



THE KHORGOS FREE ECONOMIC ZONE AND ITS ECONOMIC POTENTIAL

Since officially launched in April 14, 2012, the Khorgos Free Economic Zone (FEZ), which is officially called the International Centre of Boundary Cooperation between Kazakhstan and China, has made a significant contribution to further increasing the economic and commercial relations between all Eurasian countries, including bilateral economic and commercial relations between China and Kazakhstan. Along with the “One Belt, One Road” initiative, which is of great importance for Beijing, the Khorgos FEZ is essential for enhancing efficiency of major trade routes that originate in China passing through the Khorgos border crossing and reach Central Asia, Russia and Europe via Kazakhstan.

The idea of the Khorgos FEZ was first proposed at the project level by Hong Kong's Yat Chau Co. Ltd company in 1992. Yat Chau Co. Ltd company has proposed to build an international free trade city with an area of 2.6 square kilometers on the China – Kazakhstan border crossing at Khorgos with the total project cost amounted to 150 million yuan (\$23.5 million). This project was approved by the government of Xinjiang Uyghur Autonomous Region (XUAR) in February 1994, but it was cancelled shortly thereafter. Indeed, during his official visit to Kazakhstan in June 2003, Chinese President Hu Jintao and Kazakh President Nursultan Nazarbayev reached a consensus on establishing an international free trade zone on the border of two countries. Thus, the Governments of China and Kazakhstan signed the “Framework Agreement on Establishment of the ‘Khorgos’ International Centre of Boundary Cooperation between China and Kazakhstan” in March 24, 2004 and the parties inked “China-Kazakhstan ‘Khorgos’ International Centre of Boundary Cooperation Management Agreement” in July 4, 2005.

The Khorgos FEZ covers a total area of 5.28 square kilometers, including 3.43 square kilometers on the Chinese side and 1.85 square kilometers on the Kazakh side. The main objective of the Khorgos FEZ is to support trade negotiations, to provide exhibitions, sales, storage and transportation services, hotel and restaurant facilities, as well as to ensure business and financial services.

Since the construction of the infrastructural facilities of the Khorgos Free Economic Zone in 2007, the Chinese side has invested

23.45 billion yuan (about \$3.7 billion) under 26 major projects. Moreover, negative impacts of the 2008 global economic crisis on the Chinese economy, alongside the damage to the economy of the XUAR caused by ethnic conflicts in Urumqi on July 5, 2009, encouraged the Chinese government to give more importance to the Khorgos FEZ. In this context, Beijing decided to establish the Khorgos Economic Development Zone (EDZ) on September 30, 2011. The Khorgos EDZ, which is expected to support the Khorgos FEZ covers an area of approximately 73 square kilometers, including approximately 30 square kilometers of Khorgos Industrial Park, approximately 35 square kilometers of Gulca City Industrial Park and approximately 8 square kilometers of Qingshuihe Industrial Park. The aim of the Khorgos EDZ is to increase the economic potential of the Khorgos FEZ and to contribute to the continuous transportation of Chinese goods to the markets of Kazakhstan and other Central Asian states with further transportation to the markets of Eurasian countries, and to contribute to the economic development, security and stability of the Xinjiang Uyghur Autonomous Region, economy of which is export-based.

In order to develop the infrastructure facilities of the Khorgos FEZ in Kazakhstan, the Kazakh government has invested up to 65 billion tenge (about \$200 million). On November 25, 2011, the Kazakh government decided to establish the Khorgos-East Gate logistics center near the Khorgos FEZ. In 2016, Kazakhstan announced its plans to build a city called Nurkent that would cover an area of 300 hectares in the Khorgos region with an investment of 11.3 billion tenge (about 34 million dollars). The construction of the new city is expected to be completed by 2035.

The efficiency of the Khorgos FEZ, which is located 670 kilometers west of the capital of the XUAR, Urumqi, and only 378 kilometers from the east of the cultural, economic and commercial center of Kazakhstan, Almaty, is increasing day by day. For example, according to Chinese data, in 2015, the amount of goods transported via the Khorgos totaled 25.790 million tons, which is 12.6% increase compared to 2014. This figure corresponds to 62.5% of the total amount of transit traffic of the XUAR. In January-November 2016, the Khorgos's amount of transit traffic increased by

18.87% to 23.881 million tons compared to the same period of 2015 and accounted for 59.99% of the total amount of transit traffic of the XUAR. Therefore, bilateral cooperation between China and Kazakhstan contributes to improving cargo transportation to Europe via the Khorgos FEZ. To date, the section of the Western China - Western Europe highway corridor extending from the Lianyunguan port of China to the Khorgos on the China-Kazakh border is almost completed, as well as 2,639 kilometers section of the road passing through Kazakhstan. Moreover, China and Kazakhstan launched the railway via the Khorgos FEZ on December 2, 2011. In 2014, the state-owned company Kazakhstan Temir Zholy (KTZ) carried out the Zhetigen-Khorgos and the Jezkazgan-Beineu railway projects, linking transport routes from the Khorgos border crossing to the Aktau seaport in the west of Kazakhstan. In the period from 2013 to April 2016, the amount of transit traffic of the rail cargo via the Khorgos was recorded as 2.584 million tons. It is estimated that this amount would reach 18 million tons by 2020 and 31.5 million tons by 2035.

According to the statistic data, in 2012 the total number of people visited the Khorgos FEZ for commercial purposes was 240 thousand increasing over 15-fold to 3.36 million people in 2015. In January-September 2016, the number of people visited the region for commercial purposes increased by 44.73% to 3.810 million compared to the same period of 2015. In 2015, the total trade volume of the Khorgos FEZ amounted to about \$12.037 billion. In January-November 2016, the trade volume of the region increased by 6.75% to \$11.87 billion compared to the same period of 2015.

Serving as China's great gateway to the markets of Kazakhstan, Central Asia and Europe, the Khorgos FEZ is crucial not only for the bilateral economic and commercial cooperation between China and Kazakhstan but also for China's economic and commercial relations with other Eurasian countries. In recent years, the efficiency of the Khorgos FEZ has been increasing in the framework of the Chinese One Belt, One Road initiative and the Shanghai Cooperation Organization. It can be noted that this region will contribute to the economic development of both the XUAR, Kazakhstan and other Eurasian countries.

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Politics, Foreign Affairs and Security

- The President of Kazakhstan, Nursultan Nazarbayev, signed a decree, according to which the Ministry of National Economy and Ministry of Health and Social Development were reorganized. The powers of the Ministry of National Economy to form the state policy in the sphere of migration and regulate migration process were transferred to the Ministry of Health and Social Development. Meanwhile, some of the powers of the Ministry of Health and Social Development were transferred to the Interior Ministry. The President also ordered to create a Migration Service Committee under the Interior Ministry and develop a migration policy.
- During his official visit to Beijing, the President of Kyrgyzstan, Almazbek Atambayev, and the President of China, Xi Jinping, discussed the ways of further improvement of bilateral relations focusing on deepening security cooperation and jointly combating “three evils” (terrorism, separatism and extremism).
- The Spokesman of the Collective Security Treaty Organization (CSTO), Vladimir Zainetdinov, announced that the Deputy Secretary General of the CSTO, Valery Semerikov, was appointed as the Acting Secretary General of the Organization replacing Nikolai Boryuzha due to the expiration of his term on January 1, 2017.
- According to the Russia’s Ambassador to Dushanbe, Igor Lyakin-Frolov, the country is seeking to expand its military power in Tajikistan by renting the Ayni airbase. It was stated that Russia is currently in talks with Tajikistan about signing of an additional agreement on the Ayni air force base, which Moscow intends to consider as a part of its 201st military base located near Dushanbe.
- The Spokesman of the Border Guard Agency of Tajikistan, Muhammadjon Ulughkhojaev, reported that the Tajik authorities are looking into claims by an Afghan official that the Russian engineers in Tajikistan are repairing Taliban tanks and other heavy weapons. It was also stated that the Agency would launch an official investigation.

Economy, Finance and Energy

- The National Iranian Gas Company (NIGC) announced its plans to apply to international arbitration over the stoppage by Turkmenistan of its natural gas export to Iran. Turkmenistan halted natural gas supplies to Iran in a dispute

between the two countries over unpaid arrears. According to NIGC, Iran currently produces 0.7 billion cubic meters (bcm) of natural gas per day and the import from Turkmenistan, which is only 2% of the country’s gas production, is directed to the northern Iranian provinces.

- According to the Kazakh Energy Ministry, Kazakhstan cut the oil output as part of its OPEC commitment. The oil output was cut by 20,000 barrels per day (bpd) since January 1. It was stated that Kazakhstan would keep average monthly production at a 1.68 million bpd level in six months. Reducing daily oil production is to be achieved by reducing output at the oilfields in Aktobe, Kyzylorda and Mangystau regions.
- According to the Turkmen Government, the Turkmen Oil State Concern held research at the Demirgazyk Goturdepe field located on the Turkmen shelf of the Caspian Sea. The research proved that there are rich hydrocarbon reserves in the field. It is planned to drill 60 exploration and development wells within the first phase of the work and it is envisaged to produce more than 6.855 million tons of oil at the Demirgazyk Goturdepe field if the project is to be realized within 7 years.
- According to Turkey’s Energy Market Regulatory Authority, in January-October 2016 Azerbaijan supplied 5.31 bcm of natural gas to Turkey as compared to 5 bcm in the same period of 2015. Azerbaijan supplied 6.17 bcm of natural gas to Turkey in 2015 as compared to 6.07 bcm in 2014. It was also stated that in January-October 2016, Turkey imported 36.42 bcm of natural gas, 30.62 bcm of which were supplied via pipelines, while 5.8 bcm accounted for the import of liquefied natural gas. Import from Azerbaijan in Turkey’s total natural gas import reached 14.57% in January-October 2016.
- The National Iranian Oil Company reported that in November 2016 Iran increased its oil exports to Italy to 230,000 bpd from 160,000 bpd in October 2016. It was noted that Iran has recently signed a one-year contract with Italian company, Eni to sell 60,000-100,000 bpd to this company, starting from 2017.
- Azerbaijan’s state oil company SOCAR reported that in 2016 it drilled 105,250 meters compared to 104,410 meters in 2015. It was noted that in 2016, 102,532 meters out of the total drilling operations accounted for production drilling and the remaining

2,713 meters accounted for exploration drilling. SOCAR commissioned 64 new wells in 2016.

- The Kazakh Ministry of Finance reported that India and Kazakhstan signed an agreement to amend a 20 years bilateral tax treaty. Under the deal, information exchanged between the two countries can be shared with other law enforcement agencies. The revised tax treaty will provide for a Limitation of Benefits clause to prevent the misuse of the Double Taxation Avoidance Convention and would allow application of domestic law and measures against tax evasion.
- According to the President of AvtoVAZ Nicolas Moore, mass production of four new LADA models will be made in Ust-Kamenogorsk in the East Kazakhstan region. It is planned to produce up to 150 cars per year.
- According to the Statistics Committee under the Ministry of National Economy of Kazakhstan, in 2016 the annual inflation rate measured on the consumer price index hit 8.5%. Food price, nonfood goods prices and paid services increased by 9.7%, 9.5%, and 6.1% respectively. Moreover, prices for health care services and transportation rose by 10.1% and 7.2%. Also electricity tariffs grew by 6.1%.

Society and Culture

- The Iranian Government announced three days of public mourning for the death of Chairman of the Expediency Council Ayatollah Akbar Hashemi Rafsanjani. The former President died at the age of 82 in Tehran.
- The President of Kyrgyzstan, Almazbek Atambayev, signed decrees on granting and renunciation of citizenship of the country. Signed decrees are related to the granting citizenship of Kyrgyzstan to 137 people, including ethnic Kyrgyz, the former citizens of Uzbekistan and Tajikistan, who returned to their home country, and to the renunciation of citizenship of Kyrgyzstan for 56 people.
- A law on Ombudsman entered into force in Turkmenistan. The document determines the rights, duties, authorities and guarantees for the authorized representative for human rights in the country.
- According to the Ministry of Emergency Situations of Azerbaijan, the fire that broke out following an explosion at a gas pipeline in Sangachal settlement was extinguished. The gas supply through the main gas pipeline of 1000 mm diameter was suspended.