Kazakh Land, China Capital: Exporting China's Project System to External Geographies

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Abstract

China's Belt and Road geoindustrial policy is dependent on upgrading transport logistics throughout the Middle East and the former Soviet Republics of Central Asia. However, the key International Capacity Cooperation policy also aims to move industrial plants abroad in support of China's wider import strategy. Planning this industrial offshoring not only requires significant domestic industrial policy governance coordination, with policy being formed at the center and transmitted to lower levels of China's administrative hierarchy, but also involves traversing largely unmapped policy territory, namely international multilevel governance cooperation with host countries in Central Asia. Taking the International Capacity Cooperation policy as its focus, this paper examines China's geoeconomic industrial policy in Kazakhstan, arguing that greater public administration interdependence is needed to develop China's foreign policy into genuine regional economic cooperation.

Keywords

China – Kazakhstan – geoeconomics – Belt and Road – International Capacity Cooperation

Introduction

International Capacity Cooperation (ICC) is the practical policy mechanism by which China is implementing its Belt and Road geoindustrial policy—and there is ample documentary evidence to explore. This paper examines the People's Republic of China's state bureaucracy and its domestic transmission

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of industrial policy, arguing that a coordinated attempt is being made to extend China's industrial restructuring to external geographies. It explores China's trade and industry policy toward the Republic of Kazakhstan during Xi Jinping's first term (2012–2017) by examining the International Capacity Cooperation policy, its formation and transmission within the Chinese state bureaucracy, how it extends the lifespan of the domestic Project System model of economic growth, and how it is dependent on the extension of China's "policy banking" model to external geographies. Kazakhstan was chosen for analysis because it is central to Beijing's wider Belt and Road geostrategy.

The paper looks at three aspects of China's geoindustrial policy: industrial capacity transfer; agroindustrial capacity transfer; and transport and logistics development. First, it examines the evidence of Kazakhstan's import of Chinese capital in the industrial sector and considers future institutional developments. As agricultural imports are a key sector within China's geoindustrial policy, the second section considers agroindustrial capacity cooperation as part of China's wider strategy in Kazakhstan. Finally, the much-speculated- about but little-researched spatial planning documents that guide China's investment in railways and logistics infrastructure are examined and discussed. Theories of national systems of economic development in the Listian tradition are used to examine China's extant industrial policy and spatial planning for the external geography of Kazakhstan. Building on the existing literature on Kazakhstan's post-colonial experience, the paper takes Kazakhstan as the agent in China's principal-agent game in Central Asia. Moving beyond simplistic New Great Game or post-colonial narratives, however, it treats Kazakhstan (and Central Asia more broadly) as a serious geoeconomic player rather than a passive agent.[1] The paper also employs European Union (EU) public administration concepts of multilevel governance to argue the counterfactual that effective federalist local-government-to-local-government relations are lacking in China's external industrial policy. Given that most Belt and Road and International Capacity Cooperation policy measures fall to provinces and prefectures within China's centrally orchestrated hierarchical bureaucracy, co- ordinating an external industrial policy will require significant investment by China in both its domestic and foreign bureaucracies, as well as a strengthening of the policy autonomy of China's local governments.

1 B. Dave, *Kazakhstan—Ethnicity, Language and Power* (London and New York: Routledge, 2007); D. Hiro, *Inside Central Asia—A Political and Cultural History of Uzbekistan, Turkmenistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey and Iran* (New York and London: Overlook Wentworth, 2009); M. Laruelle and S. Peyrouse, *Globalizing Central Asia: Geopolitics and the Challenges of Economic Development* (Abingdon and New York: Routledge, 2013).

Primary Chinese sources were collected from the People's Republic of China State Council Ministry of Commerce, relevant Ministry of Commerce offices within the China embassy network, the National Development and Reform Commission, and other central trade and industrial policy-coordinating ministries. By examining these government plans, the paper triangulates an analysis of China's export of the policy process and political risk in industrial capacity transfer.

China's Institutionalized External Industrial Policy

China is constructing a parallel trade and investment architecture, circum- venting the plurilateral trade system in order to run a state investment strategy from behind a closed capital account. In order to understand this, it is essential to examine the domestic institutions, rhetoric, and levers of industrial policy within the Chinese bureaucracy.

To examine China's industrial capacity transfer policy, this paper takes a broadly comparative international political economy approach, comparing the national economic systems of China and Kazakhstan using Listian theories of national systems of economic development.2 This is essentially an historical institutionalist approach to analyzing national systems of economic development, taking the institution as the basic unit of analysis and examining it from the perspective of institutional change over time.3 It is concerned with path-dependencies determining economic outcomes, sticky institutional legacies in the government-economic nexus, and the nature of cumulative causation and the results these have on economic development, collectively known as the German Historical School of Economics.4 This approach has

2 F. List, *The National System of Political Economy*, trans. G. A. Matile (Philadelphia, pa: J. B. Lippencourt & Co, 1856); A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, ma: Harvard University Press, 1962); J. Weiss, *The Economics of Industrial Development* (Abingdon and New York: Routledge, 2010).

3 T. Skocpol and P. Pierson, "Historical Institutionalism in Contemporary Political Science" in I. Katznelson and H.V. Milner (eds.), *Political Science: State of the Discipline* (New York: W.W. Norton; 2002), 693–721; S. Steinmo, "Historical Institutionalism," in D. Della Porta and M. Keating (eds.), *Approaches and Methodologies in the Social Sciences: A Plurali* (Cambridge: Cambridge University Press, 2008), 118–138.

4 J. Zysman, "How Institutions Create Historically Rooted Trajectories of Growth," *Industrial Corporate Change*, 3, no. 1 (1994): 243–283; H. Rosovsky, *Capital Accumulation in Japan 1868—1940* (New York: The Free Press, 1961).

been used extensively to analyze the interactions of state and market in East Asian industrial development strategies of the twentieth and twenty-first centuries,5 as well as to explain both the economic logic of China's industrial structure under the command economy and the economic history of the Soviet Union.6

In examining the Chinese bureaucracy as the principal institution in a principal-agent relationship, the paper employs theories of multilevel governance in the tradition of Western bureaucracy studies to disaggregate China's industrial policy apparatus. On bureaucracy, the paper employs public administration theory to argue for greater analysis of the institutions within the state bureaucracy in historical institutionalist analyses of East Asian and Chinese industrial development, arguing that public administration policy formation and transmission institutions within central and local bureaucracies in China are the key institutional actors in a national system of economic development and consequently in China's emerging geoindustrial policy. Public administration institutions in this study refer to the institutions within China's State Council, representing a power structure distinct from the legislative, executive, and judicial power structures of the state, and nominally separate from the Communist Party of China. These theories ultimately trace back to Weber in Europe and Wilson in the United States.7

I argue that the hierarchical nature of China's public policy apparatus makes it difficult for sub-national-government-to-sub-national-government policy transmission to take place between China and Kazakhstan. The principal focus of the paper is the vertical central-to-sub-national policy transmission within China's industrial policy-making bureaucracy, and I question how the two countries expect to effectively dock their industrial development strategies. There is significant scope for future scholars to examine the Kazakhstan

5 G. Myrdal, *Economic Theory and Underdeveloped Regions* (London: Harper Torchbooks, 1957); R. Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, nj: Princeton University Press, 2004).

6 C. Riskin, *China's Political Economy—The Quest for Development Since 1949* (Oxford: Oxford University Press, 1987); A. Zauberman, "Soviet and Chinese Strategy for Economic Growth," *International Affairs*, 38, no. 3 (1962): 339–352.

7 W. Wilson, "The Study of Administration," *Political Science Quarterly*, 2, no. 2 (1887): 197–222; M. Weber, "Bureaucracy" (1922), in H.H. Gerth & C.W. Mills (eds.), *From Max Weber: Essays in Sociology* (London: Routledge and Kegan Paul, 1948), 196–205; F. Sager and C. Rosser, "Weber, Wilson, and Hegel: Theories of Modern Bureaucracy," *Public Administration Review*, 69, no. 6 (2009): 1136–47.

side of bureaucratic industrial policy and the potential for economic integration between Kazakhstan and both China and the Eurasian Economic Union (EEU).

Multilevel governance is a European integration theory born of the multilateral complexities of uniting first the continental steel and coal institutions and later more institutions and public administration of the industrial bureaucracies of EU member states.8 By contrast, China's Grand Unity governance system is a preindustrial form of national governance overlaid with Russian political and economic institutions through the Chinese Communist Party. Using EU multilevel governance theory to analyze China as though it were not a Grand Unity but a federated system, a customs and monetary union, and a distributed power-sharing institution allows us to disaggregate economic ac- tors and consider their future reintegration into China-EEU-EU trade integration. In focusing on China's central, provincial, prefectural governance, China's state-owned enterprises, and the national and subnational governments of Kazakhstan, we are asking what a multilateral trade and industry architecture between China and Central Asia would look like and how it would differ from the current Washington Consensus form of globalization.

International Capacity Cooperation and Industrial Clusters

Kazakhstan was ground zero for China's Belt and Road geopolicy. Chinese Communist Party Chairman Xi Jinping visited Nazarbayev University in Astana to lay out the plan in September 2013, accompanied by now-Politburo Standing Committee members Wang Huning and Li Zhanshu.9 Since then, flesh has continuously been added to the policy bones. International Capacity Cooperation, released as a policy in 2015, is the practical industrial policy matrix through which industries, local governments, and policy banking are planned to intersect with external geographies as part of the wider Belt and

8 A. Smith, "Multi-Level Governance: What It Is and How It Can Be Studied," in B.G. Peters and J. Pierre (eds.), *sage Handbook of Public Administration* (Thousand Oaks, CA: SAGE Publications, 2003); L. Buonanno and N. Nugent, *Policies and Policy Processes of the European Union* (London: Macmillan Education UK, 2013).

9 Ministry of Foreign Affairs, "President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries," September 7, 2013, http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml (accessed November 14, 2017).

Road strategy.10 ICC is China's answer to comparative advantage, a vast state planning policy to coordinate China's trade and investment strategy in external geographies.11

Key indicators of the initial 2015 document are clauses 1 and 6. Clause 1 lays out the domestic industrial structural reason for the policy, while Clause 6 clearly explains its function and intent.

(1) To promote international cooperation in production capacity and equipment manufacturing is a major move to maintain China's high economic growth toward the mid-to-high end. At present, our country's economic development has entered a new normal and necessitated new requirements on transforming the mode of development and adjusting the economic structure. Actively promoting international cooperation in production capacity and equipment manufacturing is conducive to promoting foreign cooperation through the construction of superior capacity and forming a new point of economic growth in China, which is conducive to promoting continuous improvement of the levels of technology, quality, and service among enterprises; enhancing overall quality and core competitiveness; and promoting economic restructuring and industrial upgrading, to achieve the benefits of upgrading from exporting products to exporting industry.

(6) The main goal. Efforts will be made to establish a production capacity cooperation mechanism with key countries by 2020, and to make significant progress on a number of major capacity-production cooperation projects, forming a number of offshore capacity cooperation demonstration bases. The institutional mechanisms for promoting international capacity and equipment manufacturing cooperation are to be further im- proved, supportive policies are to be more effective, and service support capabilities are to be comprehensively improved. A group of internationally competitive key enterprises more capable of market expansion will

10 National Development and Reform Commission and Ministry of Foreign Affairs of the People's Republic of China, "Vision and Action On Jointly Promoting the Construction of the Silk Road Economic Zone and the 21st Century Maritime Silk Road," March 28, 2015, http://fec.mofcom.gov.cn/article/fwydyl/zcwj/201511/20151101193007.shtml (accessed May 14, 2017); unofficial English translation at http://www.china.org.cn/chinese/2015-09/15/ content_36591064.htm.

11 State Council, "Guiding Opinions on Promoting International Capacity Cooperation and EquipmentManufacturing,2015,No.30,"May16,2016,http://www.gov.cn/zhengce/content/ 2015-05/16/content_9771.htm (accessed September 30, 2016).

> be formed. The economic and social benefits of international capacity and equipment manufacturing cooperation will be further enhanced, and the promotion of domestic economic development and industrial restructuring and upgrading will be significantly enhanced.12

Within China, ICC has been billed not as an outpouring of China's excess industrial capacity but rather as a form of technology transfer-inducing foreign direct investment—that is, a chance for external economies to attract high-technology manufacturing plants from China.13 Thus far, however, most ICC transfers in Kazakhstan have been in low-end industries: aluminum, plate glass, and machinery. China's ICC plan in Central Asia fulfills three Chinese geoeconomic policy goals: firstly, to offshore China's excess industrial capacity; secondly, to export the "Project System" model of policy bank-fueled Keynesian capital works projects; and thirdly, to build a trade and investment architecture parallel to the Washington Consensus global institutions.14 As China engineers a state-driven innovation strategy to raise its manufacturing output up the global value chain, capacity cooperation partners are being encouraged to take up the slack in old industries, bringing steel, cement, and glass industrial clusters to Central Asia.15

International Capacity Cooperation is effectively an upgrade of the "Go Global" policy, an explicit move from an export strategy to a "'going out' and 'bringing in'" import strategy.16 Although principally an external trade and industry policy of the Ministry of Commerce (MofCOM), ICC is coordinated by the National Development and Reform Commission (Gosplan) in conjunction with the Ministry of Industry and Information Technology (MIIT), the Ministry of Science and Technology (MOST), the State-owned Assets Supervision and

12 Ibid.

13 H. Xing, "International Capacity Cooperation Is Not Offshoring Outdated Production Capacity," *Qiushi*, June 15, 2016, http://www.qstheory.cn/dukan/qs/2016-06/15/c_1119023667. htm (accessed January 13, 2017); Ningxia Daily Staff Writers, "Ningxia and Belt and Road," *Ningxia Daily*, October 2, 2016, http://www.nx.xinhuanet.com/newscenter/2016-10/02/c_1119659230.htm (accessed October 18, 2016).

14 T. Kenderdine, "13th Five-Year Plan on International Capacity Cooperation—China Exports the Project System," *Global Policy*, October 17, 2017, http://www.globalpolicyjournal.com/blog/17/10/2017/13th-five-year-plan-international-capacity-cooperation%E2%80%94china-exports-project-system (accessed November 14, 2017).

15 T. Kenderdine, "China's Industrial Policy, Strategic Emerging Industries, and Space Law," *Asia and the Pacific Policy Studies*, 4, no. 2 (May 2017).

16 L. Yueh, "A New Era of Geo-Economics: Assessing the Interplay of Economic and Political Risk," IISS Geo-Economics and Strategy Conferences, March 25, 2012.

Administration Commission (SASAC), and the Ministry of Agriculture (MoA), and ultimately transmitted through the Ministry of Foreign Affairs (MFA). MFA, although nominally in charge of China's foreign policy architecture, is generally considered a weak ministry in the Chinese central bureaucracy; in terms of China's Central Asia industrial policy, it is simply a conduit for NDRC, MofCOM, MIIT, and MoA policy. While the Belt and Road policy is largely a catch-all foreign policy grand strategy coordinated from within central Party organs, International Capacity Cooperation is a distributed network of policy solutions transmitted to and deployed by local provincial and prefectural govern- ments.17 Guidance comes from the central Party, but actionable policy comes from central SOEs, provincial SOEs, provincial governments, and prefectural governments, with the central National Development and Reform Commission (NDRC) coordinating overall ICC strategy.18 NDRC has signed agreements with multiple provincial-level governments to develop bi- and multilateral co- operation mechanisms and major provincial capacity cooperation funding is through putting Hubei, Yunnan, Jiangxi, Gansu, Anhui, Hebei, and Shandong.19 The policy apparatus is funded and supported by a central policy bank system which leverages foreign exchange reserves into geography-specific capacity cooperation funds, which are then made available for SOEs to draw down loans for foreign investment.20 China is in the process of rolling out massive and sophisticated institutional mechanisms for financing ICC across the globe and in Central Asia in particular. Essentially exporting the policy bank model, these financing vehicles, leveraged against sovereign wealth foreign exchange reserves, direct state investment in infrastructure offshore, bypassing traditional capital account controls. Central funds are distributed to provincial governments, which have their own Belt and Road capacity cooperation policies playing to geographical, industrial infrastructure, and competitive advantage strengths. Ultimately, these funds are coordinated and administered by the

17 T. Kenderdine, and H. Ling, "International Capacity Cooperation—Financing China's Export of Industrial Overcapacity," *Global Policy*, 8, no. 4 (November 2017).

18 Ningxia Hui Autonomous Region People's Government, "Government Work Report of Ningxia Hui Autonomous Region, 11th People's Congress, 5th Meeting," February 3, 2016, http://www.gov.cn/guoqing/2016-02/03/content_5042937.htm (accessed September 30, 2016); Ningxia Hui Autonomous Region Development and Reform Commission, "National Development and Reform Commission to Promote the Construction of 20 International Capacity Demonstration Zones," March 29, 2016, http://www.nxdrc.gov.cn/info/1022/7915. htm (accessed September 30, 2016); Ningxia Daily Staff Writers, "Ningxia and Belt and Road."

19 Kenderdine and Ling, "International Capacity Cooperation."

20 Ibid.

central policy banking apparatus of the China Development Bank, China Export-Import Bank, and the Agricultural Development Bank of China, supported in monetary and fiscal policy by the central bank (PBOC) and its State Administration of Foreign Exchange (SAFE), as well as by the Ministry of Finance (MOF).21 While the Asian Infrastructure and Investment Bank (AIIB) and the Silk Road fund are the most visible of these institutions, there are an array of funding mechanisms, including the Kazakhstan Capacity Cooperation Fund (US$2 billion seed capital) and the Middle East Investment Fund (US$10 billion seed capital).22

This is a giant exercise in exporting the Keynesian capital works-driven Project System to external geographies through the international capacity cooperation plan.23 The Project System refers to the hierarchy of property rights in the Chinese political apparatus, which has meant that central industrialization projects dominate the lesser rights of local governments and individuals; that industrial development is constantly viewed in the aggregate; and that peripheral, resource-rich jurisdictions are exploited by the center. This has prompted both utilitarian governance and rent-seeking behavior on the part of the central government.24 For International Capacity Cooperation to be the external Project System policy, China's center envisages firms finding

21 China Development Bank, "China Development Bank and the Hebei Provincial Government Sign Agreement to Help Construct 'Strong Economy, Beautiful Hebei,'" April 12, 2016, http://www.cdb.com.cn/xwzx/khdt/201604/t20160412_2989.html (accessed November 14, 2017); China-ASEAN Fund, http://www.china-asean-fund.com/ (accessed November 14, 2017); C. Dai, "More Local Versions of the 'Silk Road Fund' Launched to Accelerate 'Belt and Road,'" *21st Century Business Herald*, February 16, 2016, http://m.21jingji.com/article/20160216/c53090166db0c9deb3691babe657fba6.html (accessed November 14, 2017).

22 China-Arab Investment Funds, http://www.cafunds.net/html/en (accessed September 30, 2016); China-ASEAN Fund, http://www.china-asean-fund.com/ (accessed September 30, 2016).

23 X. Luo, "The Chongqing Model as the China Model is a Disaster," *Major Events*, 3 (April 2011): 1–10. I owe a great deal of this synopsis to conversation with Professor David Kelly, Research Director at China Policy in Beijing, with whom I worked on these issues for three years. His knowledge and articulation of the Project System far surpasses my superficial treatment.

24 X. Luo, "Regional Competition and Property Rights: Economic Logic of China's Reform," China Value, 1995, http://www.chinavalue.net/Finance/Blog/2008-12-23/394372.aspx (accessed November 14, 2017); X. Zhang, L. Xing, S. Fan, and X. Luo, "Resource Abundance and Regional Development in China," *Economics of Transition*, 16, no. 1 (January 2008); 7–29; X. Luo, Z. Huang, and W. Qian, "China's Land (Re)Distribution and Economic Development," World Bank Working Paper, https://sarpn.org/documents/d0002690/China_land_redistribution.pdf (accessed November 14, 2017).

developing-economy partners and transferring China's industrial capacity (including Chinese finance, labor, and technology) to external geographies holistically, effectively transplanting a whole Chinese industrial cluster to an external geography. Perpetuation of the Chinese model of industrial development through this wholesale export is China's primary goal when making infrastructure investments in Central Asia; the ability to connect to European and African commodities markets is very much a secondary concern.25 Reducing overcapacity in China's industries by moving its traditional heavy industrial and agroindustrial output abroad is designed to allow the country to move up the global value chain by investing in higher-technology manufacturing in its developed coastal cities.26 This is state-planning subversion of the principle of comparative advantage among interdependent economic states.

If International Capacity Cooperation is to work, however, the host nation must be able to adequately prepare to dock the two industrial matrices. Yet China's experience of foreign policy and regional economic integration in Central Asia is extremely limited. Post-Soviet governance structures, core-periphery power relations with Moscow, and complex post-colonial state relations mean that China's simplistic foreign economic development policy of "south-south" cooperation and "win-win" is unlikely to be sophisticated enough to achieve China's industrial geography goals.27 On the Kazakhstan side, this makes it difficult for the capacity-receiving nation to prepare its regulatory and financial systems for the new industrial influx, and leaves business—which must adapt to new input-output matrices—with little idea of the structural changes about to take place. Given the difficulty of coordinating governance structures within China, the endogenous risk in China's finance system, and China's non-performing loan problem, the International Capacity Cooperation model would export to Kazakhstan the same risks China is trying to solve.

The pattern of a Chinese province being paired with a sovereign state as effective economic equals is typical of International Capacity Cooperation efforts.28 Hebei province is the local province paired with Kazakhstan for

25 J. Wang, "China-Africa Economic Cooperation Facing New Opportunities," *Economic Information Daily* (2015), http://www.jjckb.cn/2015-12/03/c_134878875.htm (accessed September 30, 2016).

26 Kenderdine, "China's Industrial Policy."

27 J. Xi, "Towards a Community of Common Destiny and A New Future for Asia—Full Text of Chinese President's Speech at Boao Forum for Asia" (speech given at Boao Forum for Asia Annual Conference 2015, Boao, 28 March 2015), http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1250690.shtml (accessed November 14, 2017).

28 Kenderdine and Ling, "International Capacity Cooperation."

industrial capacity transfer. Hebei province surrounds the municipal provinces of Beijing and Tianjin on the North China Plain opening into the Sea of Bohai. It is due to become a super-province, absorbing the Beijing and Tianjin municipalities to form *Jinjingji*. Hebei is also the most concentrated steel production complex on the planet. At an International Capacity Cooperation conference in Astana in 2017, Hebei sent provincial representatives of the Development and Reform Commission, Department of Commerce, and Department of Agriculture to meet with Kazakh officials and leaders of Chinese enterprises to discuss deepening production cooperation.29 The Chinese enterprises represented included agriculture and agri-foods, machinery, new energy, construction, building materials, and pharmaceuticals. This followed a meeting in Beijing which saw Hebei pledge to focus on four areas of exporting factory capacity—steel, cement, glass, and photovoltaic cells and equipment manufacturing—as part of International Capacity Cooperation.30 Following China's State Council "Opinions on Steel and Coal Overcapacity" in 2016, Hebei must shut down 240 of its 400 steel mills by 2020. Both coking coal steel mills and thermal coal electricity plants must close or move in a bid to curb coal use. At present, Hebei's steel mills are slated to move to Central Asia. That being said, each Chinese province is paired with more than one external geography, and Kazakhstan could be competing for investment with Nigeria and Serbia, Hebei's other capacity cooperation partners.31 Hebei will continue to seek avenues for offshoring industrial capacity and labor costs as it transitions into higher value-added sectors such as advanced manufacturing, cross-border services, warehousing and logistics, and high-end services.32

As China's domestic industrial policy is transmitted within the vertical axis of the state planning bureaucracy, however, it will likely struggle to develop the lateral institutions necessary to transmit International Capacity Cooperation to host economies. China's ever more sophisticated spatial planning and local

29 "Hebei—Central Asian Countries International Capacity and Import and Export Commodities Fair Held in Astana," *Hebei News*, July 14, 2017, http://hebei.hebnews.cn/2017-07/14/content_6558286.htm (accessed November 14, 2017).

30 "Hebei Province Holds International Capacity Cooperation Project Docking Expo," *Xinhua*, May 19, 2017, http://www.he.xinhuanet.com/jujiao/20170519/3712880_c.html (accessed November 14, 2017).

31 Mofcom Foreign Economic Cooperation, "International Capacity Cooperation, Hebei Promising," May 17, 2017, http://fec.mofcom.gov.cn/article/tjgjcnhz/xgzxhlj/201705/20170502576427.shtml (accessed November 14, 2017).

32 "International Capacity Cooperation, Hebei is Promising," *Sina*, May 15, 2017, https://news.sina.cn/gn/2017-05-15/detail-ifyfecvz1403977.d.html?vt=4&cid=57929 (accessed November 14, 2017).

government industrial policy is likely to result in a foreign policy transmission gap that would leave senior policymakers in Central Asia unclear on smaller policy details. Chinese Communist Party General Secretary Xi Jinping and State Council First Vice Premier Zhang Gaoli have led high profile meetings with Kazakhstan and other Central Asian states, yet lower government levels have been slow to take similar steps.

100 Concrete Kazakh Steps Made from Chinese Cement

Kazakhstan's rising international profile as a trading center and major energy provider, as well as its centrality to the Belt and Road initiative, make it a key target for China's International Capacity Cooperation policy. Zhang Gaoli, first vice premier of China's State Council (2012–2017) and chair of the Sino-Kazakhstan Cooperation Committee, has been transparent and forthright in extending China's International Capacity Cooperation strategy to Kazakhstan.33 There have also been plans for Kazakhstan's "Bright Path" (Nurly Zhol) industrial policy to intersect with Belt and Road since 2013.34 In December 2014, China's NDRC and Kazakhstan signed a US$230 million capacity cooperation agreement covering 63 sectors, including rail, cement, energy, mining, agriculture, and food.35 In March 2015, the two sides signed a Joint Communiqué to deepen economic relations, with plans for 50 joint Sino-Kazakh capacity cooperation projects worth up to US$23.6 billion over

33 L. Hou, "Zhang Gaoli and Kazakhstan's First Deputy Prime Minister Ma Ming Hold a Meeting of Chairman of the Sino-Kazakh Cooperation Committee," *Qiushi*, November 29, 2016, http://www.qstheory.cn/yaowen/2016-11/29/c_1120009178.htm (accessed May 14,2017).

34 NDRC, "Cooperation Plan between the Government of the People's Republic of China and the Government of the Republic of Kazakhstan on the Construction of the 'Silk Road Economic Belt' and the New Economic Policy of the 'Bright Road,'" *China Economic Review,* October 13, 2016, http://xbkfs.NDRC.gov.cn/gzdt/201610/t20161013_822490.html (accessed October 18, 2016); Embassy of the Republic of Kazakhstan to China (Beijing), "100 Concrete Steps" (multilingual Chinese, English, Russian, Kazakh), 2016, printed 2017. Available in Russian online at Ministry of Internal Affairs of the Republic of Kazakhstan, http://mvd.gov.kz/portal/page/portal/mvd/mvd_page/mvd_100_steps/100%20%D2%9B%D0%B0%D0%B4%D0%B0%D0%BC.pdf (accessed May 14, 2017); Kazakhstan Strategy 2050 Central Government web portal, https://strategy2050.kz/ru/news/?date=06.2016 (accessed May 14, 2017).

35 X. Li, "China and Kazakhstan to Sign Framework Agreement on Capacity Cooperation in 2015," *China News*, December 26, 2014, http://www.chinanews.com/gn/2014/12-26/6916347.shtml (accessed September 30, 2016).

five years, creating industrial cooperation clusters in transport infrastructure, manufacturing, construction, and agriculture.36 Since these executive-level ICC agreements, investment has been slow to flow into Kazakhstan's petrochemical and metallurgy industries. China's demand for copper is waning, yet its demand for cobalt is just beginning, as its battery and aero-engines industries are being aggressively developed by the state.

Kazakhstan is to be China's "main axis" to Africa, the Middle East, and Central Europe. The forthcoming 13th Five-Year Plan on International Capacity Cooperation lists Kazakhstan—the lynchpin to Europe—as a key strategic partner alongside Indonesia and Malaysia, the gatekeepers of the Malaccan route to Europe.37 The industries China is targeting for offshoring are steel, nonferrous metals, building materials, chemicals, automotive, agriculture, construction machinery, and aerospace technologies. China's International Capacity Cooperation policy will bring investment to Kazakhstan's non-ferrous metals industry, offshoring its excess aluminum capacity. But whereas China's trade with Europe will be a two-way street, investment in Central Asia will be one-way and on China's terms, simply extending China's industrial matrix into Kazakhstan for re-export to China.

China's formal trade and investment strategy is spelled out in annual re- ports by the Ministry of Commerce, Chinese Academy of International Trade and Economic Cooperation (CAITEC), and Department of Investment Promotion.38 The NDRC also often releases central-level documents on inter-state economic cooperation.39 Much of China's interest in industrial capacity transfer with Kazakhstan can be read as a rejection of attempting the same with

36 "China, Kazakhstan Sign 33 Deals Worth 23.6 Billion U.S. Dollars," *Xinhua*, March 27, 2015, http://news.xinhuanet.com/english/2015-03/27/c_134104187.htm (accessed November 14, 2017); "Kazakhstansko-kitaiskii proekt na 2.3 milliarda dollarov obsudili v Pekine," *Inform- buro*, February 15, 2017, https://informburo.kz/novosti/kazahstansko-kitayskiy-proekt-na- 23-milliarda-dollarov-obsudili-v-pekine.html (accessed May 14, 2017).

37 "International Capacity Cooperation 13th Five-Year Plan Development," *Economic Information Daily*, October 26, 2016, http://jjckb.xinhuanet.com/2016-10/26/c_135782137.htm (accessed May 14, 2017).

38 Ministry of Commerce, Chinese Academy of International Trade and Economic Cooperation (caitec), Department of Investment Promotion, Economic and Commercial Counselor's Office, Chinese Embassy in Kazakhstan, "Foreign Direct Investment Cooperation Country (Region) Guide—Kazakhstan (2016 edition)," July 2016, http://fec.mofcom.gov.cn/article/gbdqzn/upload/hasakesitan.pdf (accessed January 13, 2017).

39 National Development and Reform Commission on the Issuance of the Government of the People's Republic of China, "Notice on the 2015–2020 Kyrgyz Republic Cooperation Plan on the Adjacent Areas of the Two Countries, Serial No. 2241," http://www.sdpc.gov.cn/zcfb/zcfbghwb/201510/t20151012_754234.html (accessed May 14, 2017).

the Russian Federation. Liu Xiaoyin of the Shanghai University of Finance and Economics' Marxist Research Institute wrote an influential 2015 essay in the Party ideology journal *Qiushi* outlining Sino-Russian investment in traditional industries—steel, aluminum, and petrochemicals—but noted strong barriers to two-way capital investment.40 The Sino-Russian Investment Fund was the policy solution to traditional trade barriers; a similar Sino-Kazakhstan Capacity Cooperation fund, with us$2 billion in capital, has been set up to lend to targeted industries focusing on offshoring traditional industry overcapacity and to build an agroindustrial base in Kazakhstan. China is in the process of rolling out a variety of institutional mechanisms for financing capacity cooperation throughout the Belt and Road. Essentially exporting the policy bank model leveraged against sovereign wealth, a variety of purpose-built financing vehicles direct state investment in infrastructure offshore, bypassing capital account controls. Central funds are distributed to Chinese provincial governments, which have their own Belt and Road capacity cooperation policies playing to geographic, industrial infrastructure, and competitive advantage strengths.

Aluminum capacity has developed clear importance to the industrial trans- fer strategy. On March 31, 2017, Beijing-based representatives of the aluminum industry met with officials of the NDRC, SASAC, and the China National Nonferrous Metals Industry Association to form the China Nonferrous Metals International Capacity Cooperative Enterprise Alliance.41 China National Nonferrous Metals Industry Association Communist Party Secretary Chen Quanxun said that the combination of Going Out, International Capacity Cooperation, and Belt and Road had produced increased foreign direct investment in non-ferrous mines, mineral rights, and plants in 2016. China cited Kazakhstan, India, Azerbaijan, and Mongolia as key investment destinations for Chinese aluminum capital, working in conjunction with partners from the United States, Germany, and Russia. Industrial projects with Chinese investment in Kazakhstan include Kazakhstan Aluminum, a Kaz Minerals copper mine in Aktogay, and Petrochina's petcoke project in Pavlodar, all of which are

40 X. Liu, "The Influence of the 'Silk Road Economic Belt' on Sino-Russian Trade and Investment Facilitation," *Qiushi*, June 27, 2015, http://www.qstheory.cn/llqikan/2015-06/27/c_1115741448.htm (accessed May 14, 2017).

41 Mofcom Foreign Economic Cooperation, "China Nonferrous Metals International Capacity Cooperation Enterprise Alliance Established," April 1, 2017, http://fec.mofcom.gov.cn/article/tjgjcnhz/xgzxhlj/201704/20170402544938.shtml (accessed November 14, 2017).

funded at least in part by Beijing's two biggest policy banks: China Development Bank and the Export-Import Bank of China.42

In the other direction, Kazakhstan's Minister for Investment and Development, Zhenis Kasymbek, visited China in February 2017, where he met with members of China's Ministry of Transport.43 The delegation also met with representatives of China National Machinery Import & Export Corporation (CMC), Cereals, Oils and Foodstuffs Corporation (COFCO), Gezhouba Cement (construction), Cathay Industrial Biotech (biogenetics and biotechnology), Shan- dong Hi-Speed Group Corporation (transport infrastructure), Norinco (China Northern Industries—diversified defense, vehicles, machinery, and construction), Sinosure, the Export-Import Bank of China, and the Silk Road Fund.44

On the Kazakh side, most Chinese aluminum investment roads lead back to Alexander Mashkevich's Eurasian Resources Group (Evraziiskaia gruppa), which is 40 percent owned by the Kazakh government.45 Benedikt Sobotka runs the Natural Resources Corporation arm, which owns one-third of Kazakh- stan's mining and metals sector, including Kazakhstan Aluminum, Kazakhstan Electrolysis Plant, tnc Kazchrome, Sokolov Sarbai Mining, and the Eurasian Energy Corporation.46 Sobotka, like the rest of the world, has his eye on the 19th Central Committee of the Chinese Communist Party, expecting to see rising demand for cobalt and copper and hoping for positive signals on iron ore.47

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42 "Building a Monument to International Capacity Cooperation-Documenting China's National Interests in Kazakhstan," *People's Daily*, December 29, 2017, http://finance.people .com.cn/GB/n1/2016/1229/c153577-28986777.html (accessed November 14, 2017).

43 "Volume of Chinese Investment in Kazakhstan Grows Sevenfold," *Forbes Kazakhstan*, January 26, 2017, https://forbes.kz/news/2017/01/26/newsid_133690 (accessed May 14, 2017).

44 S. Akizhanov, "Kazakhstan i Kitai realiziruiut bolee 50 proektov v techenie piati let," *Kazinform*, February 28, 2017, http://www.inform.kz/ru/kazahstan-i-kitay-realizuyut-bolee- 50-proektov-v-techenie-pyati-let_a3003583 (accessed May 14, 2017).

45 A. Abdullina, "Kompaniia Mashkevicha vykhodit na rynok Kitaia," *365info.kz*, March 28, 2017, https://365info.kz/2017/03/kompaniya-mashkevicha-vyhodit-na-rynok-kitaya/ (accessed May 14, 2017).

46 D. Serikov, "Analysts Discuss Possibility of erg Borrowing erg in China," *Kursiv*, March 30, 2017, https://www.kursiv.kz/news/industry/erg-planiruet-vyjti-na-kitajskij-fondovyj- rynok/ (accessed May 14, 2017); Yicai Global, "China's Belt and Road Initiative Benefits Ka- zakhstan and Eurasian Resources, Mining Firm's CEO Says," March 24, 2017, http://www. yicaiglobal.com/news/50054989.html (accessed May 14, 2017).

47 D. Serikov, "erg Expects Strong Dynamics of Commodity Prices in First Half of 2017," *Kursiv*, January 6, 2017, https://www.kursiv.kz/news/industry/v-erg-ozidaut-silnuu-din- amiku- syrevyh-cen-v-pervoj-polovine-2017-goda/ (accessed May 14, 2017).

erg has partnered with China Nonferrous Metals Industry Group, the Export-Import Bank of China, the Industrial and Commercial Bank of China, and China Export & Credit Insurance Corp to complete a US$800 million copper and cobalt project in the Democratic Republic of Congo, which will come online in 2018 to supply China with 20,000 metric tons of cobalt, enough to make batteries for 500,000 electric vehicles.48 ERG is also seeking Chinese funding to double the capacity of the Kazakhstan Aluminum plant, which currently produces 300,000 metric tons per year, a project that would require around us$3 billion of Chinese capital.49 It has reached a separate agreement with the China Development Bank, the major policy bank in the Chinese state lending system, for at least us$2 billion in financing for three projects in Kazakhstan in the aluminum, iron ore, and power sectors. The Eurasian Resources Group, however, is unhappy about the presumed obstacles to it reciprocally raising capital on the Shanghai Stock Exchange and thus making it beholden to policy bank capital. Maxim Khudalov, director of the corporate ratings group of the Analytical Credit Rating Agency, argued that being domiciled in Luxembourg entitles erg to list in Hong Kong under English Common Law and that the Hong Kong-Shanghai Stock Connect means it is then eligible to raise capital inShanghai, following the model set by Rusal in 2010.50

In other sectors, in February 2017, Kazakhstan's Ambassador to the People's Republic of China, Shahrat Nuryshev, met with Xu Weihong, chief economist at Aviation Industry Corporation of China (AVIC) Securities. They discussed the construction of a mining and chemical-metallurgical complex in the Zhambyl region and the development of a special economic zone in Pavlodar.51 The projects, with Chinese partners China Metallurgical Group Corporation, China Machinery Engineering Corporation, and AVIC Corporation, are worth us$2.3 billion. The investment will provide titanium dioxide, silicon dioxide, and vanadium pentoxide to China for use in the production of aircraft. China has huge capacity in photovoltaic energy, but it has overinvested and currently suffers from both production overcapacity and curtailment of the electricity

48 "erg Taps China For More Than $2.5bn of New Project Financing," *Financial Times*, October 2, 2015, https://www.ft.com/content/bbc32922-5189-11e5-b029-b9d50a74fd14 (accessed May 14, 2017).

49 "Beijing Should Let Foreign Firms List, Says Kazakhstan Metals Firm Seeking Chinese 'New Silk Road' Money," *South China Morning Post*, March 24, 2017, http://www.scmp.com/business/companies/article/2081929/beijing-should-let-foreign-firms-list-says- kazakhstan-metals-firm (accessed May 14, 2017).

50 Serikov, "Analysts Discuss Possibility."

51 Akizhanov, "Kazakhstan i Kitai realiziruiut."

supply. As such, ja Solar Holdings Limited is considering investing in photovoltaic energy generation in steppe regions of Kazakhstan. Other recent investments include the Astana Industrial Park Phase ii project, US$200 million to establish machinery-producing industrial parks in North Kazakhstan's Petropavl, and China Glass Holding Limited's move to take over a 600-ton-per-day floating glass production line.52

The implications of China's investment trajectories are obvious. The external industrial policy underway in Kazakhstan is to dovetail with domestic Chinese industrial policy centered on upgrading its manufacturing base under Made in China 2025, Internet Plus, and Internet of Things digitization while simultaneously chasing higher-technology manufacturing in aircraft and aircraft engines, high-speed rail, satellite technologies, and nuclear energy equipment.53 In order to achieve these domestic industrial policy goals, China needs to both offshore old industrial capacity and secure commodity and manufactured inputs. Essentially, Kazakhstan is slated to become part of China's continental industrial complex, putting it in much the same position as it held under the Soviet Union.

China's Agroindustrial Capacity Transfer Strategy

Promoting ICC in the Eurasian region corresponds closely with China's domestic industrialization needs and China's Central Asian agroindustrial capacity transfer strategy is the state arm of a dual state-market solution: China is opening domestic markets to foreign grain imports while establishing agroindustrial capacity in post-Soviet economies for re-export back to China. This extends the state agroindustrial complex in China's western provinces and in Central Asia while opening the eastern provinces to market mechanisms and the international grain market. China is not only relaxing subsidies on domestic agricultural production while promoting the market mechanisms required to import more grain, but it is also letting go of domestic production as a food

52 H. Zhao, "China Enterprises Plan to Invest Nearly 1.3 billion in Kazakhstan's North Kazakhstan Industrial Park," *21st Century Business Herald*, August 30, 2017, http://m.21jingji.com/article/20170830/herald/54148ae3fce2f7dd602cc7f8704a2fc5.html (accessed November 14, 2017); China Triumph International Engineering Co., Ltd. Bengbu Design & Research Institute for Glass Industry, "CCTIEC Signs EPC Contract of First 600t/d Float Glass Production Line in Kazakhstan," July 4, 2017, http://www.ctiec.net/news/en_news/2017/7/4/1499150059662.jsp (accessed November 14, 2017).

53 Kenderdine, "China's Industrial Policy."

security ballast and will begin to allow other nation-states to feed its populace. Kazakhstan is targeted for investment in agroindustrial capacity, with eastward grain and oilseed shipments expected to increase as rail logistics improve. Domestic industrialization of agriculture gained policy traction during the first Xi administration, with boosting production capacity in other countries increasingly accepted as a solution to feeding China.54

International Capacity Cooperation priorities for shifting industrial chains to external geographies are clearly centered on energy equipment, machinery, and agroindustrial manufacturing.55 While Chinese capital is always linked to state-owned enterprises, the chance to develop agroindustrial bases of production is a huge opportunity for Central Asian states. Agricultural commodity exports to China and investment in agroindustrial machinery, cement-steel-and-glass, and factory systems, coupled with assured export markets, could develop new agroindustrial sectors for Central Asian economies and forge the basis of great- er economic integration under Belt and Road.

China's Ministry of Commerce has stated it will work with the relevant domestic Chinese government institutions to strengthen International Capacity Cooperation planning across Central Asia, implementing a "one country, one policy" system, focusing on strategic projects, and presenting an integrated industry and finance nexus.56 China's investment growth in 2015 was us$3.3 billion from direct investment in the Eurasian region. Such investments are mainly in mining, manufacturing, agriculture, forestry, and construction.57 When the Belt and Road's flagship Eurasian Land Bridge rail project is completed, the volume of Kazakhstan's cross-border goods transfer is expected to increase five-fold.58 Kazakhstan's soy production has long been part of China's

54 ccp Central Committee and State Council, "Opinions on the Implementation of New Ideas to Develop and Accelerate Agricultural Modernisation and Achieve a Moderately Prosperous Society," January 27, 2016, http://www.grain.gov.cn/Grain/ShowNews.aspx?newsid=66750 (accessed October 31, 2016).

55 State Council, "Guiding Opinions"; Ministry of Industry and Information Technology, "'Made in China 2025' Series of Plans to Promote Energy Conservation and the Development of New Energy Vehicles," MIIT Equipment Industry Division, May 22, 2015, http://www.miit.gov.cn/n1146285/n1146352/n3054355/n3057585/n3057589/c3617217/content.html (accessed Novomber 14, 2017).

56 Mofcom, "Ministry of Commerce Regular Press Conference, 5 May 2016," May 5, 2016, http://www.mofcom.gov.cn/article/ae/slfw/201605/20160501311842.shtml (accessed September 30, 2016).

57 Ibid.

58 C. Shi, "Shi Chi: Nazarbayev Arrives in China So Early, Does Putin Know?" *Guangcha*, September 2, 2017, http://www.guancha.cn/shichi/2015_09_02_332712.shtml (accessed November 14, 2017).

aspirational plans for its external geographies. In July 2017, Kazakhstan signed an agricultural exports agreement with China worth us$160 million in contracts for 200,000 tons of grain and 100,000 tons of oilseed (soybeans) to head east through June 2018.59 China also aims to invest heavily in a range of domestic Kazakh agroindustrial complexes—including oilseeds, meat, grain, and vegetables—with major investments from China's aijiu, cofco, and Rifa.60

The agroindustrial International Capacity Cooperation policy envisions moving whole agroindustrial production chains offshore to environmentally clean areas with access to good soil, clean water, and fresh air. In 2014, China also began movements toward a market price-setting system for agricultural production and is currently part-way through a three-year plan to marketize the price of domestic agricultural production.61 The development of finance mechanisms to take some of China's agroindustrial investment into Central Asia and Russia is already a reality, while International Capacity Cooperation is bringing Chinese fixed and investment capital to Central Asian states.

With new markets—such as rapeseed, sugar, cotton, corn, and even eventually rice and wheat—opening to foreign export, the price of grain in China is now a core policy concern for China's neighbors in Central Asia. In China, there is talk of shifting cotton production to Kazakhstan, Uzbekistan, and Tajikistan.62 For Central Asian states with existing industrial bases (such as

59 Mofcom, "Kazakhstan Food Company Signs Export Agreement for Agricultural Products such as Feed Grain and Flour with China," July 12, 2017, http://www.mofcom.gov.cn/article/i/jyjl/e/201707/20170702608621.shtml (accessed November 14, 2017); "Kazakhstan, China to Sign Agr'ts Worth $160M in Agrarian Sector," *Kazinform*, July 11, 2017, http://lenta.inform.kz/en/kazakhstan-china-to-sign-agr-ts-worth-160m-in-agrarian-sector_a3044332 (accessed November 14, 2017).

60 "China Wants to Invest usd 1.9 Billion in Kazakhstan Agriculture. Chinese Companies Interested in Oilseeds, Meat, Production of Tomatoes and Tomato Paste," *Kapital*, May 5, 2016, https://kapital.kz/economic/50154/kitajcy-hotyat-investirovat-1-9-mlrd-v- selhozproekty-rk.html (accessed September 30, 2016): J. Farchy, "China Plans to Invest USD 1.9bn in Kazakh Agriculture," *Financial Times*, May 9, 2016, https://www.ft.com/ content/9c84a0f4-15d3-11e6-9d98-00386a18e39d (accessed September 30, 2016).

61 W. Wang, "Agricultural Insurance, Careful Consideration," *Qiushi*, December 8, 2013, http://www.qstheory.cn/jj/jsshzyxnc/201312/t20131208_299884.htm (accessed October 31, 2016); W. Chen, "Some Thoughts on Perfecting an Agricultural Insurance System," *Qiushi*, December 23, 2013, http://www.qstheory.cn/jj/jsshzyxnc/201312/t20131223_305067.htm (accessed October 31, 2016).

62 S. Ni, "Academic Wu Kongming: Seize 'Belt and Road Initiative' as a Solution to the Agricultural Problem," *Science Net*, September 15, 2015, http://news.sciencenet.cn/htmlnews/2015/9/326955.shtm (accessed November 14, 2017).

Kazakhstan and Uzbekistan) or for countries which can trade on the cleanliness of their water, soil, and air (such as Kyrgyzstan), this is a significant shift. The doors to the largest consumer market in the world are opening to Central Asia's agricultural exporters, and their new export capacity is likely to be developed with Chinese capital.63

Politburo agricultural policy has been active in establishing partnerships in agricultural production with neighboring countries, with dedicated sovereign wealth agroindustrial investment funds for both Russia and Kazakhstan.64 With the Russian Far East agricultural industry development fund, China is moving away from renting or purchasing agricultural land abroad.65 The development fund will finance grain production and processing in Russia, while introducing Chinese agricultural equipment as part of the capacity cooperation strategy.66 This is indicative of a move away from land ownership and toward fixed-capital ownership.

To support agroindustrial capacity transfer and agricultural reexport, China has invested heavily in upgrading its dry-port facilities in border crossings with Russia and Mongolia at Manzhouli and Erenhot.67 Dry-port development to connect land-powers is making strides, with the development of Khorgos and

63 NDRC, "Notice on Printing and Distributing the Cooperation Program (2015–2020) between the Governments of the People's Republic of China and Kyrgyzstan on the Adjacent Areas of the Two Countries," NDRC Notice No. 2241 (2015), October 8, 2015, http://www.NDRC.gov.cn/zcfb/zcfbghwb/201510/t20151012_754234.html (accessed November 14, 2017). Full re- port available at www.NDRC.gov.cn/zcfb/zcfbghwb/201510/W020151012366637683466.pdf.

64 X.Y. Liu, "The Influence of the 'Silk Road Economic Belt' on Sino-Russian Trade and Investment Facilitation," *Qiushi,* June 27, 2015, http://www.qstheory.cn/llqikan/2015-06/27/c_1115741448.htm (accessed September 30, 2016); Russian Direct Investment Fund (2015) .

65 "rdif, China-Eurasia Economic Cooperation Fund, and Vnesheconombank Agree to Make Joint Investments in Russia and China," press release, https://rdif.ru/Eng_full-News/1584/ (accessed September 30, 2016).

66 Global Government Network, "A Study on the Government Policy of Sino-Russian Agricultural Cooperation," http://www.govinfo.so/news_info.php?id=18360 (accessed September 30, 2016).

67 W. Shepard, "An Inside Look At China And Kazakhstan's 'Absurd' Cross-Border Free Trade Zone," *Forbes*, July 26, 2016, https://www.forbes.com/sites/wadeshepard/2016/07/26/ an-inside-look-at-icbc-khorgos-china-and-kazakhstans-cross-border-free-trade- zone/#3beac4565c8f (accessed November 14, 2017); W. Shepard, "Big Changes In The Gobi: China And Mongolia's Cross-Border Economic Zone Gets Underway," *Forbes*, July 26, 2016, https://www.forbes.com/sites/wadeshepard/2016/09/21/big-changes-in-the-gobi-china- and-mongolias-cross-border-economic-zone-gets-underway/#28fab0257f93 (accessed November 14, 2017).

Chinese state funding for the Kazakh-China rail project, and UNESCAP's Intergovernmental Agreement on Dryports provides the institutional framework to encourage the development of port infrastructure in other economies dependent on land routes for international trade.68

Given domestic constraints, International Capacity Cooperation is a rising priority in China's agricultural policy, and the reality is that Chinese investment in Central Asia is just as concerned with agroindustrial investment as with cement, steel, glass, machinery, and equipment. Investment in plants producing agricultural machinery, construction machinery, and railway/transport equipment will help China to establish whole industrial clusters to reexport to China, as well as build the transport and logistics infrastructure necessary to achieve wider Belt and Road geoindustrial goals.

Planning China's Kazakh Silk Railroad

China's Leninist executive policymaking apparatus may remain opaque, but the policies of command economy institutions are transparent. Most major economic plans are still transmitted through the National Development and Reform Commission—the successor to the State Planning Commission, which was China's answer to Gosplan—laterally to other ministries in the State Council, as well as vertically to the 31 provincial and 291 prefectural governments and their subnational ministries, which deploy industrial policy. This three-tiered vertical policy nexus represents the industrial economy of China. In October 2016, the NDRC released the China-Europe Class Rail Construction and Development Plan (2016–2020), a document with three significant maps and several rail freight logistics tables, a selection of which are reproduced below.69

The style and content of the maps clearly mirror the maps produced by the Shaanxi Bureau of Surveying and Mapping Geographic Information Atlas

68 UNESCAP, "Intergovernmental Agreement on Dry Ports Comes into Force," press release, April 26, 2016, http://www.unescap.org/news/intergovernmental-agreement-dry-ports- comes-force (accessed November 14, 2017).

69 NDRC, "China-Europe Class Rail Construction and Development Plan (2016–2020)," October 8, 2016, http://zfxxgk.NDRC.gov.cn/PublicItemView.aspx?ItemID=%7B6b49bf1d-ec80-4d08-8673-124fa15bed54%7D (accessed May 14, 2017). Full plan at http://www.sdpc.gov.cn/gzdt/201610/P020161017544178660107.pdf (accessed May 14, 2017). Public announcement at http://www.sdpc.gov.cn/gzdt/201610/t20161012_822364.html (accessed May 14, 2017).

produced in March 2015 in *The Atlas of the Core Regions of the Silk Road Economic Belt*.70 This Shaanxi Bureau atlas, the first official state geography of the Silk Road Economic Belt, included a full World Island map sketching out the various routes to Europe and contiguous maps of the "Fifteen Core Countries of the Silk Road," comprising the five Central Asian republics, Pakistan, Afghanistan, Iran, Iraq, Syria, Turkey, Ukraine, Moldova, Romania, and Bulgaria (with the Caucasus notably absent).

The NDRC China-Europe Rail Class development plan has three trunk lines running through Central Asia: West 1, West 2, and West 3. West Channel 1 runs from the ports of Xinjiang Alashankou and Khorgos across Kazakhstan to join with the Russian Trans-Siberian Railway, passing through Belarus and the EU to terminate in Germany. West Channel 2 begins at the ports of Xinjiang Alashankou and Khorgos and passes through Kazakhstan, crossing the Caspian Sea into Azerbaijan, Georgia, and Bulgaria, and likewise arriving in Europe. West Channel 3 connects Kashgar to Osh through the Irkeshtam pass, passes through Uzbekistan, Turkmenistan, and Iran, and terminates in Istanbul. East Channel 1 departs from the Inner Mongolian port of Erenhot and journeys along the Trans-Siberian Railway to Europe.71

The rail export/import terminuses and border crossings, both existing and planned, are detailed below. Three main economic corridors are planned within China to facilitate outbound trade via rail. The West corridor encompasses the northwest, southwest, central, and southern regions, utilizing the Lanzhou-Urumqi railway transport network. The North corridor encompasses the north, central, and southern regions of China and utilizes the south-north Beijing-Guangzhou rail axis. The East corridor encompasses the northeast, east, central, and other regions, utilizing the Beijing-Shanghai and Harbin- Dalian railway clusters.

70 "Atlas of the Silk Road Economic Belt Core Area Officially Published," *Xinhua*, March 2, 2015, http://news.xinhuanet.com/expo/2015-03/02/c_127533670.htm (accessed November 14, 2017); Shaanxi Surveying and Mapping press release at http://www.shasm.gov.cn/detail.asp?id=14052. The main map, "Core Areas of the Silk Road Economic Belt," is reproduced by Baidu at https://baike.baidu.com/pic/%E4%B8%9D%E7%bb%B8%E4%B9%8B%E8%B7%af%E7%BB%8F%E6%B5%8E%E5%B8%A6/10172695/0/aa18972bd40735fa30a7791b94510fb30f240838?fr=lemma&ct=single#aid=0&pic=aa18972bd40735fa30a7791b94510fb30f240838.

71 "V 2017 Kitai budet narushchivat' investitsii v Tsentral'nuiu Aziiu," *Forbes Kazakhstan*, January 9, 2017, https://forbes.kz/news/2017/01/09/newsid_131898 (accessed May 14, 2017).

图 1　中欧铁路通道规划图

Figure 1　*NDRC map of proposed rail corridors*

China's NDRC released this map of proposed rail corridors in October 2016. It is the most sophisticated plan to date, detailing the Central Asian trunk lines connecting China to Europe. Kazakhstan and Kyrgyzstan are both China's hedge against Russia, with the Middle East trunk line bypassing both Kazakhstan and Russia and a secondary trunk line running to the Caspian Sea also bypassing Russia.72

72　NDRC, "China-Europe Construction and Development Plan (2016–2020)."

Railway Terminals Connecting to the Various Trunk Lines Between China and Europe73

Established Direct Railway Routes Between China and the eu

No.	Domestic outbound city	Border crossings	International inbound city	Direction
1	Chongqing	Alashankou, Khorgos	Duisburg, Germany	Two-way
2	Chongqing	Manzhouli	Cherkessk, Russia	Outbound
3	Zhengzhou	Alashankou, Khorgos	Hamburg, Germany	Two-way
4	Zhengzhou	Erenhot	Hamburg, Germany	Two-way
5	Chengdu	Alashankou, Khorgos	Lodz, Poland	Two-way
6	Wuhan	Alashankou, Khorgos	Pardubice, Czech Republic	Two-way
7	Wuhan	Alashankou, Khorgos	Hamburg, Germany	Two-way
8	Wuhan	Manzhouli	Tomsk, Russia	Two-way
9	Suzhou	Manzhouli	Warsaw, Poland	Outbound
10	Suzhou	Manzhouli	Brest, Belarus	Two-way
11	Yiwu	Alashankou, Khorgos	Madrid, Spain	Two-way
12	Shenyang	Manzhouli	Hamburg, Germany	Two-way
13	Changsha	Manzhouli	Hamburg, Germany	Outbound
14	Lanzhou	Alashankou, Khorgos	Hamburg, Germany	Two-way
15	Beijing - Tianjin	Erenhot	Ulaanbaatar, Mongolia	Two-way
16	Lianyungang	Alashankou, Khorgos	Almaty, Kazakhstan	Two-way
17	Yingkou	Manzhouli	Baikal, Russia	Two-way
18	Qingdao	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound
19	Urumqi	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound
20	Xi'an	Alashankou, Khorgos	Almaty, Kazakhstan	Two-way
21	Hefei	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound
22	Jinan	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound
23	Dongguan	Alashankou, Khorgos	Almaty, Kazakhstan	Outbound

73 "V 2017 Kitai budet narushchivat' investitsii v Tsentral'nuiu Aziiu," *Forbes Kazakhstan*, January 9, 2017, https://forbes.kz/news/2017/01/09/newsid_131898 (accessed May 14, 2017).

Planned Direct Railway Routes Between China and the eu

No.	Domestic outbound city	Border crossings	International inbound city	Direction
1	Shijiazhuang - Baoding	Alashankou, Khorgos; Erenhot	Minsk, Belarus	Two-way
2	Kunming	Alashankou, Khorgos; Erenhot	Rotterdam, Netherlands	Two-way
3	Guiyang	Alashankou, Khorgos; Erenhot	Duisburg, Germany	Two-way
4	Xiamen	Alashankou, Khorgos; Manzhouli	Lodz, Poland	Two-way
5	Korla	Alashankou, Khorgos	Duisburg, German	Two-way
6	Taiyuan	Alashankou, Khorgos; Erenhot	Almaty, Kazakhstan; Moscow, Russia	Two-way
7	Nanchang	Alashankou, Khorgos; Erenhot	Almaty, Kazakhstan; Moscow, Russia	Two-way
8	Nanjing	Alashankou, Khorgos; Manzhouli	Almaty, Kazakhstan; Moscow, Russia	Two-way
9	Nanning	Erenhot; Manzhouli	Ulaanbaatar, Mongolia; Moscow, Russia	Two-way
10	Harbin	Manzhouli	Biklan' (Nizhnekamsk), Russia	Two-way
11	Changchun	Manzhouli	Schwarzheide, Germany	Two-way
12	Dalian	Manzhouli	Hamburg, Germany	Two-way
13	Yinchuan	Alashankou, Khorgos	Tehran, Iran	Two-way
14	Xining	Alashankou, Khorgos	Almaty, Kazakhstan; Duisburg, Germany	Two-way
15	Baotou	Alashankou, Khorgos; Erenhot	Tehran, Iran; Ulaanbaatar, Mongolia	Two-way
16	Linyi	Alashankou, Khorgos; Erenhot	Almaty, Kazakhstan; Ulaanbaatar, Mongolia	Two-way
17	Wuwei	Alashankou, Khorgos	Almaty, Kazakhstan	Two-way
18	Yiwu	Alashankou, Khorgos	Tehran, Iran	Two-way
19	Lianyungang	Alashankou, Khorgos	Istanbul, Turkey	Two-way
20	Tianjin	Alashankou, Khorgos, Manzhouli	Moscow, Russia	Two-way

As with the Trans-Siberian Railway through Mongolia, much of the infrastructure has been present on the Chinese side for decades; it has just been in a negative feedback loop, as rail was used as part of domestic industrial clusters. Given the current political will, turning this domestic infrastructure to face abroad is now feasible. Of course, it will mean major reorganization of the domestic freight system, and there is severe tangling of lines and services going east-west. China undertook similar domestic rail freight reforms under the "Speed Up" campaign to improve freight times on north-south and east-west rail corridors.74 Yet the main determinants of the continued development of China's east-west rail system will be China's demand for exports from Europe and China's ability to upgrade its governance and diplomacy architecture and institutional trust throughout Central Asia.

It is also worth noting that inefficiencies persist in connecting Asia and Europe through Central Asia, with high transport costs, low cargo volumes, and differing industrial production and customs standards leaving many transport and shipment routes either underutilized or heavily dependent on state subsidies. Poor coordination with both market and government actors also remains an obstacle. It is difficult enough for China to coordinate its centrally planned domestic hierarchical economic structure, let alone engage laterally with Central Asian states, local governments, or private enterprises. While China's central government will play an increasing role in identifying its own industrial investment and agricultural import needs, developing genuine international relationships and private capital business networks will not be as simple as drawing lines on a map. Kazakhstan's Minister for Investment and Development, Zhenis Kasymbek, said that Kazakhstan hopes that by 2020 the volume of container traffic will exceed 1 million containers a year, with two-way trade projected to be worth us$1.2 trillion, including us$800 billion in China-EU trade. Yet in January and February 2016, China shipped only 62,816 TEU containers in 725 trains to Europe, while Europe shipped 30,187 containers to China.

Geopolitically, China's 2016 intercontinental rail policy is the clearest signal yet of the planned geopolitical split of the Eurasian Land Bridge concept. It aims to isolate Russia by running trunk lines through both the Middle East and the Caucasus. The West 3 trunk line is China's main counter to the Moscow route. If China's West 2 trunk line is operating, it will increase the political incentive in countries on the West 3 trunk line to Turkey to open to more Chinese investment. To balance geoindustrial power between dependence on Russia and political risk in the Central Asian republics, it is entirely sensible for China to have two roads to Europe, one through the Russian world and one through the Turkic world.

74 B. Naughton, "The Third Front: Defence Industrialization in the Chinese Interior," *China Quarterly*, 115 (September 1988).

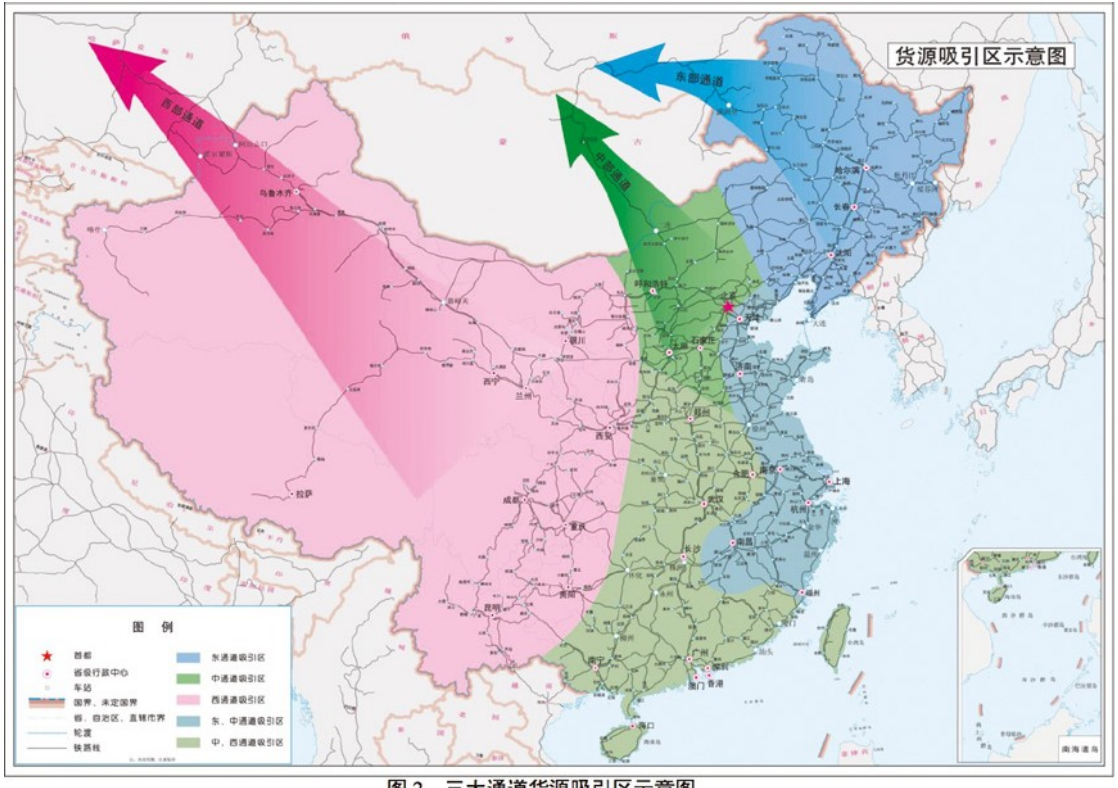

图 2　三大通道货源吸引区示意图

Figure 2　*NDRC map of the three main corridors*

NDRC's 2016 China-Europe Economic Corridor Plan coordinated the export and import strategies of China's provinces into three main corridors. Developed coastal provinces are to use the south-north axis to Russia; Southern and Central provinces are to use the south-north axis via Mongolia; and Western provinces are to use the three trunk lines through Central Asia. Notably, the western provinces being opened to Central Asian exports represent only tiny consumer markets.[75]

75　NDRC, "China-Europe Construction and Development Plan (2016–2020)."

From a Kazakh perspective, however, the combination of Belt and Road and International Capacity Cooperation looks very much like Chinese capital and labor with Kazakh land. For China's strategy to be successful, it must engage with the linguistically, culturally, and economically diverse states along its path to Europe.

Conclusion

There continues to be serious misunderstanding of the nature and intent of China's geopolitical, geoeconomic, and geoindustrial policy ambitions in Central Asia. Since China's foreign policy in Central Asia and post-Soviet space more broadly is building on a basis of low levels of communication and trust, it is important not simply to examine leaders' statements and executive-level agreements, but to look closely at the policymaking apparatus within the domestic public administration. This paper has examined China's extant trade and industry policy toward the Republic of Kazakhstan over the course of the first Xi Jinping administration (2012–2017). In demonstrating that the International Capacity Cooperation policy aims to offshore industrial production clusters, it reveals a wealth of intentions and plans worthy of further analysis. Sino-Kazakh industrial policy coordination and development remains firmly a Chinese domestic policy. International Capacity Cooperation is an attempt to bring whole industrial clusters to China's external geographies. This serves the twin goals of developing the industrial bases of China's trading partners for re-export back to China while simultaneously offshoring China's current problem of cyclical overcapacity in heavy industry. This Chinese capital investment offshores China's Project System and state-driven investment model. This has clear and significant repercussions for the industrial upgrading of Kazakhstan's industrial and agroindustrial production infrastructure. It means that while China's trade with Europe will be a two-way channel, investment in Central Asia will be one-way and on China's terms, simply extending China's industrial matrix into Kazakhstan for re-export to China.

China's wider policy of industrial transfer to Central Asia is an important and emerging trend that will merit significant research as economic institutional integration between China and the EEU increases. China's foreign, trade, and industrial relations with all five Central Asian states require much deeper analysis to understand what appears to be a movement toward economic integration and industrial production coupling.

Yet a policy transmission gap remains, one that will necessitate upgrades to China's public administration communications infrastructure and protocol.

Much of the external industrial policy is shouldered by lower levels of China's government, which are not connecting with lower levels of government in the governments of their economic partners. Chinese investment in geographies, industries, and technologies that Western globalization has ignored should be welcomed. There is no such thing as too much steel, cement, glass, paper, or aluminum as far as Central Asia is concerned. But one should be clear that this is an application of the Chinese domestic development model to external geographies, and it will therefore import a series of political and economic risks to Kazakhstan's economy.