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Developments in Kazakhstan: Lessons for South Asia

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Summary

Kazakhstan is a landlocked developing country rapidly progressing into a major economic power. There are lessons for South Asia in the Kazakh story.

Introduction

It has been aptly said that, in development economics, more than from a scorecard of passive data and numbers, the true story is best perceived by the naked eye. The author bears testimony to the veracity of this adage, having just returned from Astana, Kazakhstan, after attending a most stimulating deliberation of selected global thought leaders, designated as the Astana Club. One was able to feel the pulsating throb of remarkable progress, and see for oneself the fruits of relentless human endeavour. In these great steppes, beauty and bleakness play hide and seek with one another.

Key Developments

What one sees in the in the Central Asian Republics (CARs), in general, and Kazakhstan, in particular, is a quiet and remarkable economic transition on a scale unseen in a long time. The traditional curse of being landlocked has been converted into a blessing by the creation of land routes for trade with experience culled from ancient silk roads. Of course, infrastructure has been the key to turning the geographical advantage of location into spurring progress and prosperity. There is naturally the hard infrastructure: pipelines, railways, highways, and communication networks. These are being buttressed by soft infrastructure, which comprises legal, regulatory and fiscal components. The practical aspects are being carefully assessed. How are the projects to be structured? What must be the local content and labour requirements to foster the growth of human capital? What are the terms of debt and how is the debt to be repaid? And, importantly, are the rules and terms involved transparent?

There is an obvious attention in Central Asia and in Kazakhstan on China's Belt Road Initiative (BRI). In fact, the concept was first articulated by Chinese President Xi Jinping in Astana in 2013. Undoubtedly, China's renewed interest in the region, and the much-needed capital it brings to bear, comprise a critical pillar of the local and regional strategy.

While multilateral development banks ushered the CARs into the global free-market economy in the 1990s, public-private-partnerships (PPP), which have fewer constraints but require more sound business environments, are in the process of becoming increasingly attractive alternative instruments of development. Kazakhstan has emerged as the regional PPP leader. It is now also focussed on wind and solar power development.

Of noteworthy mention is the introduction of the English Common Law in trade dispute mechanisms. Indeed, a former United Kingdom Lord Chief Justice will be joined by eight others to run the first commercial court of its kind in Eurasia. These steps are expected to provide additional fillip to foreign investors. These would include those from the emerging markets of South Asia like India, Bangladesh, Sri Lanka and Pakistan.

Lessons for South Asia

There are several lessons for South Asia in the Kazakh experience.

Firstly, being landlocked need not be a curse, and appropriate projects like Khorgos could turn it into a blessing. What Kazakhstan has done with Khorgos is worth emulation. It has been developed into a dry port connected to seaports by rail or road, serving as a transhipment point for goods. At a cost of US$245 million (S$335.9 million), it is set to become Central Asia's largest logistics park. In addition, it will host a duty free bazaar with its own tax and fiscal codes as well as immigration policy. This model would be relevant to landlocked Nepal and Bhutan. Both can attract foreign investments to such purpose (Nepal already draws Chinese funds and India invests in Bhutan's development), as well as connect to ports like Chittagong or Khulna in Bangladesh.

Secondly, the best way to deal with the Chinese BRI is to have projects co-funded by other agencies whose evaluation would help avoid white elephants. This would be relevant to Pakistan whose China-Pakistan Economic Corridor, with US$65 billion (S$89.1 billion) is the largest BRI set of projects. In Kazakhstan, the government seeks to involve multilateral banks and Western partners to co-fund the BRI initiatives. This would involve their thorough examination of project feasibility. Should Pakistan succeed in obtaining the US$12 billion (S$16.5 billion) credit from the International Monetary Fund as it is aiming to do, it would be actually going down this path. Bangladesh has also signed off on around US$24 billion (S$32.9 billion) of Chinese investments. It might be important to have the feasibilities studied by international financial institutions. There are those who believe that Sri Lanka should have done the same with the Hambantota Port project, which now is leased out to a Chinese company for 99 years to facilitate loan repayment.

Thirdly, innovative ideas like a separate legal system protecting foreign investors are a useful concept. This would be relevant to India, as also to the other South Asian countries. One major impediment, of course, is politically Kazakhstan is not as pluralist as South Asia. Necessary legislations would be a far simpler process in Kazakhstan than in India, Bangladesh, Sri Lanka or Pakistan.

The Kazakh story does merit serious examination and South Asia would profit from undertaking the same.

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