

# China's Direct Investment in Kazakhstan Under the Belt and Road Initiative

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**Abstract:** *the Belt and Road initiative brought great opportunities to China-Kazakhstan economic and trade cooperation. Especially for Kazakhstan, attracting China's capital is an important way to promote its economic development. This paper mainly studies the current situation of China's investment in Kazakhstan, and analyzes the existing problems, such as the small scale, narrow fields and unitary subjects of investment. Based on the Belt and Road initiative, with the consideration of complementary, this article brings some advice for China's investment in Kazakhstan. That is to expand investment scale, especially enlarging the investment in non-energy fields, and increase investment in small and medium enterprises.*

**Key Words:** *The Belt and Road initiative, Direct investment, Kazakhstan, China*

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## I. Introduction

Kazakhstan is one of the most important neighbor countries of China. As the saying goes, "A near friend is better than a far-dwelling kinsman". The China-Kazakhstan relationship is of great importance and becomes even more important because of the Belt and Road initiative at play. As the biggest and the most developed country in the middle Asia, Kazakhstan contains fruitful natural resources. Besides, on its foreign policies, China is the first the state that Kazakhstan has established its first good neighborly relations. And for China, Kazakhstan is an essential juncture to realize the transportation of the commodity needed, which plays a positive role in China-Kazakhstan economic relationship. ① During the recent years, as the bilateral relationship grows deeper, China's investment in Kazakhstan sees much more increase and shows a rising trend. However, compared with the thriving trade between the two countries, there are still some problems in China's investment in Kazakhstan. Therefore, this essay aims to study these problems, and tries to analyze their causes and find possible solutions to them.

## II. Current situation and problems of China's investment in Kazakhstan

### (I) China's current investment situations in Kazakhstan

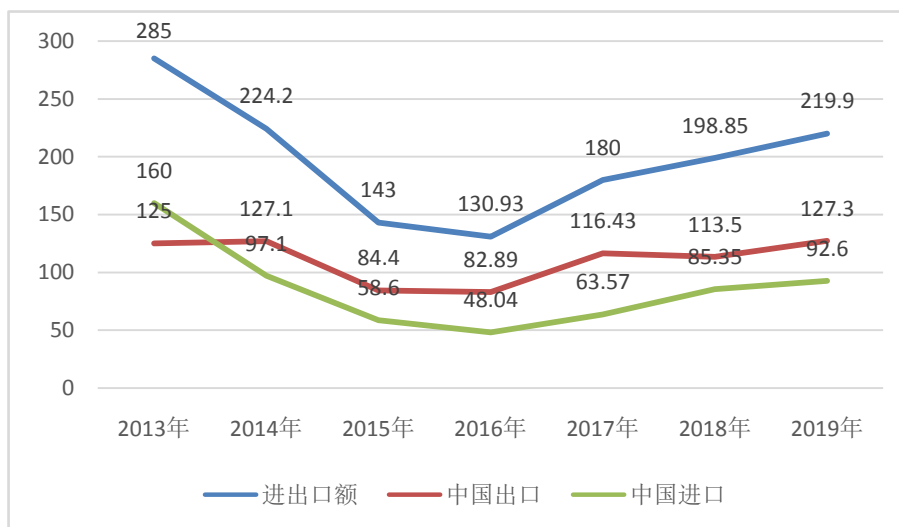
#### *Scale of investment*

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①王志倩. "一带一路"背景下中国对中亚五国对外直接投资现状分析[J].山西农经,2021(01):29-30.

There's a close relations between China's investment in Kazakhstan and the bilateral economic development. Since the establishment of diplomatic relations, the trade between the two has achieved rapid development. The graph 2.1 attached below suggests the development of the bilateral trade after the Belt and Road initiative. In 2014, with the price of bulk energy commodities falling down, the trade volume between China and Kazakhstan declined. But as the cooperation of these two went deeper thanks to the Belt and Road initiative, the bilateral trade received a recovery and finally reached a total trade volume over 20 billion in 2019.

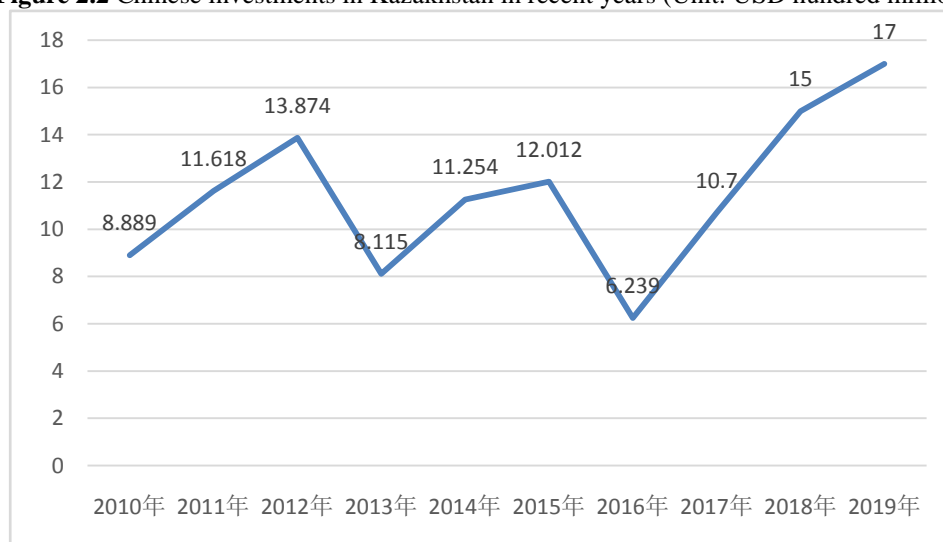
Figure 2.1 2013-2019 China-Kazakhstan Import and Export Scale (Unit: USD hundred million)



Source: Guide to Foreign Investment Cooperation Countries (Regions),2019

Before 2000, China's investments in Kazakhstan were minimal, but with the establishment of Shanghai Cooperation Organization (SCO) in 2001 and the China-Kazakhstan Khorgos Cross-Border Economic Cooperation Zone in 2012, Chinese companies' investments in Kazakhstan were driven. As it can be seen in Figure 2.2, Chinese investments in Kazakhstan was USD 1,387.4 million in 2012, and then fluctuated to a low of USD 623.9 million in 2016, after which it increased continuously. This is due to the fact that China has increased its investments in Kazakhstan under the Belt and Road initiative.

**Figure 2.2** Chinese investments in Kazakhstan in recent years (Unit: USD hundred million)



Source: Statistical Yearbook on the website of the Chinese Ministry of Commerce

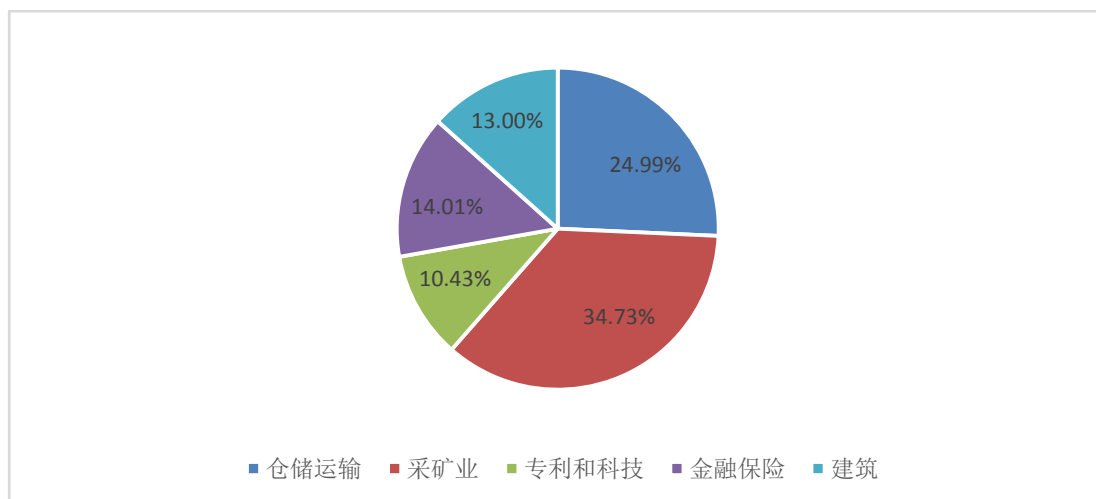
According to Figures 2.1 and 2.2 we can see that China has become an increasingly important trade and investment partner of Kazakhstan in the last two decades, overtaking Russia as the main export destination of the Central Asian country. The data shows that imports from China are diversified, and some of them are the result of investment projects of Chinese companies in Kazakhstan. Foreign Direct Investment (FDI) also reflects the level of trade and economic cooperation, which between Kazakhstan and China is first and foremost mutually beneficial, providing a difference in the natural economic outcomes of the interacting parties. Thanks to this cooperation, China is working on the solutions to maintaining sustainable economic development. Investment cooperation between Kazakhstan and China helps to further maintain their sustainable economic growth and modernize the national economy so as to effectively participate in the world economic system.②Since 2016, investment flows from China to Kazakhstan have shown positive dynamics with an average annual growth rate of 22%. The economic importance of Kazakhstan to China is mainly due to the presence of natural resources in the region, and because of theregional development potential and the formation of transport infrastructure in the direction of China, China’s exports of goods and services in this area will see a continuous growth.

### **Investment sectors**

As for China’s investment sectors in Kazakhstan, mining receives most of it, accounting for almost 35% of the total. The followed sectors is warehousing and transportation, holdingnearly a quarter of the total investment. Then, patents and technology, making up 10.43%. And then financial insurance and construction, with a occupation of over 10% respectively. It suggests that China’s investments in Kazakhstan are mainly concentrated in the fields of transportation, energy, science and technology, finance and construction.

**Figure 2.3** Areas of Chinese investments in Kazakhstan by 2019

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Source: the website of the Central Bank of Kazakhstan

### Investment Subjects

Major Chinese investments subjects in Kazakhstan are mainly mining corporations, namely CNPC, CNOOC, and communication businesses represented by Huawei and ZTE, as well as some construction and transportation companies. These are relatively large companies, including both state-owned companies and private ones. But strong state-owned enterprises are the main ones. They have the unique advantage of enjoying the friendly relations between the two countries, which has laid a good foundation for them to enter Kazakhstan.

### Investment Regions

Kazakhstan's geography is similar to that of China. In the west, natural resources are abundant, and thanks to that, the mining industry is developed quite well. But the population there is smaller and the transportation is not convenient. In the east, there are more commercial cities, especially in the southeast, near the capital Almaty, where industry and commerce are more developed. Chinese investments in Kazakhstan are also concentrated in this region, and the investments in the west are almost in minerals and oil.<sup>③</sup> China is connected with the eastern part of Kazakhstan, so it is more convenient to invest in these regions.

Figure 2.4 Regional distribution in Kazakhstan

③田川. 中国对哈萨克斯坦贸易与直接投资关系研究[J]. 欧亚经济, 2015(05):76-85+127-128.

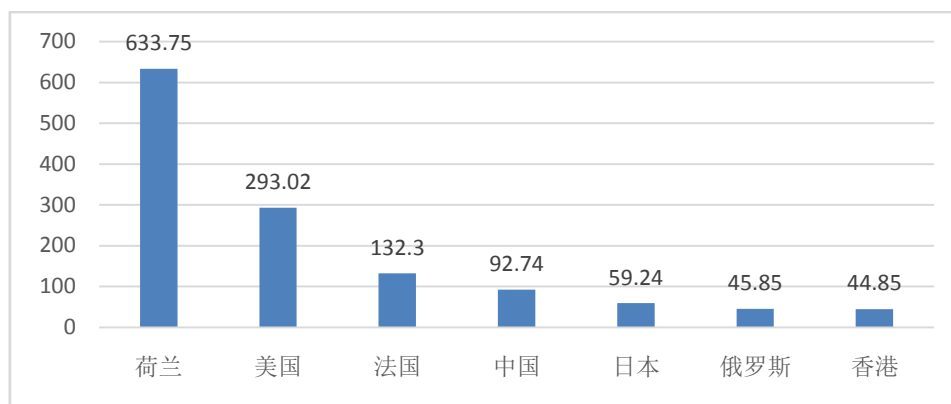


**(II) Problems of Chinese Direct Investment in Kazakhstan**

*Small Scales*

Since 2012, China has been the number one trading partner of Kazakhstan. Although it is said that the trade volume between the two countries has been unstable in recent years as the prices of resource products have fallen, China is still the second largest trading partner of Kazakhstan. However, compared with the trade volume, the scale of Chinese investment in Kazakhstan is relatively limited, and the proportion of investment is small. While Western countries have invested more in Kazakhstan, especially the Netherlands, the United States and other countries. By 2019, China's investment in Kazakhstan is only in fourth place, less than one-sixth of that of the Netherlands, so there is still a huge potential for China to invest in Kazakhstan.

**Figure 3.1** Main Investment State in Kazakhstan (Unit: USD hundred million)



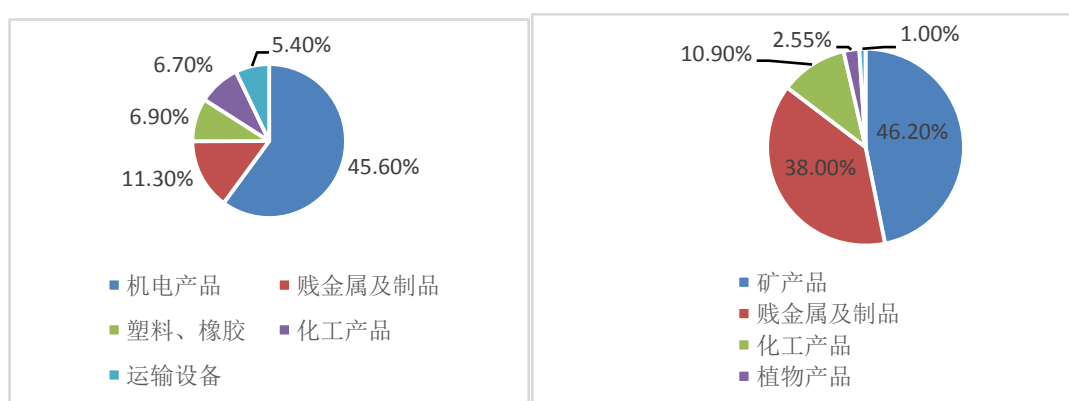
Source: Central Bank of Kazakhstan

*Limited Investment Fields*

Related to the trade structure between the two countries, Chinese investment in Kazakhstan almost only

focuses on the mining industry. Figure 3.2 shows the trade structure between Kazakhstan and China, that is to say, Kazakhstan's imports from China are primarily mechanical and electronic products, with an amount of 45.6%, while exports to China are primarily mineral products, making up to 46.2%, followed by base metals accounting for 38%, which is in line with the fields of Chinese investments in Kazakhstan.

**Figure 3.2** Comparison of the commodity composition of Kazakhstan's imports and exports to China in 2019



Source: Kazakhstan Statistics Agency

Chinese investments in Kazakhstan basically focus on limited fields, with relatively little investment in non-energy sectors. In particular, the three major Chinese oil corporations are the leading companies in investing Kazakhstan. And there are few Chinese investments seen in many other non-energy sectors. One third of Chinese direct investment in Kazakhstan is concentrated in the mining industry, as well as in the power, telecommunications, insurance, science and technology industries, but the proportion of these investments are relatively small.

**Single investment subjects**

Since Chinese investment in Kazakhstan is primarily in the field of resources, it leads to a single investment body, mainly large state-owned enterprises. This also to a certain extent limits more excellent small and medium-sized enterprises to invest in Kazakhstan. Through the experience studying in China, the author found that China's light industries are well developed, and the commodities they produced are exactly what Kazakhstan needs for daily use. And China can increase foreign investment in these areas. Nowadays, Kazakhstan is also actively engaged in economic transformation, which will attract more non-energy enterprises to invest in Kazakhstan, promising a bright future in the non-energy sectors.

**III. Suggestions for China's direct investment in Kazakhstan**

***Increase the scale of investment under the background of the Belt and Road initiative***

The Belt and Road initiative provides a good opportunity for Chinese investment in Kazakhstan. China is located in the east of the "New Silk Road", while Central Asia is in the middle of it, less developed. By connecting with each other geographically, the economic and trade activities of these two regions will be the engine of the "Silk Road Economic Zone". Therefore, China should take Kazakhstan as a breakthrough in promoting economic and trade cooperation with Central Asian countries. Besides, China can make full use of the radiating power of Kazakhstan's market to promote deeper cooperation throughout the Chinese sub-region. As for Kazakhstan, it has a better investment environment because of a good social order, rich resources, fast economic development pace and a stable political situation. Kazakhstan has always adhered to an open policy of investment and constantly makes efforts to improve the investment environment. And more Chinese companies will be attracted to invest in Kazakhstan in this context.

***Expanding investment areas based on complementary cooperation***

China and Kazakhstan have complementary economic structures. Kazakhstan's economic structure is homogeneous, and energy industry and its exports play an important role in economic development, while the manufacturing industry is relatively backward and in the initial stage of industrialization. However, since China is in its rapid stage of industrialization and plays a role of an important exporter of transport, textiles, food, machine building, telecommunications and new energy sectors, China is in great need of energy and mineral resources. Therefore, the two sides can achieve a complementary trading cooperation. For example, Kazakhstan has a shortage of electricity in the west and south of the country, and Almaty is a typical city with a power shortage of 1.3 million kilowatts in 2020. China can increase its direct investments in the areas Kazakhstan has a great demand. For one thing, it can reduce Kazakhstan's dependence on Chinese processed products in order to protect its national industry and promote its industrial structure and rapid industrialization; for the other thing, it can facilitate the transfer of its mature industries and the upgrading of China's industrial structure. In this way, to a certain extent, the trade structure of both sides and the inter-industry trade can be greatly improved.

***Attracting more small and medium-sized enterprises to invest in Kazakhstan***

Kazakhstan has a great demand for many light industrial products, and there are many Kazakh businessmen in China, so it would be of great benefit if China strengthens its light industrial investments in Kazakhstan. On the one hand, it can promote the transfer of production capacity of these enterprises and allow the development of more high-tech enterprises in China. At the same time, it can also increase employment in Kazakhstan, so that ordinary people can enjoy more good quality and inexpensive goods, which is a two-fold thing. China should give full play to the advantages of its industrial system according to these differences on industrial development directions and transfer the industrial chains, that is, to help Kazakhstan to quickly establish a complete industrial system under the guidance of leading enterprises.

**IV. Conclusion**

To sum up, the specialties of investment cooperation between Kazakhstan and China are, first of all, mutually beneficial, which accelerates the economic results of the interacting parties. For Kazakhstan, investment cooperation with China helps to further maintain sustainable economic growth and modernization of its national economy. Especially the implementation of such cooperation is made possible under the Belt and Road initiative. Kazakhstan's active participation in the international projects of the Belt and Road Initiative helps to strengthen the flow of external investments into its national economy. The China-Kazakhstan relations go beyond the usual bilateral cooperation and have become an example of harmonious coexistence and mutually beneficial cooperation between countries. China and Kazakhstan are cooperating closely in the framework of multilateral mechanisms of the United Nations, SCO, CICA, etc., serving as an engine to promote economic globalization and to support the multilateral trading system, making efforts to ensure that the international order and system develop in a more equitable and rational direction.

**Preferences**

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