

# *Kazakhstan and the New Silk Road*

The importance of aligning goals and how  
to reach them



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# Foreword

## ***The New Silk Road – A unique opportunity***

Few anticipated the revival of the ancient trade routes that once spun the Eurasian continent. In the 15<sup>th</sup> century, the discovery of new sea routes and development of modern vessels by European empires all but extinguished a network that at one point crossed all of Eurasia. Even less envisaged what the One Belt, One Road initiative entailed after it was announced by President Xi Jinping in Astana in 2013. Slowly but surely, the governments of 65 states currently partaking in the initiative, have grasped the importance and the development opportunities that trade and infrastructure investment present. The network connects Asia, Europe and Africa, and promises to further integrate the 4.4 billion people in its sphere into a global network, facilitating the exchange of goods and ideas.

## ***Kazakhstan and its role***

As the 9<sup>th</sup> largest state in the world, and the largest landlocked one, Kazakhstan has not benefitted as much from the rise of transcontinental trade followed by the industrial revolution as other nations. The Soviet Union's political ideology and Southern borders also presented little opportunity for commerce in the 20<sup>th</sup> century. The rapid revival of the Silk road, and massive infrastructure spending over the next decade, however, forebode the re-emergence of Kazakhstan as a trading hub in Central Asia. With trade between China and Europe increasing yearly, and the distinct trend of smaller, high tech goods increasing in value, the balance of trade seems to be shifting towards faster, albeit costlier, railways. More than 90% of trade between China and Europe occurs by ships, and only less than 5 % passes by rail. Continuing investment of political and financial capital can increase trade by rail to 10% by 2025. Kazakhstan is set to gain significantly as the geographic centre piece of the land part of the New Silk Road. Opportunities for trade and industry are countless as local businesses can benefit from cheaper costs of exports and imports, and by providing services to freight forwarders and railway carriers.

## ***Preparing for success***

The key to fully exploiting the opportunity presented to Kazakhstan is to adapt its biggest stakeholders and their business model to the One Belt One Road initiative. This means focusing on international transit and the client. It also means developing a digital culture, capable of adjusting to new challenges and possibilities given an adequate infrastructure. For now, Kazakhstan is falling behind its partners on the New Silk Road in terms of digitizing and the benefit it entails. But still Kazakhstan has a window of opportunity and needs to act fast.

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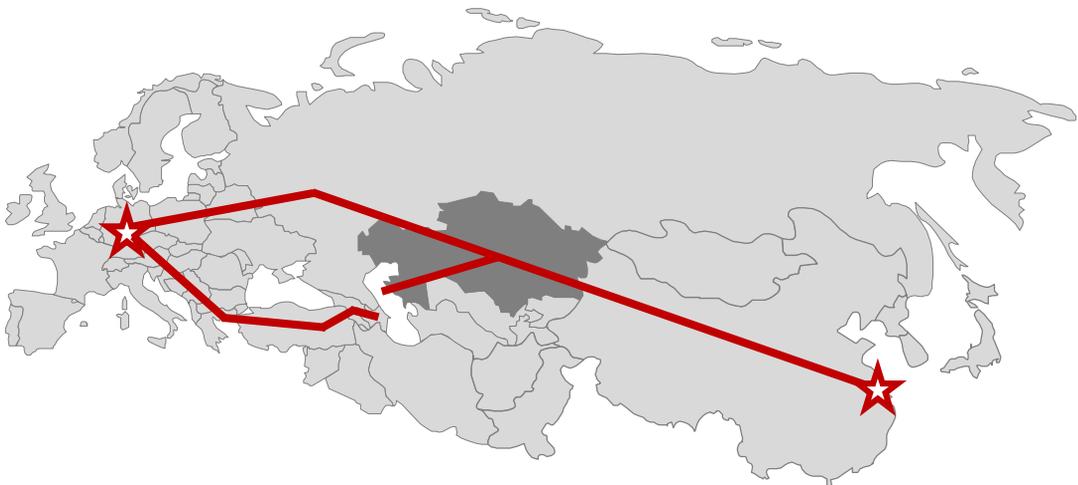
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Partner  
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# The New Silk Road can transform Kazakhstan's role in Central Asia

In September of 2013, President Xi Jinping presented China's vision for engaging the world in re-creating the historic "Silk Road" during a speech in Kazakhstan at Nazarbayev University. This effort is alternatively known as "One Belt, One Road" (OBOR) or "Belt and Road Initiative". The aim is to develop closer economic ties, deepen cooperation, and expand development in the Euro-Asia region. This speech and subsequent announcements officially set the stage

for the establishment of a sprawling network of railroads, highways, gas and oil pipelines, ports, cities, and investments in modern infrastructure to recreate successful ancient Silk Road trade routes but with a 21<sup>st</sup>-century strategy. By early 2015, Beijing's specific strategy began to emerge as China's leadership laid out a plan for OBOR. The land strategy runs through Central Asia—with Kazakhstan playing a key role.



*Railway connections between Duisburg and Shanghai, through Kazakhstan*

*By 2017*

*\$186 Billion*

*By 2022*

*\$700 Billion*

*The One Belt, One Road initiative's investments aim to develop the infrastructure for transcontinental trade in Eurasia. In the long term, a significant share of trade between China and Europe may pass through this route, nearly twice faster than by sea. The opportunities for businesses in Central Asia to capitalize on new trade routes are countless*

*Source: United Nations conference on trade and development (UNCTAD), World Investment report 2016 National Development and Reform Commission, Belt & Road Forum, 2017*

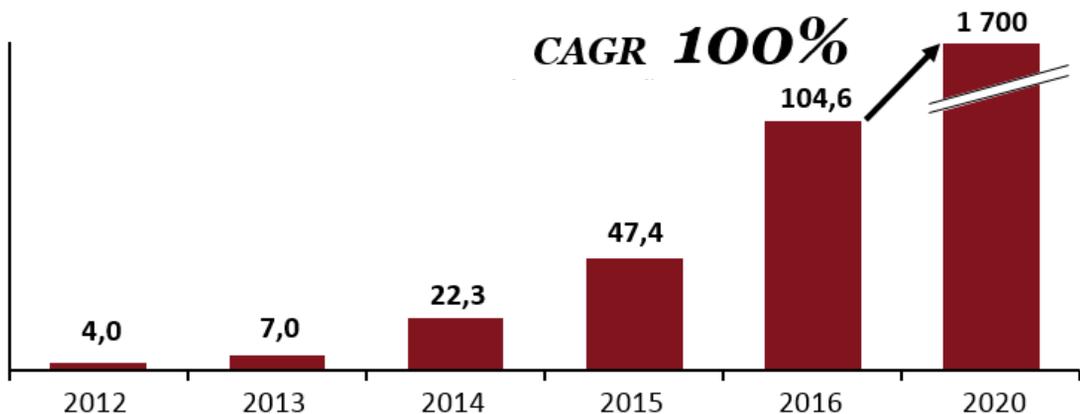
## Infrastructure investment and the subsequent benefits have been key growth factors for both transcontinental trade and Kazakhstan's economy



Significant investments have been made in Kazakhstan to strengthen its capabilities as a transit corridor. This includes over \$3,5 bln in Khorgos Eastern Gate, a dry port on the Eastern border with China. COSCO Shipping, one of the world's largest logistics service providers, and Lianyungang Port Holding, have recently acquired stakes in the project, making it a transnational endeavor and allowing the Kazakhstani side to benefit from the immense experience of its counterpart.

Other significant investments include the Shalkar-Beineu railroad, the Zheskazgan-Saksaulskaya railroad, and the Kuryk ferry terminal. The resulting increase in corridors and capacity will cement Kazakhstan's role as a transit region. Samruk Kazyna estimates that infrastructure investments will contribute between 0.1% and 0.2% annually to Kazakhstan's economic growth over the next decade.

### Asia-EU-Asia transit container traffic via Kazakhstan, '000 TEU



Source: KTZ, McKinsey & Company, Samruk-Kazyna

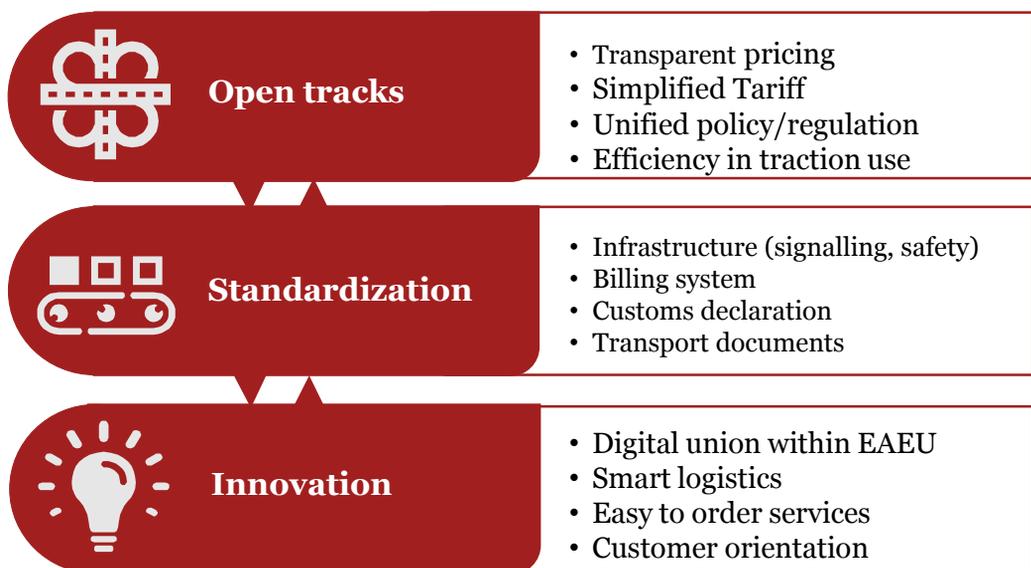
# Kazakhstan Temir Zholy and its parent company Samruk Kazyna hold a central role in Kazakhstan’s development as a Silk Road transit point

As is the case with most supply chains, OBOR is only as strong as its weakest link. For Kazakhstan’s national railway operator and its parent company, it means moving at an equal pace with the modernization of their infrastructure and business model as their foreign counterparts.

KTZ’s role in this should be focused on improving processes to create a reliable

platform for transiting cargo through Kazakhstan, while Samruk Kazyna should support the long term objective of developing a multimodal transport system, which includes significant investments in energy distribution and transportations infrastructure, as well as using its influence to cut regulations to ease the bureaucratic processes necessary for transiting Kazakhstan.

## Instruments for the successful implementation of OBOR



# Next critical steps of Kazakhstan Temir Zholy and Samruk Kazyna to capitalize on OBOR

## Develop a digital culture within Samruk Kazyna and at KTZ

Without this crucial step, the organization runs the risk of not being aligned with the strategy outlined by the OBOR as well as the ability to keep pace with the developments of the investors, customers, and the customers' customers

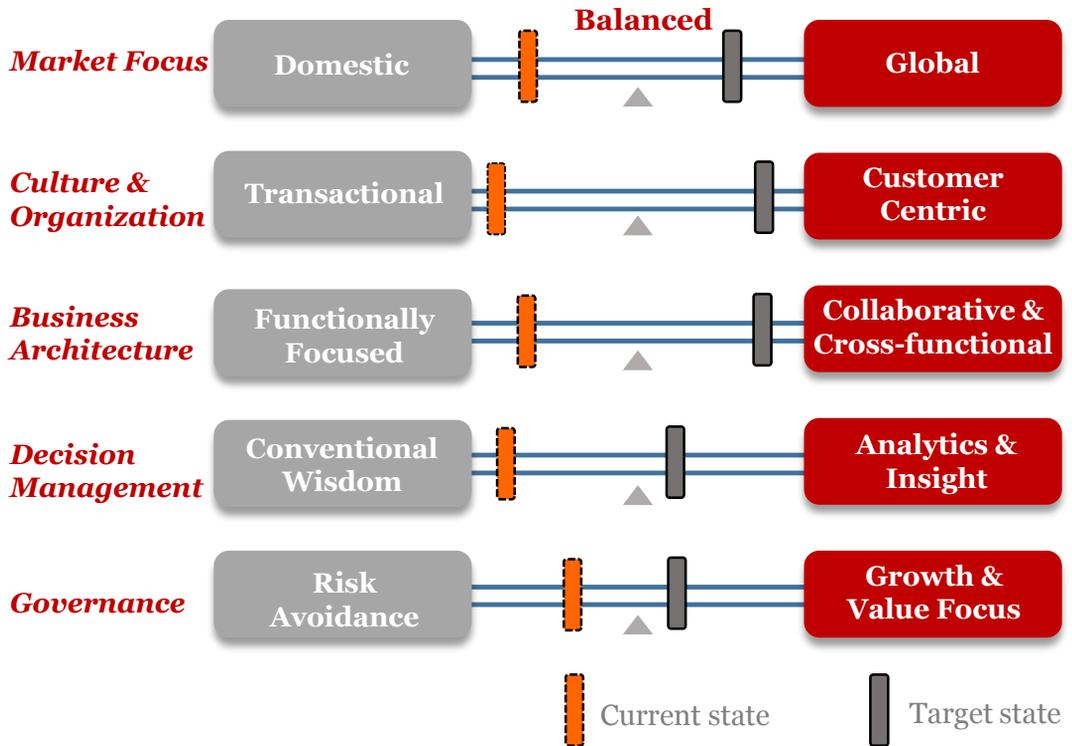
having a digital footprint and architecture allows Kazakhstan to further the goals it has been pursuing with the World Bank and the UN to move up the ladder of being a place to do business successfully.

Move away from analogue culture		Move towards digital culture
<ul style="list-style-type: none"> <li>• Driven by <b>policies and procedures</b></li> <li>• <b>Push</b> products into market</li> </ul>	Customers & Demand	<ul style="list-style-type: none"> <li>• Pull – customer driven products</li> <li>• Response – change based on economic and client needs</li> </ul>
<ul style="list-style-type: none"> <li>• Strong <b>hierarchy &amp; slow</b> decision making</li> <li>• <b>Process, task orientation</b></li> <li>• Employees with <b>pre-defined work</b> (“do your task”)</li> <li>• Status quo and accept barriers</li> </ul>	Organization & Decision-Making	<ul style="list-style-type: none"> <li>• <b>Flat</b> hierarchy &amp; fast decision making</li> <li>• <b>Rapid decision-making</b></li> <li>• <b>Results</b>, product orientation</li> <li>• <b>Empowered</b> employees (“find a way to achieve a goal”)</li> <li>• <b>Innovate</b> and try to overcome barriers</li> </ul>
<ul style="list-style-type: none"> <li>• Good understanding of analogue customers &amp; <b>learning from the past</b></li> <li>• <b>Experience and stability</b></li> <li>• <b>Homogenous</b> teams &amp; department silos</li> <li>• Working within <b>tasks and silos</b></li> <li>• Career progression in <b>predefined</b> paths</li> </ul>	Culture, Ways of Working	<ul style="list-style-type: none"> <li>• <b>Good understanding of digital customers &amp; trends</b></li> <li>• <b>Vision, curiosity, motivation, flexibility</b></li> <li>• <b>Mixed teams</b> &amp; work in communities</li> <li>• Strong <b>collaboration</b></li> <li>• Rapid, <b>unpredictable</b> career progression</li> <li>• <b>Rapid</b> launch and learn</li> </ul>

Digital abilities and capacities begin with the leadership and people. The speed of decision-making and product development is critical. Senior leaders aspire to succeed against their dreams and not just their peers. Digital leaders source ideas from many sources and not JUST from respected experts. Digital

leaders are consummately focused on data, data analysis, and continuous process improvements. By prototyping digital leaders allow for failures so that they can experience success sooner. Ideas matter more than just experience, and communications and transparency are key traits that allow all to succeed.

## Strike a balance at KTZ with a focus on OBOR and focus on the client



The OBOR is focused on transportation, supply chain, logistics, and freight management through successful and profitable management of the railroad. The faster KTZ can implement changes to its business model, the sooner it can capitalize on the investments Chinese and international financing institutions have planned in Kazakhstan and beyond.

The impact on KTZ and the value to Kazakhstan are significant in many respects. Modernizing governance, target operating model, and the operations of KTZ also will draw the attention of freight forwarders, third party logistics companies, and distribution and inventory hubs.



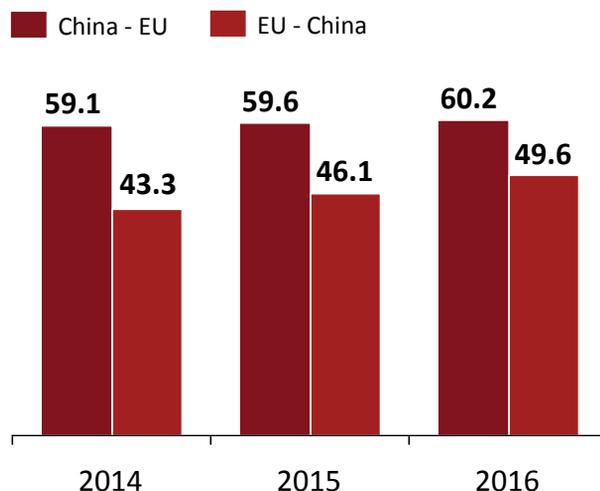
# Kazakhstan can benefit from OBOR in significant ways by capitalizing on transit revenues and gaining new export markets

## Revenues from providing transportation services

With a 10-fold increase in transit container traffic over the next years, new significant revenue streams can be capitalized on by KTZ and private companies. When bureaucratic hurdles are removed, foreign rolling stock will be able to **rent track** from KTZ while making the journey across Kazakhstan.

Private logistics providers are closely watching OBOR's development and the increase of Kazakhstan's capabilities as a transit corridor. Its central position within the Asia-EU route makes it an ideal place to set up shop for **transportation services**, such as rolling stock renting, logistics solutions, and cargo transportation. Transit operations generate by far the most income per ton/km for KTZ. We therefore expect transit to become a significant source of income for Kazakhstan, and if the rail services are simplified and regulations cut, a dynamic and profitable domestic logistics industry will arise to emulate ancient nomadic merchants who connected East and West in the past millennia.

## New export markets and surplus cargo capacity on Europe – China route will benefit local industries



Trade between China and the EU28, in Mln tons



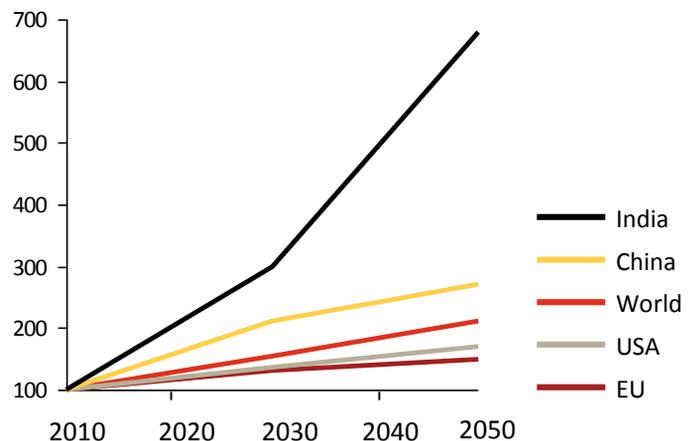


Trade between the EU and China in terms of weight and value is increasing annually. OBOR will allow higher value goods, such as electronics and premium food products to be delivered to clients quicker. Trains will cross Eurasia in increasing volumes, and improved infrastructure will allow them to carry more containers.

A new major trade artery will form on the territory of Kazakhstan. An improved logistics ecosystem will allow Kazakhstani producers of food stuffs, machinery, leather products and any other nascent industry to access foreign markets quickly. The weight trade surplus China holds over the EU means that many trains will return from the EU with their containers empty. Unused return cargo capacity can be acquired at sub-standard cost, which will allow Kazakh producers to export cheaper than ever before. A new ecosystem of industries may grow in the new silk road and truly benefit the peoples of Central Asia.

### Freight transport demand is increasing worldwide

#### Growth for freight transport demand (2010=100)



Source: International Energy Agency

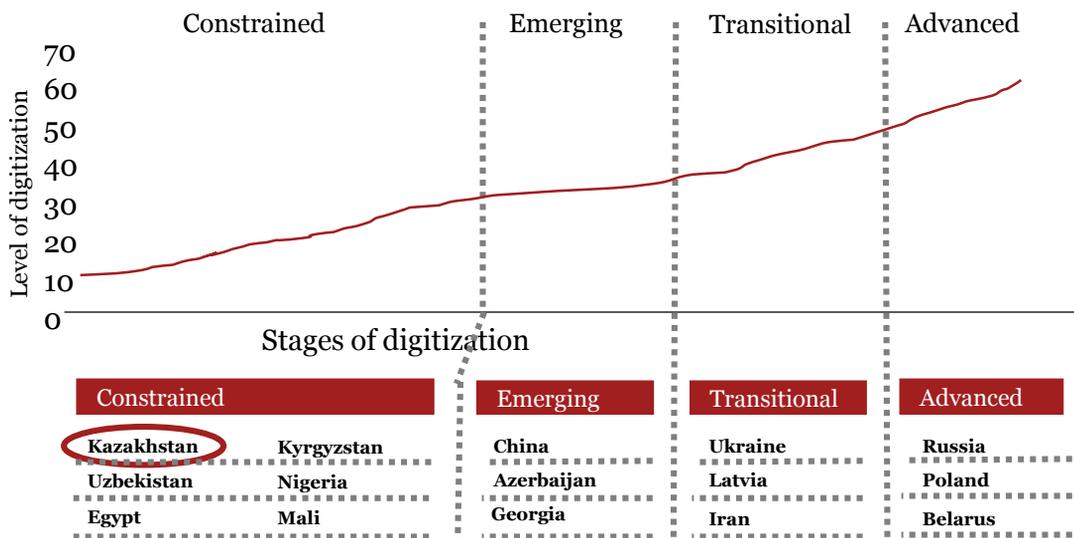
The opportunities don't end here. As freight transport demand increases around the globe, new players will emerge, and Kazakhstan's central position will further establish it as a transit hub. Most notably, Indian freight transport is expected to increase nearly sevenfold by 2050.

The role of OBOR as part of global trade will increase, and with it, Kazakhstan's opportunity to benefit from it.

# Kazakhstan is falling behind in key metrics that impact economic performance, governance and OBOR's successful implementation

To fully capitalize on OBOR, Kazakhstan must take advantage of new sources of economic growth and efficiency. It currently ranks as constrained in terms of digitization while Russia and China have made significant gains over the last decade. New reforms and applied best practices can narrow the gap between Kazakhstan and its partners on OBOR in terms of economic performance, transparency, and access to government services.

## Stages of Digitization



Source: Strategy& analysis



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## *Conclusion*

OBOR provides Kazakhstan with the opportunity to emerge once more as a key region connecting global trade. When Zhang Qian, a Chinese imperial official of the Han Dynasty, and founder of the ancient silk road, first embarked on the route West, he was met by Central Asia's people with desirable goods and tradable silver. For over 1500 years, this trade artery grew until Vasco da Gama discovered the shipping route to the Orient around Africa. Modern market and geopolitical trends promise to revive the ancient arteries. This is Kazakhstan's greatest growth opportunity since independence. Its national companies are the biggest stakeholders, and must ensure that they are ready to support the enormous transit volumes in the years to come. They must understand the importance of the New Silk Road, and award it the attention it deserves. This means major changes need to be made soon.

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## *To have a deeper conversation:*



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