



**BFA Energy, Resources and Sustainable Development Conference &
AEF Silk Road Countries Forum
(Session Summary No.4)**

Boao Forum for Asia Institute

May 25, 2016

Session 3

Europe-Asia Cooperation on Production Capacity

Time: 14:30-16:00, May 25, 2016

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

Moderator: ZHANG Xiaoqiang, former Vice Minister, NDRC, China;
Executive vice president, China International Economic Exchange
Center

Panellists:

- Aidar ARIFKHANOV, Vice Minister of National Economy of the Republic of Kazakhstan
- Radoslaw Domagalski-Labedzki, Vice-Minister of Development, Chairman of the Polish Part of the Kazakh-Polish Intergovernmental Commission on Economic Cooperation
- Yaroslav LISOVOLIK, Chief Economist, Eurasian Development Bank
- Musabayev TURLYBEK, General Director, RSE Gosgradkadastr
- Sergey TERECHSHENKO, Former Prime Minister of Kazakhstan
- Tatiana VALOVAYA, Member of the Board – Minister of Development of Integration and Macroeconomics of the Eurasian Economic



Commission

- WANG Li, Member of the Advisory Committee of Research and Development International, CASS; Vice President of Alliance of China New Energy Overseas Development.
- ZHOU Weihong, Chief Economist, China General Nuclear Power Corporation

Key points:

- Against the backdrop of global economic slump, we can combine FDI with trade and human capitals. Relevant countries can complement each other with their respective strengths and exchange needed goods. Production capacity and technological transfer are carried out under this kind of partnership. We can not only benefit from the bilateral relations but also from the even greater regional cooperation so as to fend against the economic downturn.
- International cooperation in production capacity does not mean that China shifts its backward production capacity to other countries but rather that China popularizes the advanced and applicable production capacity to the “Belt & Road”.
- Kazakhstan is an inland country without coastline. It is focused on the construction of transportation in the Euro-Asian cooperation, and its first priority is to give full play to its role of a transportation hub in the building of an Euro-Asian continental bridge based on current conditions.



- The third party cooperation model is a way of cooperation based on the advantages of the upstream and downstream of the industrial chain. It is more competitive and can achieve the result of “1+1>2”.

Synopsis:

On May 25th, BFA Energy, Resources and Sustainable Development Conference & AEF Silk Road Countries Forum with the theme of Connecting “Belt & Road” with the Eurasian Economic Union and SCO was held in Astana, capital of Kazakhstan. At the session of “Blueprint of Euro-Asia Cooperation of production Capacity”, panelists discussed questions about the “international production capacity transfer”, and have detailed discussions about the expectations of Kazakhstan and other countries on the cooperation in production capacity as well as the successful experience of Chinese enterprises in capacity cooperation in other places.

The Importance of International Cooperation in Advanced and Applicable Capacity

Yaroslav LISOVOLIK fully expressed his appreciation of the important role of international capacity transfer. He believed that against the backdrop of global economic slump, we can combine FDI with trade and human capitals. Relevant countries can complement each other with their respective strengths and exchange with needed goods. Production capacity and technological transfer are carried out under this kind of



partnership. We can not only benefit from the bilateral relations but also from the even greater regional cooperation so as to fend against the economic downturn. At the moment, it is not wise to resort to currency depreciation and trade protectionism to cope with economic slump. He also suggested that the international cooperation in production capacity should not be confined to two countries but rather be carried out on a more expansive regional level so as to attract the participation of more countries.

Wang Li reiterated in her speech that international cooperation in production capacity does not mean that China shifts its backward production capacity to other countries but rather that China popularizes the advanced and applicable production capacity to the “Belt & Road” and China is willing to cooperate with relevant countries and institutions. She believed that China and Kazakhstan and other nations along the “Belt & Road” can complement each other with their respective advantages and seek common development. She noted that Central Asian nations enjoy the advantages in traditional areas such as energy and agriculture but are backward in science and technology and innovation. Governments of relevant counties are trying to join the WTO in response to the challenges. In this respect, China can share its experience with Kazakhstan and other countries.

TERECHSHENKO noted at the start of his speech that Kazakhstan welcomes Chinese enterprises to bring advanced experience and capacity to produce high value-added products instead of transferring the eliminated equipment and capacity.



Advantages and Expectations of Kazakhstan in International Cooperation in production Capacity

Integration of the Belt & Road strategy with the new economic policies of the “Bright Road” is the first step of the advancement of “Belt & Road” and is of great significance. Panellists held discussions about the role of Kazakhstan in international cooperation of production capacity.

Aidar ARIFKHANOV introduced the key areas of capacity building in his home country. He said that Kazakhstan is an inland country without coastline. It is focused on the construction of transportation in the Euro-Asian cooperation, and its priority is utilizing the existing conditions to play the role of main transportation hub and build Euro-Asian continental bridge. There are two directions. One is China-Russia-Europe; the other is Kazakhstan-Caucasian region-Europe. Meanwhile, Kazakhstan is cooperating with China in the construction of logistics industrial park and the development of cross-Caspian traffic line, as well as the trunk lines running from Azerbaijan and Georgia to China. In terms of innovation Kazakhstan is developing industrial innovation projects in the hope of strengthening itself in energy and processing industries. Currently, Kazakhstan has introduced 9 projects in the areas of agriculture, chemical, light industry, etc. Attracting excellent food processing companies is also the major work of the government capacity building.

TERECHSHENKO said that Kazakhstan has a vast land and a small population, which is favorable for production capacity transfer. It is also a part of the Euro-Asia Economy Union. This economic union has a population of over 200 million, which means a big market. Advanced



production capacity can be distributed in the Euro-Asia Economic Union. Kazakhstan has a weak base in agriculture and food processing industry, therefore, it is eager to cooperate with world-class enterprises in developing industrial parks. China is a huge food consumption market, where beans, beef, wine and other agricultural produce are very popular; and nations in Central Asia abound with such resources. He thought that excellent companies can produce high-quality agricultural products and then export them to China, Russia and other places. This practical model can also promote the economic growth of Kazakhstan.

Musabayev TURL YBEK noted that there has been fierce competition in attracting investment. Various places are improving land planning, infrastructure and transportation network to enhance their ability to bring in production capacity. To attract more investment, market transparency and development should be promoted. If Kazakhstan can improve its national image and provide information including resource environment, infrastructure, short-term and long-term economic visions, etc., then it can help investors reduce investment risks.

Wang Li introduced that currently Kazakhstan has 9 special economic zones, which fully reflect the country's economic characteristics. The government attaches importance to the building of supporting laws and regulations and will issue new relevant laws in 2017, which can be of great help for Chinese investors.



How to Cooperate on Production Capacity? Experience of Chinese Enterprises.

Zhou Weihong talked about the successful experience in international capacity cooperation from the perspective of enterprise practice. He introduced a case of cooperation between China and France in building a nuclear power plant in the UK. He concluded that the project owes its success to the general principles: working together for mutual benefit and creation of values. In the above case, UK, as the customer, uses market principles to meet its own needs; France and China Guangdong Nuclear Power Company, as joint suppliers, give full play to their advantages in financing and capacity building. China's capital output complements well with Europe's lack of infrastructure capital. Both enterprises have extensive experience in technology and construction operation. Zhou emphasized that the cooperation in production capacity is not for backward capacity but for innovative advanced technologies which not only meet the highest international standards but also are quite economical. He concluded that cooperation based on complementing each other's advantages in the upstream and downstream industries is more competitive and can achieve the result of "1+1>2".

Yaroslav LISOVOLIK believed that complementarity in economic structures between the two countries is the key to capacity transfer. He said that the projects of the capacity-exporting country should have complementarity with local capacity institutions of the capacity-importing country. Only in this way can the effectiveness of capacity transfer be guaranteed. He suggested that in the process of advancing the "Belt & Road" and "Euro-Asia Economic Union" through



capacity cooperation, importance should be attached to some basic preparatory work, such as policy coordination in regards of projects, enterprises, regions, micro-district and cross-border cooperation. When talking about production capacity cooperation between China and Kazakhstan, precisely-oriented macro-coordination can bring win-win results. He also touched on financial supports for cooperation projects, believing that “joint financing” for relevant projects can be an effective solution”. “Joint financing” is joint capital injection by some development banks. Euro-Asia Development Bank plans to allocate 3 billion dollars to projects that can promote extensive regional growth.

Zhou Weihong also offered suggestions on Chinese enterprises’ overseas investment. He noted that Chinese enterprises are facing a lot of problems in overseas investment, from visa to taxes to the stability of the target country’s policies. But at the moment, the biggest problem is that the Chinese enterprises do not have a proper understanding of local business environment when making foreign investment, especially in the “Belt & Road” projects. Take “efficiency” as an example. Chinese enterprises are known for pursuit of efficiency, and cost is the core of their consideration. Will this approach still work when they are in a new business environment? In fact, this model does not apply to every business environment, especially when it comes to overseas investment. He summed up the reasons as follows: first, local economic environment will affect the cost; second, local laws have greater influence; third, the employment situation in the local labor market will bring unpredictable problems. Zhou suggested that Chinese enterprises should have in-depth knowledge about local business environment before investing in other countries.



Expectation of Poland

Radoslaw Domagalski-Labedzki said that Poland welcomes investment from China. A member of the “16+1” Platform, Poland is the biggest economy in East Europe. It enjoys a superior geographical position and stable political environment. Poland has seen commencement of work on projects related to the “Belt & Road” Initiative. However, on the whole, China has a limited amount of investment in Poland, and one failed case has had lasting impacts. He said that Poland has set up a green path to attract investment from China. Currently, Poland has developed macro-plans to introduce foreign capital in order to promote its industrial development. Hopefully the plans can integrate with the “Belt & Road”. In particular, it hopes to bring in more investment in the industrial sectors including airports, industrial parks and so on.