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Session 4

Europe-Asia Infrastructure Connectivity

Time: 9-10:30 a.m., May 26, 2016

Venue: Congress Hall 2, 1st floor, Palace of Independence, Astana

Moderator: Grigory RUBIN, Managing Director of Boston Consulting Group

Panellists:

- Joachim von AMSBERG, Vice President of Asian Infrastructure Investment Bank
- Michael B. CHRISTIDES, Secretary General of Black Sea Economic Cooperation
- Nataliya KHANJENKOVA, Managing Director of European Bank for Reconstruction and Development
- Simmermann KAIDO, Director of Railway Logistics
- LIU Yuting, Deputy Director, State Administration for Industry and Commerce of the People's Republic of China



- Mamin ASKAR, President, Director, Chairman of the Executive Committee, Kazakhstan State-Owned Railway Co., Ltd.
- Sultan Ahmed Bin Sulaye, CEO of DP World
- Taleh ZIYADOV, Director of International Sea Trade Port, Azerbaijan.

Key Points:

- Hard infrastructure and soft infrastructure
- The role of Kazakhstan in the Silk Road Economic Belt.
- China provides convenient service for foreign-invested Enterprises.
- AIIB and Construction and Infrastructure.
- EBRD and infrastructure construction.
- Connectivity requires unified standards and accommodation among the countries.
- Increase the added value of transit trade
- Improving Communication is an important part of connectivity
- Summary of the priorities in infrastructure construction in the future

Synopsis:

Hard Infrastructure and Soft Infrastructure

Grigory RUBIN said that since the 21st century various customs unions have been set up in the world; interconnectivity of infrastructure remains an important part of the unions; the European Union in the west of Central Asian



countries has around 500 million consumers; and China in the east of Central Asia has a population of 1.3 billion with a strong consumption power. Central Asian countries should utilize their geographic advantages; but this requires a sound infrastructure; infrastructure is like the blood vessels and arteries in human body. Without good infrastructure, there will be no effective interactions between China and EU.

Grigory RUBIN said that hard infrastructure includes railway, highways, airports, harbors, ports of entry, high-speed Internet, power transmission lines and transportation hubs.

Grigory RUBIN noted that according to a World Bank's report, soft infrastructure is an important component of the commercial environment in a country; it includes customs clearance mechanisms, regulations on animal, plants and health quarantine, transportation & logistics as well as unified transport regulations. The lack of supporting soft infrastructure will be a handicap to the exploitation of the region's full potentials.

Role of Kazakhstan in the Silk Road Economic Belt

Mamin ASKAR said that Kazakhstan has implemented a series of projects to promote national economic development such as the Belt & Road project, the Silk Road project and interconnectivity of infrastructure. These projects are of profound significance. Kazakhstan focuses on the construction of railways and combined transportation system and attaches importance to connectivity and cooperation with China, Western Asia, South Asia and Europe. Kazakhstan wishes to become a bridge between Europe and Asia. It aims to



develop into a transportation hub by increasing the volume of freight in transit and tapping into its full potentials.

Mamin ASKAR said that in the past five years Kazakhstan has devoted itself to improving the infrastructure between China and Europe. This year, the volume of containers in transit between China and Europe has increased by 100 folds over the original number. And the shipping cost from China to Europe has dropped by 7.5%. Currently, Kazakhstan focuses its efforts on three corridors. One is the land corridor between China and Russian & China and Europe. Second is the cross-Caspian Sea corridor covering China, Turkey, Azerbaijan, Georgia and some Southeast European countries. Third is the north-south corridor covering Iran and Turkmenistan. The three corridors will enhance the interconnectivity between Europe and Asia, and the containers traffic between the two continents will increase substantially. Based on this, we will improve the transportation capacity. To this end, we need to further improve the level and quality of integrated service. We should keep looking for new target markets, especially highly sensitive cargo markets. In addition, we need to increase input in infrastructure.

Mamin ASKAR said that over the five years Kazakhstan had built a 1,700-kilometer long railway line, which significantly increased its highway mileage and improved its cross-border traffic capacity and boosted the associated development of relevant industries. Kazakhstan will continue to reduce its trade barriers and impediments and increase work efficiency. It has been among the top-ranking countries in terms of logistics performance index and now it is now engaged in efficient logistics cooperation with over 40 countries around the world.



China Provides Convenient Service for Foreign-Invested Enterprises

LIU Yuting said that Administration for Industry and Commerce of PRC is a functioning department responsible for maintaining market order; it is committed to facilitating market entry, exit, restructuring and merger of various main market players; it is also committed to maintaining market order, reducing institutional transaction costs, speeding up the construction of soft environment, and protecting consumers' legitimate rights and interests such as trademark registration protection and advertising development. It supports the development of various kinds of enterprises and is opposed to enterprise monopoly and encourages fair competition among various enterprises.

LIU Yuting said that using foreign investment is a long-term policy that will not change; and China will continue to safeguard the legitimate rights and interests of foreign-invested enterprise and provide support for foreigners investing in China; we treat all players in the market including foreign enterprises equally. Yesterday, when LIU met with officials of Kazakhstan's Ministry of Economic Affairs, he said that there are 118 Kazakhstan-invested enterprises in China, with 499 trademarks; among them, 8 enterprises have been involved in lawsuits and their rights and interests have been guaranteed.

Liu said that since 2014, China has comprehensively implemented reform on the commercial system. The reform also applies to the foreign-invested enterprises. The reform will increase the management and shareholder autonomy and encourage foreign investment. A management model of citizen treatment and negative list is in place for foreign capital before their entry into Chinese market so as to protect their rights and interests. We are vigorously developing free trade pilot projects in Shanghai, Fujian, Guangdong and Tianjin, carrying out experiments and summarizing



experience at the same time, so that we can gain entrepreneurial experience and institutional results that can be copied and popularized during the construction of a favorable environment for export-oriented economy.

Liu said that since the commercial system reform was initiated on March 1, 2014, China has seen an increase of over 80,000 foreign-invested enterprises, with an average registered capital of more than 5 million US dollars. Both the number and the scale of foreign firms are growing rapidly; in hardware and software environment, substantial improvement has been made in enterprise registration and registered capital, which has changed from paid-in registration to subscription registration. The system that enterprises should accept annual inspection has been change the system and that they report to the society according to the law and regulations. The lowest limits for registered capital of enterprise to be registered have been canceled and their business scopes have been optimized. At the same time, exit of firms has been facilitated. In the future, trial projects will be carried out on company names reform; the exit mechanism for market players will be improved and the procedures for enterprise write-off will be further simplified. We will promote a unified market order, which is open, competitive and conducive to market prosperity and development.

AIIB and Construction and Infrastructure

Joachim von AMSBERG said that AIIB (Asian Infrastructure Investment Bank) was just set up and is geared to the global market. AIIB has 57 members including Kazakhstan. The members all attach great importance to infrastructure, and think that infrastructure-targeted financial services are inadequate. Combined with the first impression of Kazakhstan, he noted that



it would be difficult for Asian countries to achieve favorable development without good infrastructure projects in their countries.

Joachim said that AIIB provides financial services as other multilateral development banks do; but the service is mainly for infrastructure; in addition. AIIB formulates structure plans for high quality projects, namely helping governments and partners build a good cooperation environment; it needs to ensure that the projects are financially sustainable and the financing credit in related countries complies with local laws and regulations. As a fundraising institution, AIIB also helps countries settle cross-border projects; with a similar operation model to that of multilateral banks, it cooperates with other banks, such as EBRD, World Bank and ADB. To guarantee a high-quality joint project, high-standard social norms should be followed and high-level partners should be selected, so as to resolve the bottleneck problems for related countries.

Joachim said that AIIB is characterized by promoting infrastructure construction in Asian countries to drive their economic development; it strives to be more effective and competitive in this regard, and stands ready to provide quality service for Asian countries; second, it focuses on project financing; other banks have high thresholds and wide attention, but AIIB not only provides financing, it also makes the project become the solution itself; third, the bank encourages the development of its premium members so other countries can learn from them; AIIB is willing to provide more services for companies and governments. Of course, its services are not confined in Asia but have a global reach.



EBRD and Infrastructure Construction

Nataliya KHANJENKOVA said that economic globalization and regional economic integration are gathering pace; which poses continuous challenges. EBRD (The European Bank for Reconstruction and Development) was established in 1991. One of its businesses is investment in infrastructure of Central Asian countries, including Kazakhstan. Its mission is providing financial services for infrastructure projects.

Nataliya KHANJENKOVA said that Kazakhstan State-Owned Railway stock Cor. Ltd is a member of EBRD. It has contributed to the railway construction in Kazakhstan; EBRD has provided financial security and services for projects including the economic corridors between Kazakhstan and China, between Kazakhstan and Europe, and Kazakhstan's important highways, such as highways from Astana to Alma-Ata and from Alma-Ata to Bishkek. The Astana airport and Kazakhstan's ports and logistics were completed with funding from EBRD and Kazakhstan State-Owned Railway stock Cor. Ltd. These projects are essential for Kazakhstan's economic development.

Nataliya KHANJENKOVA said that EBRD's standards conform to the best international practice. The design and implementation must comply with laws and regulations on environment. Their projects are carried out under open and competitive conditions; the projects must be viable, not only in Central Asia, but also around the globe.

Nataliya KHANJENKOVA said that currently Kazakhstan needed to seek development through public-private partnership (PPP). EBRD urged officials in Kazakhstan to draw up relevant laws and regulations. Under their regulation, the PPP projects will have higher standards, which will better attract direct investment.



Nataliya KHANJENKOVA noted that hard infrastructure could realize seamless connection between countries, while soft infrastructure can improve customs clearance, which reflects regional economic integration in the real sense. Therefore, all members of the corridor or passage should strive for a high-degree connectivity among them.

Connectivity Requires Unified Standards and Accommodation among the Countries

Taleh ZIYADOV noted that problems still exist in the construction of soft infrastructure in Europe: first, standards in the transportation field are not unified. For example, although the sea routes for large size container ships are short, they spend lots of time unloading the cargo after arrival at the port. Estonia should adopt the standards of the former Soviet Union that can facilitate container ship bound for Russia ports; second, the clearance documents are quite a hassle. For example, the cargo is small in quantity but the documentation process is lengthy. One year ago, we started to dispatch empty trains to Russia, where the train can cross the border directly after reporting by electronic files. Since this year, this approach has been extended to loaded trains; it is hoped that paperless clearance will be realized in the future, thus providing convenience for interconnection.

Problems Facing the Construction of Soft Infrastructure

Sultan Ahmed Bin Sulaye said that the “Belt & Road” initiative is very important for the world, especially when it comes to Central Europe corridors. Many problems in hard and soft infrastructure need to be solved; their focus



is on logistics; costs will be reduced, namely the cost of transportation from China and Far East to Europe. Of course, 90% of the cargo has to be transported by sea. Some 42-day-long sea transport will be finished in 4 days by land transport. Cost and income will be calculated for all movements of the ship and containers at the port. It includes supply chain's cost, too. For example, unless the goods are high added-value products such as iPhones, the cost of shipment from Shanghai to Europe will be so high that the manufacturers will have little or no profit at all. This requires the reallocation of production capacities in the manufacturing sector. In terms of soft infrastructure, systems and standards should be accepted by all countries.

Sultan Ahmed Bin Sulaye said that they provide logistics services in Kazakhstan as it enjoys a good geographic location. But cross-border transport will not bring much benefit. And methods such as transit processing should be considered if the benefit is to be increased; we value the Belt & Road and Silk Road concepts and hope that it can promote west-east trade and communication via Kazakhstan. At the same time, innovation and new technologies, especially soft technologies, should be promoted. For example, over 2000 documents are required for customs clearance, which is equivalent to processing 150,000 files on a daily basis. If we don't use new technologies, this could be unimaginable.

Sultan Ahmed Bin Sulaye said that material flow along the "Belt & Road" has multiple transportation methods such as by land, by sea and by air, and whatever is efficient will be used. Bilateral agreements between the countries should be strictly implemented once signed. Many bilateral or multilateral agreements in reality remain paperwork are not yet implemented. The soft infrastructure in the countries around the "Belt & Road" should be congruent



with each other in terms of goods handling, in the same sense that we speak the same language. We must prevent the phenomenon that the cargos cannot be accepted after reading the port. To this end, a unified standard is required.

Sultan Ahmed Bin Sulaye said that he attended the “Belt & Road” Summit Forum in Hong Kong last week. Chinese officials said that projects along the Belt and Road could bring 8 trillion U.S. dollars in investment, with huge business opportunities. But who will invest in these projects? New or innovative financing methods are needed. If we issue bonds, the involvement of governments is necessary and the government will provide assistance and guarantee.

Increase the Added Value of Transit Trade

Taleh ZIYADOV said that the concept of hub is not new to Azerbaijan; we have made efforts in the construction of hubs in the Soviet Period. Historically, be it caravans, wagon trains or camel trains, Azerbaijan provided transit station services similar to those provided by today’s hotels and restaurants. Studies show that as early as in 1800 Baku had 20 stations devoted receiving Indian merchants. Combined transport was also used for cargos. For instance, goods were carried by horses from Mahendra, and transported by sea to Baku and then to the Middle East over land.

Taleh ZIYADOV said that from the perspective of sustainable development, Kazakhstan, as a transportation hub, should provide not only transit but also added value. Local handcrafters can process the goods into art crafts that will be transported to Europe and China. It has been the same in history. Azerbaijan is building its ports into comprehensive portals. It is now engaged



in hard infrastructure while working hard on transitional cargos so as to bring added value to its national economy.

Taleh ZIYADOV remarked that in order to promote economic development, Azerbaijan would build the first free trade zone in Baku. In addition, it is making laws for sharing oil production. Separate laws will be adopted to manage the oil industry.

Improving Communication is an Important Part of Connectivity

Michael B. CHRISTIDES said that Black Sea Economic Cooperation (BSEC) was established 25 years ago and now has 12 member states; it has been adhering to the principle of promoting regional economic cooperation and encouraging trade and connectivity between its members. Its members have 41 ports, including those in the Eastern Mediterranean around the Black Sea and two other seas. Only through connectedness can integrated transportation be realized among these ports. BSEC needs financial support for its development. It hopes to attract enough funds to pump into the projects along the Black Sea. We have always been in favor of unified customs clearance and documentation to facilitate cross-border flow of cargos and people. Apparently, the lack of technological innovation will make it hard to achieve modernized interconnection.

Michael B. CHRISTIDES said that in the connectivity process we should not only consider transportation, infrastructure, production capacity and interflow of goods, but also enhance the links between civilizations and cultures and help to promote mutual understanding among the people in all countries.



Over the 25 years, BSEC has been devoted to people-to-people communications, economic exchange and dialogues among civilizations.

Summary of the Priorities in Infrastructure Construction in the Future

Moderator Grigory RUBIN, Manager Director of Boston Consulting Group, asked the panelists to sum up the priorities of future infrastructure construction in one sentence.

Nataliya KHANJENKOVA said that the commercial environment is most important and a good one can attract investment.

ASKAR Mamin said that service, trade and personnel exchange should be improved among the countries, whether locally or cross-border; second is that we should help open up new prospects of economic development for inland countries, namely, a more open economy, which requires the concerted efforts of countries along the Silk Road.

Joachim von AMSBERG said that a good commercial environment depends on legal and regulatory reforms and progress, and laws and regulations should be brought in line with international standards.

Sultan Ahmed Bin Sulayyeh said that focus should be placed on reducing the cost and utilizing technologies to increase efficiency; information and technology are important approaches for cost reduction.

Simmermann KAIDO said that both cost reduction and business environment are important.

LIU Yuting said that a competitive environment is more important. In terms of investment environment, investment should be facilitated as much as



possible. In terms of business environment, an open, equal, standardized, orderly and transparent environment should be realized. Without competition, there will be no good investment or business environment.