the Indian Ocean, with one of the largest country's state-owned firms, China Merchants Group, acquiring a deepwater container port based in Sri Lanka. The deal represents a transaction involving the purchase of a 99-year lease for approximately USD1.1bln, with China's presence expected to considerably boost the port's transit potential and, subsequently, stimulate economic activity in Sri Lanka. China's interests are primarily attributable to the port's strategic location in the Indian Ocean, with the facility being just 10-12 nautical miles away from the key sea lane connecting the Malacca Straits and the Suez Canal.

Investors from China plan to increase the port's traffic by instructing state-owned shipping companies and other contractors to use Sri-Lanka as a key logistics hub in the Indian Ocean, optimizing freight delivery routes. In addition, China Merchants and other state-owned firms will develop a new special economic zone around the port, with USD5bln in total committed investments and 100,000 new jobs created.

The port will have the capacity to process the world's largest 400-meter container ships as well as dry cargo and oil tankers, lowering transportation tariffs and enhancing supply chain in the region. Meanwhile, a similar port in Singapore is currently the region's primary logistics hub, but it is approximately four times as distant from India's major ports as the port in Sri Lanka. Singapore has one of the largest ports in terms of aggregate volume processed, accounting for over 20% of the global container traffic and 50% of crude oil transshipment. However, the port in Sri Lanka is expected to cannibalize a substantial part of Singapore's container traffic due to its optimal location and potential cost advantages.

China's non-financial FDI in B&R countries, USD bln (2014-2016)



Source: FT, Samruk-Kazyna

On the funding front, preliminary estimates indicated that China's non-financial foreign direct investment in countries with B&R coverage declined by 2% in 2016, contracting by 18% YoY over 3M17. The decrease is partially attributable to the intensification of China's current deleveraging policy and some regulatory and fiscal barriers Chinese investors face in the B&R countries. However, given high geopolitical and economic significance of B&R initiative for China's government and constant optimization of the legal and regulatory framework in participating countries, this decline is considered temporary.

In a bid to complement and reinforce traditional One Belt & One Road program, China has recently introduced the concept of the Digital Silk Road, which will focus on development and improvement of digital communication infrastructure and technology sharing among B&R countries. In particular, the Digital Silk Road is anticipated to enhance the degree of international connectivity via the construction of cross-border broadband optical networks and utilization of satellite infrastructure.

Key recent developments include the construction of overland cable network between Asia and Europe by China and Russia and development of fiber optic cable network in Afganistan. In addition, China's government plan to introduce Beidou satellite network, which is expected to substitute GPS in the B&R countries.

According to Asian Infrastructure Investment Bank, developing and emerging Asia countries will need to invest USD22.6tln in infrastructure by 2030 to maintain current growth momentum, implying approximately USD1.5tln infrastructure spending annually. Incorporating climate change and mitigation costs, overall infrastructure spending estimate rises to USD26tln. The Pacific region infrastructure demand is estimated at 9.1% of GDP, while South Asia, Central Asia, and Southeast Asia will be required to invest in infrastructure 8.8%, 7.8% and 5.7% of GDP respectively. Countries in East Asia are forecasted to spend 5.2% of GDP on infrastructure.

Potential infrastructure demand by region (2016-2030f)

Region / Subregion	*Projected annual GDP growth*	Baseline estimates			Climate-adjusted estimates		
		Investment needs, USD bln	Annual average, USD bln	*Investment needs as % of GDP*	Investment needs, USD bln	Annual average, USD bln	*Investment needs as % of GDP*
Central Asia	*3.1%*	492	33	*6.8%*	565	38	*7.8%*
East Asia	*5.1%*	13,781	919	*4.5%*	16,062	1,071	*5.2%*
South Asia	*6.5%*	5,477	365	*7.6%*	6,347	423	*8.8%*
Southeast Asia	*5.1%*	2,759	184	*5.0%*	3,147	210	*5.7%*
The Pacific	*3.1%*	42	2.8	*8.2%*	46	3.1	*9.1%*
Asia and the Pacific	***5.3%***	**22,551**	**1,503**	***5.1%***	**26,166**	**1,744**	***5.9%***

Source: Asian Development Bank

Currently, annual infrastructure investment in Asia region is estimated at USD881bln, which results in infrastructure spending gap of approximately 2.4% of projected GDP over the next five years. To mitigate this gap, Asian countries will need to introduce several regulatory and institutional reforms, making an investment in infrastructure more attractive for the private sector. For China, infrastructure spending gap is currently at 1.2% of forecasted GDP, with the gap rising to 5% of GDP for the remaining Asian countries excluding China. While regulatory and institutional reforms in emerging and developing Asian countries outside of China may fill 2% out of previously mentioned 5% of GDP gap, the private sector will be required to increase investment from current USD63bln per year to over USD250bln per year by 2020 in order to cover the remaining 3% of GDP.

Potential infrastructure demand in Asia by sector (2016-2030f)

Sector	Baseline estimates			Climate-adjusted estimates		
	Investment needs	Annual average	*Share*	Investment needs	Annual average	*Share*
Power	11,689	779	*51.8%*	14,731	982	*56.3%*
Transport	7,796	520	*34.6%*	8,353	557	*31.9%*
Telecommunication	2,279	152	*10.1%*	2,279	152	*8.7%*
Water and Sanitation	787	52	*3.5%*	802	53	*3.1%*
Total	**22,551**	**1,503**	***100.0%***	**26,166**	**1,744**	***100.0%***

Source: Asian Development Bank

On outlook front, B&R initiative is expected to have broad impact across all sectors related to construction materials and services. In particular, according to Bloomberg, significant investments required to establish B&R trade route to Europe will increase steel demand in the countries under B&R coverage by approximately 272 mln tons by 2020, implying 24% overall growth.

In addition, the initiative may result in the relocation of China's production facilities to the west due to potential savings on transportation and logistics costs, with China's government also encouraging domestic producers to shift capacity outside as it will help to decrease pollution and may lead to a reduction of anti-dumping cases against China's firms. China's largest steel-producing province, Hebei, is forecasted to shift approximately 20 mln tons of capacity by 2023 to Southeast Asia, western Asia, and Africa.

China's steel demand and output, '000 tons (2012-2017)

Source: Bloomberg, Samruk-Kazyna

The new B&R trade route to Europe may incentivize China to modernize its steel sector in order to produce more value-added steel products and decrease current excess supply of commodity-grade steel, as the construction of infrastructure facilities, such as high-speed railways and pipelines, will require more premium products, including high-strength steel, tensile steel, and high-grade auto sheets. The upgrade will allow China's steel companies to increase profit margins and reduce exposure to steel price volatility. One of the ways to accelerate the transition is to form joint ventures with western companies to acquire appropriate technological and market expertise, shifting from labor-intensive production to automated processing.

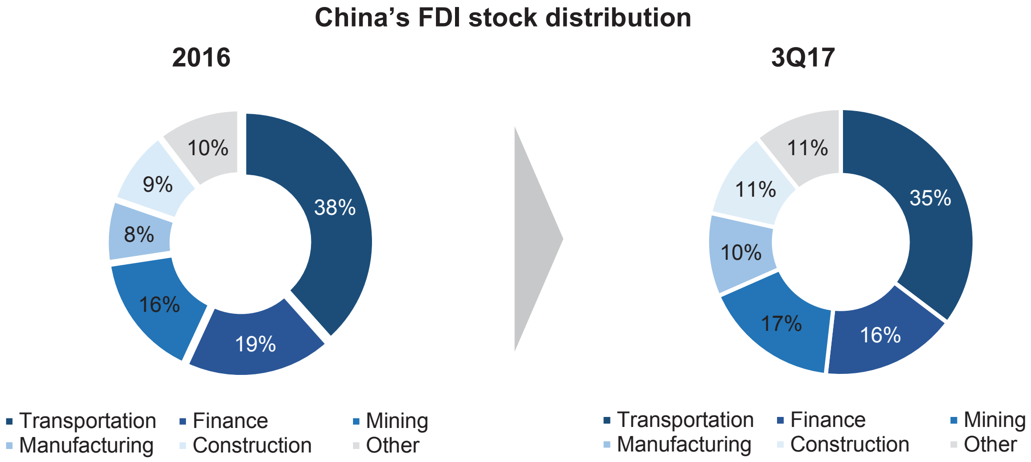
Given substantial infrastructure spending scale, B&R program may also stimulate Asia region's cement demand, with planned USD217bln in infrastructure investments in Central and Southeast Asia resulting in approximately 162 mln tons of additional annual cement demand. Average per-capita cement production in Central Asia and Southeast Asia stood at 300 kilograms and 323 kilograms respectively, compared to China's output of 1,800 kilograms, implying significant supply gap.

China's exports of construction-equipment are expected to increase twice as the implementation of B&R initiative will result in additional demand for new excavators. According to Bloomberg estimates, Southeast and Central Asia will need approximately 50,000 new excavators over the next five years, while China exported just 7,000 annually in the last five years.

5. Impact on Kazakhstan

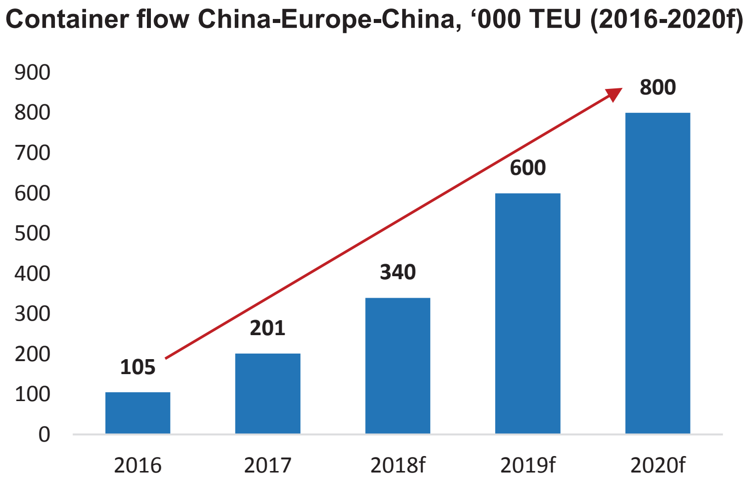
Kazakhstan has been one of the biggest recipients of Chinese FDI in Central Asia, with the total FDI stock amounting to USD14.9bln as at end of 3Q17. Transportation, finance, mining, and manufacturing were the main beneficiaries of China's investments.

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.



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

Over 2017, Kazakhstan's total freight turnover amounted to 208.8 bln t-km, growing by 10% YoY, while the volume of freight loaded stood at 242 mln tons, rising by 12% compared to the previous year. On transit front, the volume of transit freight transported reached 17 mln tons, implying 17% YoY growth. Meanwhile, China-EU-China transit freight container traffic increased almost two times, amounting to 201,000 TEU, compared to 105,000 TEU in 2016. For 2018, transit container traffic is expected to reach 340,000 TEU (source: KTZ).



Source: KTZ, Samruk-Kazyna

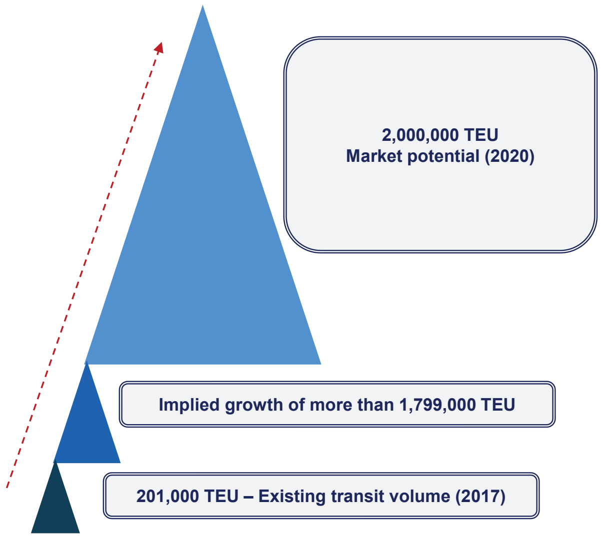
An exponential growth in transit container traffic is primarily attributable to the successful launch of Khorgos dry port and Kuryk seaport that significantly improved efficiency and freight delivery times. In addition, the rise in rail freight turnover was supported by the implementation of comprehensive measures aimed to increase labor productivity, optimize production processes and achieve an efficient utilization of the railcar fleet.

In the latest address to the nation, **Kazakhstan's Head of State announced key goals to increase revenue from transit freight transportation to USD5bln by 2020 and integrate the latest digital technologies**, including blockchain and internet of things, to optimize and improve the efficiency of Kazakhstan's transportation and logistics sectors.

In December 2016, Kazakhstan, Finland, Russia and China have signed the agreement to open the Eastern Transport Corridor. Subsequently, on 10 November 2017, the first transit container train traveling from Finland to China via Kazakhstan was launched from Kouvola station. The train covered approximately 8,500 kilometers within 10 days, with Khorgos Gateway being the key transshipment hub on Kazakhstan's territory.

Meanwhile, another container train going from Kokshetau to Turkish city Mersin commenced its regular operations on Baku-Tbilisi-Kars railway. The train consisting of 30 containers loaded with grain traveled more than 5,000 kilometers, reaching destination point in 10 days. The route included transshipment at a recently constructed Kuryk seaport, which contributed to the faster delivery of freight. The total annual capacity of the new route is estimated at 10 mln tons of cargo, with continuous improvement of logistics infrastructure within B&R program expected to further increase transportation capacity.

Kazakhstan's B&R transit potential



Source: KTZ, Samruk-Kazyna

On B&R projects, Khorgos Gateway, a dry port on the China-Kazakhstan border, currently represents a key logistics hub on the New Silk Road. 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 USD220mln. Khorgos may process more than 16,000 containers daily, offering a range of logistics solutions, including freight reloading, the 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' infrastructure base, acquiring 49% stake in the terminal.

Kuryk seaport, which is located in Mangistau region, was constructed in order to 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 the 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. In October 2017, Kuryk has already processed more than 1,000,000 tons of cargo, meeting its 2017 target in advance.

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

№	Project	Cost, USD mln	Development period
1	Khorgos terminal	222	2014-2020
2	Kuryk port in Mangistau region	261	2015-2018
3	Zhezkazgan-Beineu railway	1,131	2012-2017
4	Arkalyk-Shubarkol railway	242	2012-2017
5	Almaty1-Shu railway	102	2015-2017
6	New railway hub in Astana, including the train station	561	2013-2017
7	The logistic terminal in Shymkent (Southern Kazakhstan region)	43	2014-2017
8	Logistic terminal in Astana	82	2014-2016
9	Modernization of Aktau port	112	2014-2017

Source: KTZ, Samruk-Kazyna

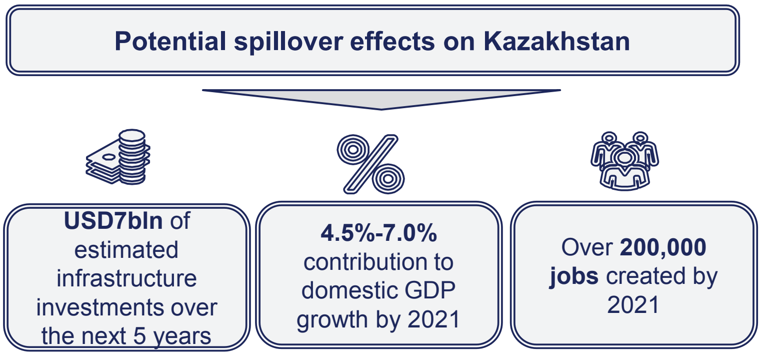
Meanwhile, another key infrastructure project, Almaty-Shu railway is currently on track to be completed ahead of planned time, with approximately 100 kilometers out of planned 113 kilometers already being constructed and becoming double-track. This project is expected to significantly increase the efficiency of cargo transportation, reducing delivery time.

In October 2017, Astana LRT, an entity established to develop Astana's transport and logistics infrastructure, received approximately USD1.6bln from the China Development Bank to finance the construction of light rail system in the city, reinforcing China's strong B&R commitment. The project, incorporating 22.4 kilometers of track, 18 stations, and a depot, is currently at the feasibility study stage. It is planned to be constructed using Chinese technical specifications and the rolling stock, with 19 vehicles delivered from China.

In January 2018, during Head of State's official visit to the US, KTZ and GE Transportation signed the agreement on the delivery of shunting locomotives and the maintenance of the main passenger locomotives. GE Transportation will supply 300 shunting locomotives, the final assembly of which will be carried out at a locomotive manufacturing plant in Astana. The delivery of the first two locomotives is scheduled for 2019, the rest – over the next 10 years. In addition, KTZ and DHL Global Forwarding signed the cooperation agreement in the logistics sector. The parties agreed to establish a consolidation and distribution facility within Khorgos special economic zone. The facility is expected to substantially facilitate transit freight transportation coming via the Khorgos.

Meanwhile, China's authorities plan to relocate 51 production facilities to Kazakhstan, with a total of investments amounting to USD27bln in sectors such as metallurgy, chemicals, construction materials and vehicle manufacturing. Three projects, including polypropylene production in Pavlodar, automobile manufacturing in Kostanay and vegetable oil production in the North Kazakhstan region, are already transferred to Kazakhstan, with another six projects being in the process of reallocation.

B&R potential spillover effects on Kazakhstan



Source: SCMP, Samruk-Kazyna

Consequently, B&R is forecasted to contribute additional 4.5%-7.0% to Kazakhstan's GDP growth by 2021, creating over 200,000 new 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. Conclusion

On outlook front, B&R initiative is expected to have broad impact across all sectors related to construction materials and services. In particular, according to Bloomberg, significant investments required to establish B&R trade route to Europe will increase steel demand in the countries under B&R coverage by approximately 272 mln tons by 2020, implying 24% overall growth.

Given substantial infrastructure spending scale, B&R program may also stimulate Asia region's cement demand, with planned USD217bln in infrastructure investments in Central and Southeast Asia resulting in approximately 162 mln tons of additional annual cement demand.

Over 2017, Kazakhstan's total freight turnover amounted to 208.8 bln t-km, growing by 10% YoY, while the volume of freight loaded stood at 242 mln tons, rising by 12% compared to the previous year. On transit front, the volume of transit freight transported reached 17 mln tons, implying 17% YoY growth. Meanwhile, China-EU-China transit freight container traffic increased almost two times, amounting to 201,000 TEU, compared to 104,600 TEU in 2016. For 2018, transit container traffic is expected to reach 340,000 TEU (source: KTZ).

An exponential growth in transit container traffic is primarily attributable to the successful launch of Khorgos dry port and Kuryk seaport that significantly improved efficiency and freight delivery times. In addition, the rise in rail freight turnover was supported by the implementation of comprehensive measures aimed to increase labor productivity, optimize production processes and achieve an efficient utilization of the railcar fleet.

China's authorities plan to relocate 51 production facilities to Kazakhstan, with a total of investments amounting to USD27bln in sectors such as metallurgy, chemicals, construction materials and vehicle manufacturing. Three projects, including polypropylene production in Pavlodar, automobile manufacturing in Kostanay and vegetable oil production in the North Kazakhstan region, are already transferred to Kazakhstan, with another six projects being in the process of reallocation.

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