



The Institute of World Economics and Politics (IWEP) under the Foundation  
of the First President of the Republic of Kazakhstan – The Leader of the Nation

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# Kazakhstan and its neighbors: opportunities and limitations



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## **Kazakhstan and its neighbors: opportunities and limitations**

*Alma Sultangaliyeva*

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- The enhancement of peacekeeping and stability.

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*“World politics must be contextualized not only in time (across history) but also across space.”<sup>1</sup>*

## Introduction

Kazakhstan’s spatial and geographical position on the world map has been one of its most stable features, and one of the most important for itself, located as it is in the heartland of Eurasia. As a landlocked country it shares a 14,000-kilometer border with five countries, two of which, Russia and China, are major regional and global powers. Hence, border relations have become increasingly important.

What’s more, changes leading to a new economic and political reality have occurred in recent years along Kazakhstan’s fringes. Geopolitical instability has increased, and the economic and political influence of China has risen substantially. Also, Russia’s economy has entered into a period of deep crisis.

The following trends have emerged recently:

- The epicenter of regional geopolitics has shifted from competition between Russia and the West to relations between Russia and China.
- The former concept of “post-Soviet space” is no longer adequate to the new reality. In this regard the period of 2013 to 2014 became a turning point when such events as the Silk Road Economic Belt Initiative (SREB), the Ukrainian “Maidan” revolution, the Crimean crisis and the “Novorossia” project came to the foreground.
- The role of the so-called “Western collective” (the US, Europe and their allies) is waning as it distances itself from the region. The US is now focusing on the more-important Pacific area (TIP), as well as on Middle Eastern politics. And, the EU is now more concerned with issues such as terrorism and refugees.

The status of the regional players is currently changing. Russia no longer possesses enough economic resources to maintain its influence in the Eurasian

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<sup>1</sup>Starr, Harvey, “Geopolitics and Conflict: Reconciling Spatiality, Borders, and Sovereignty in the Modern World System,” *The Journal of Territorial and Maritime Studies*, Volume 2, Number 1, (January 2015), pp. 139–148. [https://www.nahf.or.kr/?bmode=view&search=&cs\\_word=&mode=&board=&menulev=&didx=&bname=&sidx=482&page=1&bidx=17&styp=2](https://www.nahf.or.kr/?bmode=view&search=&cs_word=&mode=&board=&menulev=&didx=&bname=&sidx=482&page=1&bidx=17&styp=2)

region, particularly in Central Asia. Due to economic sanctions and falling oil prices Russia's economy has contracted significantly. In the meantime China has become the economic driver of the region. What's more, the Russian Federation itself is becoming economically dependent on China.

China's well-planned strategy of strengthening economic ties with neighboring Central Asia is gradually supplanting Russia's position in its traditional "underbelly." Chinese strategic interests in this part of Eurasia are mainly concerned with keeping it stable and secure, as well as with keeping China itself connected to transportation corridors. However, Russia, while economically weaker, still possesses sufficient resources for exerting military and political influence over the region.

If China's interests have widened and taken shape, Russia's interests have practically not changed at all. So, how will these two powers co-exist in the near and long-term future? Today, China possesses advantages which it earned in a relatively short period of time, such as economic weight and the loyalty of the Central Asian states "paid for" in exchange for generous investments. Whereas the Russian Federation's assets are not currently so strong. It has a weak economy, badly-damaged relations with its once brotherly neighbor of Ukraine, poor relations with the West and, until recently, with Turkey, and a reduced international reputation.

All of the current changes have affected Kazakhstan, which possesses economic and political ties with both Russia and China. It is bound to Russia in Eurasian integration and the Customs Union. It is bound to China via that state's major investments and its import of crude oil and other raw materials.

In the face of this changing reality new factors have appeared. Particularly, Kazakhstan, which has the most developed economy in Central Asia, has undergone a significant economic slow-down with the fall in oil and raw materials prices due to the global slump in demand. The export of oil and raw materials is Kazakhstan's main source of revenue.

Regional factors have opened up new opportunities which did not exist before. For example, the shared border with Turkmenistan has now become the shortest route to Iran and further into the Gulf region. Relations with post-sanction Iran, now a major regional player, grant Kazakhstan increased opportunity to diversify its economy via access to much-needed emerging markets and resources.

Thus, Kazakhstan's regional position, its "neighborhood factor," is more than just a historical and geographical fact ("we didn't choose our neighbors"), but a situation in which both opportunities and limitations are present. But, in the end, there are more of the former than of the latter.

This paper reviews the specifics of Kazakhstan's relations with each of its neighbors in terms of both the opportunities and the constraints (economic, political and social) they present. The significance of each of the five neighbors (China, Russia, Uzbekistan, Kyrgyzstan and Turkmenistan) to Kazakhstan, as well as their economic and political well-being, are analyzed. Finally, some potential strategies Kazakhstan may pursue to foster mutually beneficial relations with these countries are suggested.

For purposes of this paper, relations with Azerbaijan and Iran, which share only a water border with Kazakhstan on the Caspian Sea, are not examined. Thus far, the Caspian states have shown little interest in consistent, mutual cooperation which has been institutionalized in any way. At present, the formerly contested status of the sea shelf is, by and large, settled. This agreement allocated a 15-mile sector for each country as well as for the environmental protection of the Caspian Sea aquatoria.<sup>2</sup>

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<sup>2</sup>At the same time, countries on the southern shore of the Caspian Sea (Iran and Turkmenistan) are not completely satisfied with the status quo, in particular, with their share of its waters.



## Chapter I. The “neighborhood factor” – why is it important?

### Geography

Historically and geographically, the given location of a state can affect its development both positively and negatively. In this regard, Kazakhstan’s own location does not appear favorable. First of all, geographically, Kazakhstan is positioned from the ocean further than any other country, at some 13,000 kilometers. This puts the state in a “continental trap,” stifling economic growth. As a rule most land-locked countries are developmentally behind countries which have access to open water.<sup>3</sup> It is no coincidence that, with a few exceptions, land-locked states are all developing countries, at 29 out of 35. Only those land-locked states which possess natural resources for export fare better, and in the Central Asian region these are Kazakhstan and Turkmenistan.

Second of all, Kazakhstan has a major disproportion between the size of its territory (9<sup>th</sup> largest in the world) and its economic development. Kazakhstan’s vast expanse is mostly semi-arid, dry, steppe, which is unfavorable for agricultural cultivation and habitation.<sup>4</sup> Also, about 90,000 hectares of Kazakhstan’s land are unusable due to nuclear testing during the Soviet period.

Third, the size of Kazakhstan’s population is not only sparse for such a territory, but is also disproportionately settled, resulting in a kind of “territorial pressure.” Most of the population is concentrated along the perimeter of the country, most especially in the southern and north-eastern portions which possess the most favorable climate. In the western portion of the country, which is characterized by harsh climatic conditions, the average population density is only 2.3 people per square kilometer, while in the fertile south the average population density is 19.3 people per square kilometer.<sup>5</sup>

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<sup>3</sup>Gallup, John Luke, Sachs, Jeffrey D., Mellinger, Andrew D., “Geography and Economic Development,” NBER Working Paper, Number 6849, December, 1998, p. 81. <http://www.nber.org/papers/w6849.pdf>

<sup>4</sup><http://www.economy.kz/upload/open/razrb.pdf>

<sup>5</sup>“Prognosis of spatial development and population settlement, Component 2,” Economic Research Institute, (Prognoznaja shema prostranstvennogo razvitiya i rasselenija naselenija Komponent 2. Institut jekonomicheskikh issledovanij), Astana, 2009; Gallup et. al., p. 81.

Also, geography creates barriers for Kazakhstan's economic growth, such as; a remote location from world markets, high transportation and infrastructure development costs, small market capacity, etc. Under these conditions it requires more effort and higher expense for the country to achieve a competitive advantage.

Thus, Kazakhstan's immediate neighborhood becomes more than important in over-coming these limitations and turning them into opportunities for successful development.

To this end, Kazakhstan's official policy states, "to ensure [Kazakhstan's] independence and territorial integrity, we should be a strong state and maintain stable and friendly relations with our neighbors."<sup>6</sup>

## The role of borders

The ambiguous role of political boundaries and territoriality in modern international relations is important for political research.<sup>7</sup> On the one hand, borders strengthen the inter-dependence and integration between states. The Schengen zone of the European Union is an example of this. What's more, in an increasingly globalized world borders are more easily crossed in the form of satellites, drones, social networks, electronic commerce, etc. But, on the other hand, borders still retain their traditional meaning, as guardians of sovereignty with barriers and check points<sup>8</sup> which fulfill functions in the security, economic, political and socio-cultural spheres. This territorial integrity is still traditionally considered the backbone of state security, and thus it is crucially important to geopolitics. Among recent striking examples of how security and borders interlink are the war in southeastern Ukraine and the uncontrolled influx of refugees into the EU. The EU was justifiably proud of one of its major achievements; the free movement of people between the union's 28 member states. Now, in an effort to restrict the flow of refugees from the Middle East, more and more EU countries are introducing border controls within the union, such as fences on the Austrian – Hungarian border and on the Hungarian –

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<sup>6</sup>“Strategy-2030. Prosperity, security and improvement of welfare for all Kazakhstanis. Message from the President of the Republic of Kazakhstan Nursultan Nazarbayev to people of Kazakhstan,” (Strategia-2030. Procvetanie, bezopasnost' i uluchshenie blagosostojaniya vseh kazahstancsev. Poslanie Prezidenta Respubliki Kazahstan N. Nazarbaeva narodu Kazahstana). [http://www.akorda.kz/ru/addresses/addresses\\_of\\_president/page\\_poslanie-prezidenta-respubliki-kazahstan-n-a-nazarbaeva-narodu-kazahstana-oktyabr-1997-g\\_1343986436](http://www.akorda.kz/ru/addresses/addresses_of_president/page_poslanie-prezidenta-respubliki-kazahstan-n-a-nazarbaeva-narodu-kazahstana-oktyabr-1997-g_1343986436)

<sup>7</sup>Harvey, p. 140.

<sup>8</sup>Ibid.

Croatian border. Thus, the Schengen agreement, which is fundamental to the EU's existence, is called into question.

Political borders may also be important to group identity in which “territory is understood as identity.”<sup>9</sup> This may, in turn, affect ethnic identity. For example, one can find among Kazakhs who grew up in Kazakhstan the perception that recent Kazakh re-patriots from countries such as China and Mongolia are “other” Kazakhs, or strangers. The question of ethnic identity can also be used as a tool for border disputes. This, for example, occurred in Ukraine when the Russian Federation claimed the Crimean peninsula as its own territory by means of the justification of defending the rights of the ethnically Russian population which lived there.

The ambiguity of state borders, which can promote cooperation and integration as well as conflict, is particularly evident in post-Soviet space. On the one hand, there are attempts at Eurasian integration, on the other hand there are territorial disputes between countries. Such border disputes include those between Russian and Ukraine, Azerbaijan and Armenia, and Kyrgyzstan and Uzbekistan.

## Security

The “neighborhood factor” is also important for Kazakhstan in the security context. This includes various potential challenges such as territorial integrity, the threat of military invasion, demographic pressure from, and internal stability in neighboring countries, drug trafficking, uncontrolled migration, environmental risks, information security etc.<sup>10</sup> Kazakhstan is located in a region with the potential for political and/or social conflict, including border disputes and inter-ethnic tensions. Consequently, the question of security is no less important than economic pragmatism.

Crisis situations in some neighboring states have impacted both the external and the internal security of Kazakhstan to a greater or lesser extent. For instance, during the violence and riots which accompanied the political upheaval in Kyrgyzstan in 2010, Kazakhstan was forced temporarily to close the border

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<sup>9</sup>Ibid, p. 146.

<sup>10</sup>Ileuova, Gulmira, “On national security threat: Report. Analysis of the National Security threat in the medium term, round table proceedings,” Security 2013: Trends, Risks and Scenarios, (Ob ugrozakh nacional'noj bezopasnosti RK v: Ileuova Gul'mira. Analiz ugroz nacional'noj bezopasnosti RK na srednesrochnuju perspektivu (doklad predstavlen iz materialov «kruglogo stola» «Security 2013: trendy, niski, scenarii»). <http://www.counter-terror.kz/ru/article/view?id=117>

with that country for fear of an influx of refugees and crime. The sporadic aggravation of ethnic separatism in China's Xinjiang province, which borders on Kazakhstan, also carries risks. The conflict between Russia and Ukraine indirectly affects Kazakhstan, as well, because Kazakhstan maintains good relations with both of those countries. There is also the problem of drug trafficking which originates in Afghanistan and passes through Uzbekistan and Kyrgyzstan before reaching Kazakhstan. Tensions in relations between Kazakhstan's neighbors, such as Uzbekistan and Kyrgyzstan, are another risk factor. Moreover, there is the issue of equal access to trans-border water resources, an issue which is important both to Kazakhstan and to its neighbors.

In principle, the "neighborhood factor" is particularly important for most of the newly-independent states of Eurasia. These are countries in transition; economically, politically and socially, and they are relatively new to the subject of international relations. As a result, they face both internal and external security risks. Not surprisingly, these countries do not rank high in various international ratings in the social and political spheres. For instance, out of all world countries, they get low marks on the quality of state administration; Russia at 106, Kazakhstan at 107, Uzbekistan at 117, and Kyrgyzstan at 118. By way of comparison, China fares significantly higher at 67.<sup>11</sup> All four of these countries occupy the lower half of international ratings on such variables as political stability, rule of law and corruption. However, among these four there are some differences. For instance, Kyrgyzstan and Russia ranked lowest on political stability and violence. Kazakhstan's Central Asian neighbors score very low on such issues as the rule of law and corruption. In this regard they are at the same level as some African countries such as the Central African Republic and Eritrea. According to "The Global Prosperity Index," which measures the relative well-being of 142 countries, Kazakhstan and its five neighboring states ranked at about the same level, ranging from 52 to 66 (see Table 1).

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<sup>11</sup>"The Legatum Prosperity Index," The Legatum Institute Foundation, London, 2015. (Turkmenistan is not presented: <http://www.prosperity.com/#/>)

Table 1

**Global Prosperity Index Ranking**

| Country    | Rank |
|------------|------|
| Kazakhstan | 56   |
| China      | 52   |
| Kyrgyzstan | 66   |
| Russia     | 58   |
| Uzbekistan | 57   |

*Source: The Legatum Prosperity Index by The Legatum Institute Foundation, London, 2015. Measured by 8 indicators: entrepreneurship, economy, governance, education, health, safety and security, personal freedom, social capital - <http://www.prosperity.com/#/>*

**The asymmetry of Kazakhstan’s neighborhood**

*There is significant asymmetry between the countries of Kazakhstan’s neighborhood in terms of economics, population, territory and international roles. For example, among Kazakhstan’s five neighbors, China is ranked at 89.3% in total GDP and 96.5% in total population.*

*Economics*

International agencies, such as the World Bank and the IMF, include Kazakhstan and its neighbors among developing countries and emerging markets in terms of socio-economic development.<sup>12</sup> But, on closer examination, there are clear differences between them economically. At one extreme there is China, with the world’s second largest economy and, at the other, there is Kyrgyzstan, which possesses one of the world’s lowest GDP’s at 134 out of 189 countries.

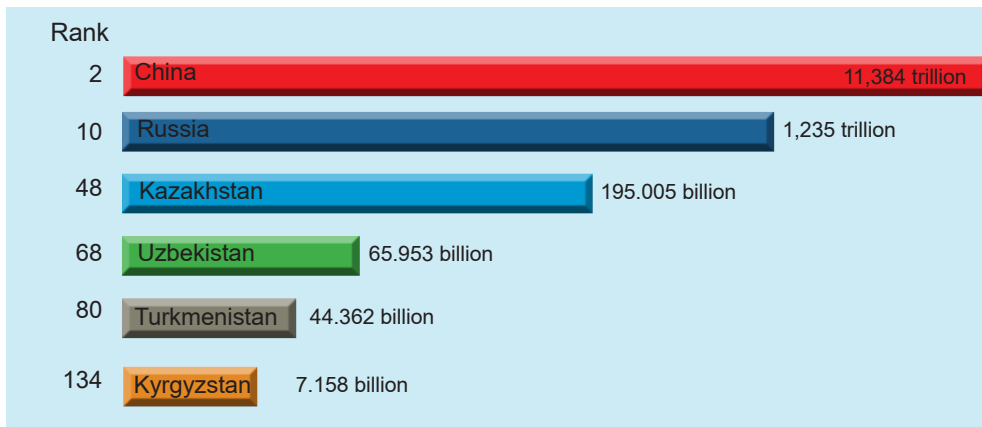
There are differences in political systems, as well. In China there is the monopoly of the one communist party and the lack of any major, political turmoil

<sup>12</sup>“The Worldwide Governance Index,” The World Bank, 2014. <http://info.worldbank.org/governance/wgi/index.aspx#reports>. The total number of countries in the list is 215. These were reviewed on a scale from 0% (worst) to 100% (the best) on six indicators: political stability and absence of violence, voice and accountability, government effectiveness, regulatory quality, rule of law, and control of corruption.

for more than half a century. While in Kyrgyzstan there is a liberal political model, parliamentary governance, free elections, as well as a history of instability (two state coups during the last five years).

As can be seen from graph 1, China and Russia outweigh the three Central Asian neighbors, but the former is the absolute heavyweight. China's share of GDP among Kazakhstan's five neighbors in an overwhelming 89.3 percent. What's more, China and Russia, as maritime powers, have an advantage over Uzbekistan, Kyrgyzstan and Turkmenistan, land-locked as they are in the "continental trap" (Uzbekistan is doubly land-locked, with at least two states between it and the ocean).

*Graph 1*  
**World GDP Ranking- 2015 (U.S. dollars)**



*Source: from World Economic Outlook Database, April, 2015 – <http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/weorept.aspx>*

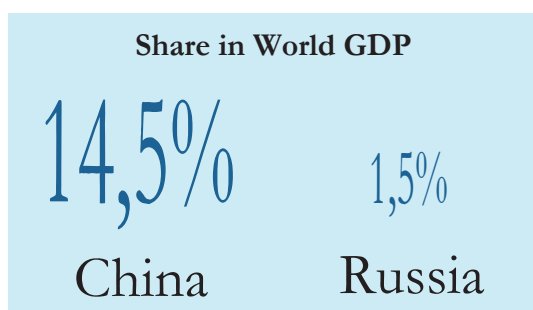
This asymmetric relationship between Kazakhstan and its neighbors makes for obviously different perspectives on its economic and political ties with those neighbors. Hence, its biggest trading partners are Russia and China. In the first eleven months of 2015, the share of Russia and China amounted to 19.1% and 13.8% of Kazakhstan's total volume of foreign trade respectively. While, the combined share of Uzbekistan, Kyrgyzstan and Turkmenistan only amounted to 3.7%.<sup>13</sup>

<sup>13</sup>The main indicators of foreign trade of the Republic of Kazakhstan, January - December 2015. (Osnovnye pokazateli vneshnej trgovli Respubliki Kazahstan janvar' – dekabr' 2015). [http://stat.gov.kz/faces/wcnav\\_externalId/homeNumbersCrossTrade?\\_adf.ctrl-state=1dgnb7vqje\\_42&\\_afLoop=28160753792765995#%40%3F\\_afLoop%3D28160753792765995%26\\_adf.ctrl-state%3Dt2i3p56cm\\_68](http://stat.gov.kz/faces/wcnav_externalId/homeNumbersCrossTrade?_adf.ctrl-state=1dgnb7vqje_42&_afLoop=28160753792765995#%40%3F_afLoop%3D28160753792765995%26_adf.ctrl-state%3Dt2i3p56cm_68)

Economic relations between Kazakhstan and its Central Asian neighbors have remained underdeveloped since the collapse of the Soviet Union. To a large degree this is the legacy of the formerly centralized Soviet state, which did not encourage horizontal links among its Central Asian republics. For example, cotton from Uzbekistan was not processed locally or in the neighboring republics. Instead, it was transported to a textile factory in the European portion of the USSR, in particular in the Ivanovo oblast', which was the center of the textile industry at that time. Since gaining independence in the early 90's, the Central Asian states have found themselves having to face and overcome economic hardship. In doing so they focused not so much on regional cooperation as on the search for Western investment and loans.

Today, Kazakhstan's Central Asian neighbors lag dramatically behind China and Russia in economic performance. In a global competitiveness ranking, out of a total of 144 countries Kyrgyzstan remains one of the least competitive at 108<sup>th</sup>, while China (28<sup>th</sup>) and Russia (53<sup>rd</sup>) lead the regional rankings (see Table 1).<sup>14</sup>

There is also extreme asymmetry in terms of population size between Kazakhstan's Central Asian neighbors, with a combined population of about 40 million people, and Russia, with 142.9 million people, and especially, China, with 1.3 billion people.



Source: <http://www.imf.org/external/datamapper/index.php>

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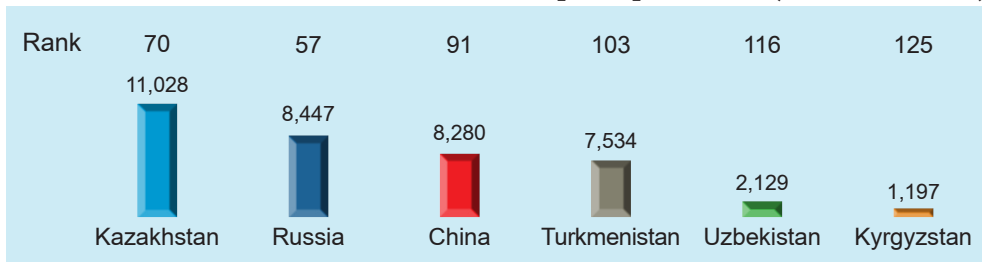
<sup>14</sup>The World Economic Forum, 2014. In total there are 12 indicators. [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

### *The social sphere*

The sharp, economic disparity between neighboring countries is not necessarily reflected in the social sphere. According to social indicators, the differences between countries are not very obvious. This is illustrated by the UNDP Human Development Index (HDI), which compares social well-being across 184 countries by measuring such indices as life expectancy, inequality, education, health and others. In this regard Russia and Kazakhstan are ahead of China, which, in turn, is followed by Turkmenistan, Uzbekistan and Kyrgyzstan. (graph 2).

*Graph 2*

**Human Development Index Ranking (UNDP)  
and GDP per capita – 2014 (U.S. bln. dollars)**



**Source:** *Compiled by the author based on Human Development Report – 2014. UNDP, 2014 – <http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf>*

### *Are there common values?*

Some shared values may still be traced in the political culture of Kazakhstan and its former Soviet neighbors. One of these, for instance, is the importance, to a greater or lesser extent, attached to the authority of the state and to its leader.<sup>15</sup>

But, the further these countries move from their Soviet past, the more the once-common values which united them erode. Societies, as well as elites, are undergoing a generational change which will potentially bring forth new ideals and values. These may affect the political agenda, as well. For instance, Russian-Ukrainian relations over the last two years have proven that ties between sovereign entities can no longer be based on the inertia of a common history and culture, as well as on the rhetoric of “brotherly and friendly ties between neighbors.”

<sup>15</sup>Although, it should be noted that China’s state capitalism has some parallels in this regard.



In particular, there is a difference between some post-Soviet societies in how they relate with the outside world. This is especially noticeable between Russia and the Central Asian countries. Public opinion surveys in Russia have shown that only a small percentage of respondents, 7%, believe that their state has no enemies. While, in Central Asia, a much large percentage of those interviewed gave the same answer. Twice as many respondents in Kyrgyzstan (19%), more than half of respondents in Kazakhstan (51%) and Uzbekistan (63%), as well as an absolute majority in Turkmenistan (95%), believe that their state has no enemies.<sup>16</sup> Clearly, the present-day Russian populace is more inclined to self-isolation and a high anxiety level towards “foreigners.”<sup>17</sup> The perception of their own country as a “besieged fortress surrounded by hostile forces which pursue selfish interests and seek to weaken and dismember Russia” appears in other sociological surveys, as well.<sup>18</sup>

One might say that public opinion findings, to a certain degree, reflect the official Russian foreign policy paradigm of recent years, one which is marked by a tendency towards confrontation and self-isolation. In this regard, it differs from the more pragmatic foreign policy approach of the Central Asian states, the societies of which display significantly lower levels of anxiety toward the outside world.

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<sup>16</sup>“Integration barometer,” EABD-2014, SPB, 2014, p. 28. – [http://www.eabr.org/general/\\_upload/CII%20-%20izdania/2014/Barometr-2014/EDB\\_Centre\\_Report\\_25\\_Analycal\\_Summary\\_Rus.pdf](http://www.eabr.org/general/_upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analycal_Summary_Rus.pdf)

<sup>17</sup>Ibid.

<sup>18</sup>Kolosov, V.A, Zotov, M.V., “Geopolitical vision of the world by Russian citizens, why Russia is not Europe?” *Russia Today*, (KolosoV V. A., Zotov M. V. Geopoliticheskoe videnie mira rossijskimi grazhdanami: pochemu Rossija ne Evropa?// Rossija segodnja), 29.08.2012, pp. 184-185. <http://www.politstudies.ru/files/File/2012/5/16.pdf>

## Chapter II. China

The length of the Kazakhstan-China border, including trans-boundary waters, is about 1,782.75 kilometers, which is second in length only to the Kazakhstan-Russia border. It is noteworthy that Kazakhstan became the first former Soviet republic with which China signed a treaty on a common border. This was signed in 1995.

Formally, the two states, according to IMF rankings, belong to the category of “developing countries,” but above average. However, it is obvious that their economies are not at all comparable in size and influence at both the regional and global levels. China has become a superpower in the global economy, with a share of 16.4%, trailing behind only the United States. Kazakhstan’s share of the world economy is only 0.39%.<sup>19</sup> The demographics of the two countries are also sharply unmatched, with China’s population at more than 1 billion people compared to 17.5 million in Kazakhstan. China also possesses solid international and military power. The largest military power in Asia, it is a permanent member of the UN Security Council.

Bilateral relations, both economic and political, have developed rapidly during the last decade between Kazakhstan and China. The trade turnover between the two countries has grown at an unprecedented rate. In 2000, trade turnover was \$1,557 billion, but by 2012 this figure stood at \$25,113 billion. However, mutual trade has begun to slow down since 2014, reaching a minimum of \$9,756 billion. This is explained by slower economic growth in China and lower demand for Kazakhstan’s fuel and other raw materials, which constitute the bulk of its exports to China.

As a global trading power, China is definitely interested in promoting its goods to foreign markets. Besides that, in order to meet the demand of its domestic production for its own growing consumer base, China needs raw materials, energy and minerals. Therefore, China’s proximity to Kazakhstan fits perfectly with the PRC’s national interests. The shortest land routes connecting China to Europe and the Middle East pass through Kazakhstan, a territory which is also rich with an array of minerals and natural resources, such as oil, uranium, copper and others. It is very important to China, therefore, that a stable and secular Kazakhstan ensures

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<sup>19</sup>World Economic Outlook Database, April, 2015. <http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/weorept.aspx>

a safe environment on its western border, particularly along that of the Xinjiang province, where outbreaks of ethnic separatism occur sporadically.

Thus, it is logical that Kazakhstan has become an important partner for China in post-Soviet Central Asia. Kazakhstan accounts for about 70% of China's total trade turnover with the region. Bilateral ties between the two countries have grown significantly largely due to China's intensive economic presence in Kazakhstan, including imports of Chinese goods, Chinese investment in the energy sector (the extraction and export of oil, uranium and other raw materials) and the provision of trade loans. In 2015, among Kazakhstan's main export partners, China came in second place to the EU, at 12% and 53.5% respectively. By way of comparison, the share of Kazakhstan's exports going to Eurasian Union member countries was 10.7%.<sup>20</sup>

Needless to say, Kazakhstan benefits from Chinese investments. This is especially important given reduced financial flows from the EU, which lately has been preoccupied with its own internal problems.

## OPPORTUNITIES

### Transport corridors

Kazakhstan's geographically close proximity to China, which is now the world's largest exporter, gives Kazakhstan a number of economic prospects. Most specifically, it may benefit from the transit of freight between the two major global trading poles: China and Europe. Although maritime shipping remains the most popular and cheapest means of transporting goods to Europe, land-based routes are twice as fast. This is especially crucial for the delivery of high value-added products.

One of the first companies to use inland transportation by rail from Chongqing to Hamburg via Kazakhstan was the multinational IT company, Hewlett-Packard. Now, rising trade volume with China will allow Kazakhstan to develop its transport, associated logistics and industrial infrastructure. The coincidence of the two countries' economic interests in strengthening transport ties is reflected in concrete policy decisions.

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<sup>20</sup>[http://stat.gov.kz/faces/wcnav\\_externalId/homeNumbersCrossTrade2015?\\_afriLoop=34389473377915637#%40%3F\\_afriLoop%3D34389473377915637%26\\_adf.ctrl-state%3D1cnwfswxib\\_63](http://stat.gov.kz/faces/wcnav_externalId/homeNumbersCrossTrade2015?_afriLoop=34389473377915637#%40%3F_afriLoop%3D34389473377915637%26_adf.ctrl-state%3D1cnwfswxib_63).

In his 2013 visit to Astana, Chinese President Xi Jinping put forward an initiative on a Silk Road Economic Belt (SREB)<sup>21</sup> aimed at creating a network of overland transport corridors, by rail and road, connecting China and Europe via the territory of Kazakhstan, Russia, Azerbaijan, Georgia, Turkey and other countries. This involves building the associated infrastructure, including logistics and production, along transportation routes. China has established financial institutions for the project, such as the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Foundation, which possess starting capital of \$100 billion and \$40 billion respectively. The SREB initiative may be linked with the reorientation of the Chinese economy from manufacturing towards services, including infrastructure services. As a result, transport, construction and related sectors are more attractive to Chinese investment.

The same year president of Kazakhstan, Nursultan Nazarbayev, in turn, announced the launch of a large-scale infrastructure reform program, “Nurly Zhol” (Bright Path), in an attempt to diversify Kazakhstan’s economy by moving away from the predominance of natural, resource-based exports. This program is based on the improvement of transport ties both within Kazakhstan and with outside markets. In this regard, China’s and Kazakhstan’s projects complement each other.

There are other Kazakh-Chinese infrastructure projects currently being implemented. The largest of these is the international rail and logistics center and free economic zone (FEZ) land port of the Khorgos Gateway (KTZ), located on the border between the two states.<sup>22</sup> Kazakhstan expects that, given the projected increase in transit cargo by 2020, up to 10% of the total China-Europe trade volume may be shipped through Kazakhstan’s territory.<sup>23</sup> Thus far, in 2014 the amount of cargo shipped through Kazakhstan amounted to only \$4.9 billion of the current \$615 billion which flows from China to Europe.

However, over the past five years, the transit of goods from China to Europe via the Khorgos Gateway port has increased by 17 times. The increase began when container trains started shipping electronics of such leading brands as Hewlett Packard, DB Schenker, Toyota, FESCO and BRAVIS. Given the improvements of transportation and logistics infrastructure, as well as the facilitation of customs clearance for goods in transit, manufacturers of other Southeast Asian countries,

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<sup>21</sup>Later on, it was introduced as part of China’s global transport and infrastructure project «One way - one road.»

<sup>22</sup>In cooperation with the largest international logistics operator, Dubai Port World.

<sup>23</sup>According to Kanat Alpysbaev, Vice-President of the Republic of Kazakhstan’s Joint Stock Railway Company (KTZ) with state support. See, [www.reuters.com/article/2015/10/26/kazakhstan-china-trade-idUSL8N12M3YZ20151026#xqVIO3e1WeF5veBVh.99](http://www.reuters.com/article/2015/10/26/kazakhstan-china-trade-idUSL8N12M3YZ20151026#xqVIO3e1WeF5veBVh.99)

such as Japan and South Korea, might also be interested in utilizing Kazakhstan's transportation routes.

China's and Kazakhstan's interests also converge in multilateral transportation projects. One of these, the Trans-Caspian International Multimodal Transport Corridor, launched the first container train, Silk Wind, in August 2015 along a route through Dostyk / Altyntkol, Zhezkazgan, port of Aktau, port of Baku, Tbilisi and Kars. In February 2016, the return freight train departed from Ukraine to China. Project members include China, Kazakhstan, Azerbaijan and Georgia, with Ukraine as a potential candidate. Another international transport route will link China and Iran, again with the participation of Kazakhstan.

Container trains running between China and Europe, and passing through the territory of Kazakhstan, open the possibility for a new trend in transcontinental freight traffic. The Trans-Caspian route was the first alternative overland transport corridor between Europe and China built to bypass Russia's territory. Kazakhstan plays a key role in this, since the longest part of the corridor runs through its territory.<sup>24</sup> New opportunities are thus opened up to Kazakhstan, including revenue from the transit of goods, integration into the international trade system and diversification of transportation routes. But, the economic benefit to Kazakhstan from the implementation of the SREB and Nurly Zhol projects is not only from transit revenue. These projects will also significantly improve internal transport connectivity, which will have a positive collateral effect on the development of related services and manufacturing infrastructure. This becomes especially important due to the "territorial pressure," the disproportionate settlement of the vast territory of Kazakhstan, as discussed above.

The China – Europe transport corridors offer other advantages, such as the installment of fiber optic cable along railways and pipelines. This could allow Kazakhstan to become a telecommunications hub for Central Asia. The country already holds the leading position in Central Asia in the development of ICT.<sup>25</sup> In addition, the SREB will make it possible to restore the old Central Asian unified power network, according to Chinese experts.<sup>26</sup>

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<sup>24</sup>Ibid.

<sup>25</sup>Abu Saeed Khan's presentation, "North and Central Asia as a hub of cross-sectoral infrastructure connectivity," ESCAP's Expert Consultation Meeting on Socio-Economic Development and Programme Priorities, Almaty, 8 December 2015. International development agencies such as ESCAP (The UN Economic and Social Commission for Asia and the Pacific) and CAREC (Central Asia Regional Economic Cooperation, established by ABR), are implementing a project to connect the Central Asian countries in the information telecommunications network, which will significantly speed up and reduce the cost of Internet connectivity.

<sup>26</sup>Astana discussion club, 9-11 November, 2015, Astana.

## Diversification of Kazakhstan's export destinations

Kazakhstan has the opportunity to direct exports of its main articles (oil and minerals) to one of the largest consumers of raw materials in the world – China. China's dependence on imported oil has risen from 7.5% in 1993 to 53.3% in 2011.<sup>27</sup> But, the diversification of Kazakhstan's exports in other directions at the expense of China could rejuvenate its underdeveloped transport infrastructure, such as pipelines and roads.<sup>28</sup>

The growing importance of China as an importer of Kazakhstan's raw materials is confirmed by statistics. In terms of value, China's share accounts for \$9.8 billion, second after Italy at \$16 billion.<sup>29</sup>

China, in turn, requires diverse energy sources, and needs to rely on direct supplies from a stable region. Thus, the convergent interests of Kazakhstan and China naturally lead to the construction of relevant infrastructure, for instance, an oil pipeline from Kazakhstan to China. An international highway to western Europe from western China, which is scheduled to open by the end of 2016, is under construction with the involvement of several international financial institutions.<sup>30</sup>

## Access to credit and investment

Kazakhstan has gained increased access to Chinese loans and investments with the expansion of its neighbor's economic presence in the republic. In just over four years (2008-2012) Kazakhstan's borrowing from Chinese financial sources has increased by six-fold. According to the Eurasian Development Bank, Kazakhstan's share of the more than doubled volume of China's accumulated direct investment in the Eurasian "troika" (Russia, Kazakhstan and Belarus) over five years was the largest. Chinese FDI increased from 12 billion to more than 22 billion dollars in Kazakhstan.<sup>31</sup>

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<sup>27</sup>"Oil and Gas Emergency Policy – China 2012 Update," IEA. [https://www.iea.org/publications/freepublications/publication/China\\_2012.pdf](https://www.iea.org/publications/freepublications/publication/China_2012.pdf) (IEA, 2012).

<sup>28</sup>The quality of Kazakhstan's transport infrastructure is ranked below average, at 2.8 out of 5, according to the global ranking, "Connecting to Compete 2014: Trade Logistics in the Global Economy, 2014," World Bank, 2014. <http://ipi.worldbank.org/international/scorecard/column/32/C/KAZ/2014>

<sup>29</sup>IMF. <http://data.imf.org/?sk=253a4049-e94d-4228-b99d-561553731322&sid=1390030109571&ss=1390030109571>

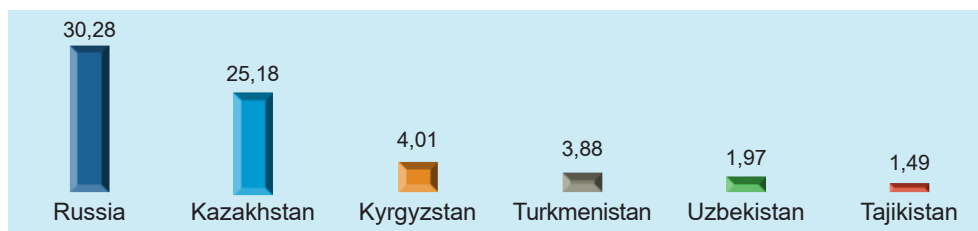
<sup>30</sup>The total length of the road which will pass through the territory of the three countries (China, Russia and Kazakhstan) is 8,445 kilometers. Its Kazakhstan segment accounts for 2,787 kilometers. [http://bnews.kz/ru/news/obshchestvo/komitet\\_avtodorog\\_o\\_proekte\\_zapadnaya\\_evropazapadnii\\_kitai\\_bakad\\_i\\_respublikanskih\\_dorogah-2013\\_09\\_06-1020013](http://bnews.kz/ru/news/obshchestvo/komitet_avtodorog_o_proekte_zapadnaya_evropazapadnii_kitai_bakad_i_respublikanskih_dorogah-2013_09_06-1020013)

<sup>31</sup>[http://www.eabr.org/ru/research/centre/projectsCII/projects\\_cii/index.php?id\\_4=45023&linked\\_block\\_id=0](http://www.eabr.org/ru/research/centre/projectsCII/projects_cii/index.php?id_4=45023&linked_block_id=0)

According to international sources, of the \$65.32 billion of Chinese investment in Russia and the five countries of Central Asia, Kazakhstan received \$25.18 billion (a little less than Russia at \$30.28 billion), comprising 68.9% of all Chinese investment in the Central Asian region.<sup>32</sup> (see graph 3).

*Graph 3*

### China's investments by country (2004-2015) U.S. bln dollars



*The China Global Investment Tracker 2005–2016, the American Enterprise Institute and the Heritage Foundation <https://www.aei.org/china-global-investment-tracker/>*

Chinese investment has partially offset the reduction in Western investment and loans to Kazakhstan which started with the 2008 global financial crisis. Judging by the dynamics of Kazakhstani-Chinese cooperation, this trend will continue. One of the results of Kazakhstan President Nursultan Nazarbayev's visit to Beijing in September, 2015 was the signing of agreements on the implementation of joint contracts and on Chinese loans to Kazakhstan at a total amount of \$23 billion.<sup>33</sup>

## Meeting consumer demand

The close proximity of the «world's factory» against the backdrop of Kazakhstan's virtually absent local production of consumer goods has made possible China's provision of Kazakhstan's population with most goods, from yarn and paper clips to clothing, metal and plastic products. China mainly exports finished goods to Kazakhstan. These consumer goods (though mostly of low-quality) are imported by «shuttle traders,» and allowed Kazakhstan to overcome its goods shortage during the critical period of the 90's.

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<sup>32</sup>The author's own calculations based on, "The China Global Investment Tracker 2005–2016," The American Enterprise Institute and the Heritage Foundation, 2015. <https://www.aei.org/china-global-investment-tracker/>

<sup>33</sup>[http://www.akorda.kz/ru/events/international\\_community/foreign\\_visits/vstrecha-s-predsedatelem-knr-si-czinpinom-v-rasshirennom-sostave](http://www.akorda.kz/ru/events/international_community/foreign_visits/vstrecha-s-predsedatelem-knr-si-czinpinom-v-rasshirennom-sostave)

## Access to the ocean

With the start of cargo terminal construction in the Chinese sea port of Lianyungang in 2013, Kazakhstan may expand its opportunities in overcoming continental trap. Thus, Kazakhstan may gain access to a port in the Pacific Ocean, in addition to existing terminals at sea ports in the Baltic and Black Seas. This will also enhance economic links between Kazakhstan and Southeast Asian countries.

## LIMITATIONS

### The unequal nature of bilateral relations

The stark differences between Kazakhstan and China in economics are demonstrated by the quality and by the volume of their trade with other countries. In 2014, the biggest trading partners of China were the United States and Japan, amounting to \$590.4 billion and \$306.7 billion respectively.<sup>34</sup> By way of comparison, the same year the total volume of Kazakhstan's foreign trade reached only \$120.7 billion.

The geographic proximity of such an influential neighbor as China causes concerns about Kazakhstan's economic security and sovereignty. On the one hand there is a sharp asymmetry between the two countries in the relative sizes of their economies and in their demographics. On the other there is the unprecedented growth of China's economic presence in Kazakhstan and its political role in Eurasia in general. These factors cannot but raise suspicions in Kazakhstan society about "Chinese economic expansion."<sup>35</sup>

The unequal nature of Kazakhstan-China bilateral relations is manifested in their mutual trade. Kazakhstan's exports to China of non-renewable natural resources, such as oil, gas and others, accounted for 97% of Kazakhstan's trade with China, in 2011, while China mainly exports finished products to Kazakhstan. As of the current day, the largest volume of imported goods to Kazakhstan comes from China, to the tune of \$7.4 billion. By way of

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<sup>34</sup><http://www.investopedia.com/articles/investing/092815/chinas-top-trading-partners.asp>

<sup>35</sup>The recent publication of the book by Kazakhstani author, Syroezhkin K.L., «Should Kazakhstan be afraid of China: myths and phobias.» (Nuzhno li Kazahstanu bojat'sja Kitaja: mify i fobii), Institute of World Economics and Politics (IWEP), Astana, Almaty, 2013, was logical in this respect.



comparison, imports from Germany amount to \$2.3 billion, and imports from the USA amount to \$1.9 billion.<sup>36</sup>

There is a downside to the saturation of Kazakhstan's consumer market with Chinese products. Their low cost makes most of Kazakhstan's own products uncompetitive. This leads to the risk of Kazakhstan being locked into becoming a commodities export country. As one Kazakh expert emphasizes, "When you are a resource-rich country in which high value-added manufacturing is limited, while nearby is the second largest economy in the world, which might soon out-pace the United States and become the first, a scenario in which Kazakhstan will evolve into a mere resource appendage of China looks quite logical."<sup>37</sup>

This trend is accompanied by the one-sided nature of Chinese investment in Kazakhstan, although this is not that different from other foreign investment in the country. As a rule, Chinese investment tends to concentrate in the oil and gas sector. According to the Eurasian Development Bank, the bulk of Chinese investment (97.3%, a total of \$22.573 billion in 2013) in Kazakhstan was focused on oil and gas extraction as well as on the construction of transportation pipelines.<sup>38</sup> In comparison, by 2014, the authorized capital of two Chinese banks in Kazakhstan, the Industrial & Commercial Bank of China and the Bank of China, did not exceed \$58 million and \$36 million respectively.<sup>39</sup>

In addition, high transportation costs and Kazakhstan's small market do not make it very appealing to goods exporters of other countries. Consequently, Chinese products occupy a near monopoly position in Kazakhstan, which potentially narrows consumer choices.

In the short and medium term, raw materials exports will remain the main source of Kazakhstan's resource-dependent budget revenues, and this will benefit China. But, strategically, this trend is not in Kazakhstan's interests in the long run due to the unpredictability of commodities prices in the world market. This was shown starkly in 2015, when prices for oil and metals fell sharply to a fourteen-year record low. The slowdown of China's economic growth from 7.3% in 2014 to 6.8% in 2015 was one of the reasons for falling prices in raw materials.<sup>40</sup> The reduction in commodities exports to China led to a significant reduction in Kazakhstan's

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<sup>36</sup>IMF. <http://data.imf.org/?sk=253a4049-e94d-4228-b99d-561553731322&sk=1390030109571&ss=1390030109571>

<sup>37</sup>Syroezhkin, K.L., « Should Kazakhstan be afraid of China: myths and phobias,» p. 41, via an interview with Director of the Analytical Department of «Asyl Invest,» Aivar Baikenov. <http://tengrinews.kz/markets/ekonomisty-otsenili-vyigodu-velicheniya-tovarooborota-255721/>

<sup>38</sup>Lissovnikov, Yaroslav and Vinokurov, Evgeny, "China prefers Kazakhstan," *Vedomosti*, 14 January 2016. <http://www.vedomosti.ru/opinion/articles/2016/01/15/624086-kitai-predpochitaet-kazahstan>

<sup>39</sup>Ibid.

<sup>40</sup>According to the deputy director of the IMF Department of Middle East and Central Asia, Juha Kähkönen, during his visit to Kazakhstan in November 2015. [http://forbes.kz/finances/finance/mvf\\_kazahstan\\_ne\\_ostavlyayet\\_dohodyi\\_ot\\_nefti\\_buduschim\\_pokoleniyam](http://forbes.kz/finances/finance/mvf_kazahstan_ne_ostavlyayet_dohodyi_ot_nefti_buduschim_pokoleniyam)

revenues. This, together with other adverse factors, caused a sharp slowdown in Kazakhstan's economic growth from 4.3% in 2014 to 1.5% in 2015.<sup>41</sup>

Also, one should take into account emerging trends in China's economy, especially the accelerated development of the service sector in high tech, and the development of alternative sources of energy. This means that the manufacture of goods will gradually cease to be the only driving force of China's economy, and thus will no longer require the same quantity of raw materials. These developments could change the dynamics of Kazakhstani-Chinese economic relations.

## Population pressure

The proximity of China, the most populous country in the world, and its accelerated economic entry into sparsely-populated Kazakhstan, by definition raises the issue of potential demographic pressure. The PRC authorities' recent decision to abolish the "one child" policy heightens this concern. Notwithstanding an emerging trend towards a population decrease and the aging of China's population, this issue is still controversial in Kazakhstan. The gap in demographics between the two countries alone is a cause for controversy.

In this regard, the presence of a Chinese labor force in Kazakhstan serves as an indicator. Almost half of the work permits for foreigners have been issued to Chinese specialists, and this trend has continued both in absolute and in relative terms. For instance, during the first half of 2015, more work permits were issued to Chinese citizens than during eleven months of 2014, at 10,557 and 9,646 respectively.<sup>42</sup> These comprised 47% and 40%, respectively, of all work permits issued. In this regard, China leads Turkey, at 12.8%, and Uzbekistan, at 9.1%, by a wide margin.<sup>43</sup> Of course, there are no Chinatowns in the cities of Kazakhstan. However, the number of Chinese citizens in Chinese companies in Kazakh or in Sino-Kazakh joint-ventures will most likely grow given the growing economic presence of the PRC in the Republic of Kazakhstan.<sup>44</sup>

<sup>41</sup>IMF. <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/weorept.aspx?> =

<sup>42</sup>In total, 22,487 labor permits were issued by the Ministry of Labor and Social Policy. «Information-Analytical Center on employment issues.» JSC. <https://www.mzsr.gov.kz/taxonomy/term/78>

<sup>43</sup>During the first half of 2015 labor quotas had been issued to citizens of Turkey at 2,899, and Uzbekistan at 2,065, 12.8% and 9.1% respectively. «Information-Analytical Center on employment issues.» JSC. <https://www.mzsr.gov.kz/taxonomy/term/78>

<sup>44</sup>On Chinese migration to Kazakhstan, see, Sadovskaya, E.Y., Chinese migration in Central Asia at the beginning of the XXI century. Economic advance and migration from China, Case of the Republic of Kazakhstan: challenges and opportunities, (Kitajskaja migracija v Central'noj Azii v nachale XXI veka. ekonomicheskoe nastuplenie i migracija iz KNR na primere Respubliki Kazahstan: vyzovy i vozmozhnosti), Lambert Academic Publishing, 2012.

## Xinjiang: ethnic separatism

The ethnic separatism and terrorist acts in China's Xinjiang region, which borders Kazakhstan, is not only the PRC's internal security problem. The conflict there could transfer to Kazakhstan's territory. What's more, there is a risk, not only of labor migration, but of ethnic migration from China given the proximity of Muslim ethnic groups in both Xinjiang and Kazakhstan, especially the Uighurs.<sup>45</sup>

## The water issue

At a time when almost half of the water resources in Kazakhstan come from trans-boundary rivers, water security risks challenge Kazakhstan's economy in general. Most of this trans-boundary water comes from China's Xinjiang province, which amounts to 18.9 cubic kilometers from 24 rivers.<sup>46</sup> The issue lies in the fact that China has complete control over the flow of water from these trans-boundary rivers, especially those important for Kazakhstan, the Ili and the Black Irtys rivers. Intensive economic development in Xinjiang has led to the increased intake of water from these rivers on the Chinese side of the border, and thus has decreased water flow into Kazakhstan. This has led to negative consequences, such as the shallowing of the Zaysan and Balkhash lakes, a decrease in agricultural land, pastoral degradation, water pollution and a number of other environmental problems.<sup>47</sup>

Despite negotiations with China on the fair distribution of water and the establishment of a joint commission to monitor such, a bilateral accord has not been signed. Kazakhstan's experts are not optimistic on the prospect of a positive outcome in this regard, stressing that China will not agree to limit its use of water. This would be an infringement on China's national interests.<sup>48</sup> Kazakhstan's officials express worry on the difficulty of the negotiation process, stating, "China

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<sup>45</sup>For more information on the neighborhood of Xinjiang, see the book Syroezhkin, Konstantin, "Xinjiang: The big question for China and Kazakhstan," (Sin'czjan: bol'shoj vopros dlja Kitaja i Kazahstana), Institute of World Economics and Politics, Astana, Almaty, 2015.

<sup>46</sup>The volume of water flowing from Uzbekistan is 14.6 km<sup>3</sup>, from Kyrgyzstan is 3.0 km<sup>3</sup> and from Russia is 7.5 km<sup>3</sup>.

<sup>47</sup>Syroezhkin, «Should Kazakhstan be afraid of China: myths and phobias," p. 305.

Nysanbek, "U.M. Water Security of the Republic of Kazakhstan: regional and national environmental problems," (Bezopasnost' vodnyh resursov Respubliki Kazahstan: regional'nye i nacional'nye jekologicheskie problemy), Analitik, 2005, pp 27-30.

<sup>48</sup>Ibid.

is one of the most difficult parties in negotiations.”<sup>49</sup> At the same time, however, Kazakhstan’s own ecologists insist that the Kazakhstani side should be more diligent and careful, and ration the use of water resources.

## Anti-Chinese phobia

The accelerated pace of the Chinese economic presence in Kazakhstan aims to secure a friendly and safe environment on China’s north-western border, as well as to provide direct access to energy resources. But this is perceived ambiguously by Kazakhstan’s public at-large. For Central Asians in general, the obvious benefits of cooperation with China are overshadowed by fears of its “expansion.” The public is anxious about becoming dependent on its big, eastern neighbor and becoming its “younger brother,” a term used by the Russian side of the USSR for the other Soviet republics.

It is understood that the PRC’s investments are not just a friendly gesture of a mighty neighbor, but a well thought-out strategy. By providing economic assistance to Central Asian states, the foundation of a “Pax Sinica,” an economic space friendly to China, is laid down. This can be understood as a “union of nations untied by common interests” or even as a “zone of submission.”<sup>50</sup> For instance, the authorities of Tajikistan, the poorest country in the region and one in which Chinese companies are particularly active, have openly admitted that, “Tajikistan may become economically dependent on China.”<sup>51</sup>

Of course, it would be naive not to recognize that China’s investment policy in Kazakhstan is primarily geared “to secure a position for China’s state-owned enterprises in the extraction of natural resources.”<sup>52</sup> According to Kazakhstani expert Konstantin Syroezhkin, China’s cooperation with Kazakhstan “moves according to the pace of China’s needs.”<sup>53</sup> The rapid growth of the PRC’s economic and political presence in Kazakhstan occurs against the backdrop of a few trends. One, the decline of the Russian economy and the weakening of Western interests in Central Asia are perceived as a sign of China’s dominance

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<sup>49</sup>From an interview with the Vice-Minister of Agriculture of the Republic of Kazakhstan Marat Tolibaev. Quote from, Syroezhkin, «Should Kazakhstan be afraid of China: myths and phobias,” p. 321.

<sup>50</sup>Lubin, David, Head of Emerging Markets Economics at Citigroup. <http://www.vedomosti.ru/economics/articles/2015/10/26/614254-kitai-aziyu-rossii#/boxes/140737492479879>

<sup>51</sup>Ibid.

<sup>52</sup>Daly, John C. K., “Central Asia Gets its First Access to the Sea.” <http://www.silkroadreporters.com/2014/11/18/central-asia-gets-first-access-sea/>

<sup>53</sup>Syroezhkin, «Should Kazakhstan be afraid of China: myths and phobias,” p. 60.

in the region. Two, it is believed that Chinese investments are an important element of “China’s expansion into Central Asia.”<sup>54</sup> Three, China’s development of uranium mining in Kazakhstan, and the subsequent export of uranium to China, give it de facto control over this nationally strategic industry.<sup>55</sup>

The priority of Chinese national interests in its foreign policy is confirmed by Chinese officials themselves. Justifying the importance of the SREB (Silk Road Economic Belt) initiative, its authors stress the need to develop the north-western regions of China, stating, “We should make good use of Xinjiang’s geographic advantages and its position as a window westward to open-up and deepen communication and cooperation with Central, South and West Asian countries, making it a key transportation, trade, logistics, cultural, scientific and educational center, and a core portion of the Silk Road Economic Belt.”<sup>56</sup>

However, the SREB project, quite apart from the rhetoric on “the common good and common destiny of Asian countries,” is primarily a tool for the expansion of markets for Chinese capital. In light of increased competition from other developing manufacturing bases in Asia, this project is of particular importance.

There is no doubt that it would be logical to expect a high degree of Chinese participation during the implementation of the SREB project. According to estimates made by Goldman Sachs, most of the major foreign contracts in the project are expected to be won by Chinese train manufacturers. This means the use of Chinese materials, management and labor. Thus, “foreign firms will have to settle for spillover business in the form of subcontracts.”<sup>57</sup> It remains to be seen if this prediction will be accurate for Kazakhstan, manufacturers of which have already been producing locomotives and wagons.

China successfully uses regional multilateral organizations, such as the SCO (Shanghai Cooperation Organization) and BRICS (Brazil, Russia, India, China and South Africa) to advance its goals. The SREB, for instance, was discussed at the last meeting of the SCO summit in Ufa, and a separate provision was dedicated to it in the final resolution of the meeting.

Among the most common phobias and myths related to China’s purpose in Kazakhstan is China’s economic, demographic and military expansion, with

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<sup>54</sup>[http://tengrinews.kz/kazakhstan\\_news/sagintaev-provel-peregovoryi-perenose-ryada-kitayskih-276778](http://tengrinews.kz/kazakhstan_news/sagintaev-provel-peregovoryi-perenose-ryada-kitayskih-276778)

<sup>55</sup>Syroezhkin, «Should Kazakhstan be afraid of China: myths and phobias,” p. 383.

<sup>56</sup>“Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, 28 March 2015,” Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People’s Republic of China, with State Council authorization, March, 2015. [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)

<sup>57</sup>Bulloch, Douglas, “Mapping the New Silk Road,” and Snelder, Julian, “One belt, one road, one winner,” *Business Spectator*.htm.

the consequent loss of sovereignty. For example, the 2010 announcement of the Kazakhstan government's plan on the long-term lease of agricultural land to the PRC triggered protests. As a result, these plans were scrapped. Fear of Chinese expansion was seen once again in May, 2016 when the public was angered by a proposal for land reform which would allow a 25-year lease of agricultural land by foreigners. One of the main concerns was allowing the rent of Kazakhstani land to Chinese investors. It is noteworthy in this regard that the controversial perception of China and anti-Chinese sentiment are relevant not only to Kazakhstan, but to other developing countries in which China is a growing economic presence, such as in Latin America and Southeast Asia. There, the public is concerned with the failure of Chinese firms to comply with environmental standards, policies of hiring Chinese employees at the expense of the local work force and Chinese displays of military might.<sup>58</sup>

## **China's tensions with neighbors**

Historically, China's relations with its neighbors have not always been peaceful. For instance, there have been territorial disputes with several neighboring countries in Southeast and South Asia. These include disputes with such regional powers as Japan and India, and with smaller countries such as Vietnam, Philippines, Malaysia, Brunei and Taiwan. Southeast Asian countries have a specific dispute with the PRC's claims to the largest portion of the South China Sea, which is strategically important for trade. Nevertheless, China has secured its possession of the area by erecting artificial islands. In some cases these disputes have risen to the international level because of the strong interest the United States, traditional ally to most of the Asia-Pacific states, has in the region.

## **FINDINGS**

Kazakhstan and China have significant disparities in the size of both economy and population. This fact explains the accelerated pace of China's economic presence in Kazakhstan. The demographic pressure of Kazakhstan's eastern

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<sup>58</sup>Wouters, Jan, Defraigne, Jean-Christophe, Burnay, Matthieu, China, the European Union and the Developing World: A Triangular Relationship, 2015, p. 12.

neighbor is a constant factor in bilateral relations. But, even with all of the challenges a mighty neighbor like China brings, it also contributes to Kazakhstan's greater sovereignty by opening up new opportunities, particularly in the sphere of infrastructure development.

By pursuing a policy towards economic diversification and a move away from commodities export, Kazakhstan is changing its approach to relations with China. The previous trend of "raw materials for investments" is gradually being replaced by the strengthening of transportation ties and infrastructure cooperation, such as at the dry port of Khorgos, and the cross-linking of the SREB and Nurly Zhol projects. China's investment in raw materials in Kazakhstan, especially in the oil sector, is not growing as rapidly as before.<sup>59</sup>

For the PRC, a politically stable Kazakhstan with its rich resource base is a key factor for the security of its western border. Also, it provides opportunities for China's outward economic expansion into the mostly uncompetitive economies of Central Asia. In general, as some Chinese experts acknowledge, it is difficult to separate China's economic interests in the region from political ones.<sup>60</sup>

Kazakhstan's strategy should focus on a consistent defense of its own interests. This includes compliance with the criteria and standards (legal, technical, environmental, etc.) of joint contracts signed with the PRC. This also includes getting the assistance of independent expertise, both local and international. By providing transparency and clarity of intentions and goals in its relations with China, the Kazakhstan government can significantly reduce the level of anti-Chinese sentiment in society.

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<sup>59</sup>Ibid.

<sup>60</sup>The view expressed by some Chinese experts at the first meeting of the Astana club, Astana, 19-22 November 2015.

## Chapter III. Russia

The Russian Federation is the second largest economy in Kazakhstan's neighborhood, with which it shares its longest common border, at about 7,591 kilometers. There are significant differences between the two countries in population: 17.6 million people in Kazakhstan compared to 143.7 million people in Russia. Economically, Russia far outweighs Kazakhstan as well as its Central Asian neighbors (Uzbekistan, Kyrgyzstan and Turkmenistan). Among participating countries of the Eurasian Economic Union (EAEU), which includes Kazakhstan, Russia economically dominates by a large margin, with a share of total GDP at 82.7%. This high degree of disparity among the Eurasian Economic Union's members distinguishes it from other regional economic blocks.<sup>61</sup>

Russia has also gained a certain weight in the international arena. According to a World Bank ranking, Russia is the only transition economy in the region which has moved to the top level. By way of comparison, Kazakhstan is ranked at above average. The Russian Federation's military and political potential is also very significant given its nuclear armament and its position as a permanent member of the UN Security Council. However, Kazakhstan is slightly ahead of Russia in the social sphere as measured by per capita GDP, at \$11,028 as opposed to Russia's \$8,447 (2014), (graph 2).

The two countries have had a long relationship: historically, politically, economically and socio-culturally. This shared history began in the imperial period and continued into the centralized Soviet state. Since 2010, Kazakhstan and Russia have been linked by Eurasian integration within the framework of the Customs Union, and then within the Eurasian Economic Union (EAEU) as of June, 2015.

### OPPORTUNITIES

#### **Allies**

The several centuries of interaction between Russia and Kazakhstan are not darkened by unresolved conflicts, including territorial disputes. The post-Soviet phase of relations between the two neighbors continues this trend. The countries

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<sup>61</sup>Regional trade integration and Eurasian Economic Union, chapter 4, p. 66. <http://www.ebrd.com/downloads/research/transition/tr12d.pdf>EABR



do not have territorial claims on each other, and the demarcation of a common border was complete in 2006.

Since the collapse of the Soviet Union, relations between Russia and Kazakhstan have been based on a bilateral basis (treaties of friendship and strategic partnership, military cooperation, etc.) as well as on a multilateral basis. According to Russian experts, Kazakhstan is the only country in Central Asia which has become an “unconditional partner and ally” to the Russian Federation.<sup>62</sup>

Both countries share a common approach towards Eurasian integration in their foreign policy, and together with Belarus they became the initiators of the Eurasian Economic Union (EAEU). The heads of Russia and Kazakhstan reaffirmed their alliance by signing an agreement “On good-neighborliness and alliance into the 21st century” at a CIS summit in Kazakhstan on October 15, 2015.

The two countries cooperate within the framework of several regional economic organizations, such as the Customs Union, the EAEU (Eurasian Economic Union), the Council of the CIS Heads of States, as well as several political organizations and alliances, such as the CSTO (Collective Security Treaty Organization), SCO (Shanghai Cooperation Organization), and Conference on Interaction and Confidence Building Measures in Asia. Russia officially supported Kazakhstan’s candidacy for OSCE chairmanship in 2011. Kazakhstan, in turn, refrained from condemning Russia in the UN vote on recognizing the Ukrainian Crimea becoming part of the Russian Federation.

Security traditionally is an important element in bilateral relations. In general, Russia’s strategic interests in Central Asia are “primarily driven by maintaining security.”<sup>63</sup> Russia and Kazakhstan have developed quite close military cooperation. Kazakhstan’s armaments are mostly of Russian / Soviet origin, and under a 1994 agreement Russia rents several military sites (Soviet legacy) in Kazakhstan, with a total rent at \$24 million annually for 11 million hectares. The most famous site in this regard is the Baikonur cosmodrome.<sup>64</sup>

## Cultural parallels

A significant portion of Kazakhstan’s populace has fluency in the Russian language, and this includes Kazakhs as well as other non-Russian ethnic groups.

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<sup>62</sup>“Russia’s interests in Central Asia: content, perspectives, constraints,” (Interesy Rossii v Central’noj Azii: soderzhanie, perspektivy, ogranichiteli), RSMMA, 2013, p. 26.

<sup>63</sup>Ibid, p. 5.

<sup>64</sup>A Kazakhstani website devoted to military affairs. See, [http://military-kz.ucoz.org/index/voennye\\_poligony/0-28](http://military-kz.ucoz.org/index/voennye_poligony/0-28)

This has contributed to bilingualism and an openness to other cultures within Kazakhstan. The Russian language is a practical means of communication in political and social media, particularly in urban environments. Access to modern communication resources (Internet, satellite broadcasting, TV, etc.) is also predominantly in the Russian language. A rich selection of foreign texts is available to the general public via Russian translations. One reason for this is that ethnic Russians make up a significant portion of Kazakhstan's population, at 21%. The Russian population is located mainly in urban areas and in the northeast of Kazakhstan. As a rule, Kazakhstani Russians maintain family and cultural ties with Russia.<sup>66</sup> Also, a certain portion of Kazakhstani students choose to study at Russian universities, which are believed to be of higher quality than those in Kazakhstan. On average, 20,000 students from Kazakhstan get their higher education in Russia. They comprise the majority of all students from the former Soviet Union who study there, at 28%. By way of comparison, only 9.4% of Belarussian students study at Russia's universities.<sup>67</sup>

*The urban population of Kazakhstan comprises about 63% of the total national audience for cable and satellite television networks. Of these, 38.8% prefer Russian channels, and 41.1% prefer Kazakhstani channels.*<sup>65</sup>

There is also another side to the northern neighbor's "soft power," especially in the context of the local media. Russian-language content overpowers Kazakh language content. Besides, in content quality and popularity, Kazakhstan's TV channels fall significantly behind Russia's ones (and these are widely accessible in Kazakhstan). It is not surprising, therefore, that, in 2011, information security policy in Kazakhstan cited the vulnerability of the country's information

<sup>65</sup>Startseva, Tatiana, "The analysis of media consumption," (Analiz mediapotreblenija), TNS Gallup Media Asia, 17 November 2014. Note: Startseva is executive director of the agency. [http://www.slideshare.net/KazakhstanPressClub/media-consumption-in-kazakhstan-2014?next\\_slideshow=1](http://www.slideshare.net/KazakhstanPressClub/media-consumption-in-kazakhstan-2014?next_slideshow=1)

<sup>66</sup>The number of Russians in Kazakhstan is 3,666,081, or 21.05% of the population. "Ethno-demographic data collection of the Republic of Kazakhstan, 2015," The Republic of Kazakhstan Agency on Statistics, Astana, 2015. The number of Kazakhs in Russia is 647,732, or 0.45% of the total population. "Ethnic composition of the population of the Russian Federation. Information materials on the final results of the National Population Census, 2010."

<sup>67</sup>Interview of Deputy Minister of Foreign Affairs of Kazakhstan, Askar Musinov. [https://i-news.kz/news/2014/10/22/7775317-okolo\\_20\\_tys\\_studentov\\_iz\\_kazahstana\\_obu.html](https://i-news.kz/news/2014/10/22/7775317-okolo_20_tys_studentov_iz_kazahstana_obu.html) <http://www.innov.ru/news/other/v-rossiyskikh-vuzakh-uvvel-1902/>

sphere.<sup>68</sup> Kazakhstani Prime Minister Karim Massimov admitted that more than half of the country's population "lives not so much in Kazakhstan's information sphere, as in Russia's."<sup>69</sup> This creates an environment in which "almost half of Kazakhstan's population views the situation in their own country through the eyes of another one."<sup>70</sup> According to a Gallup poll survey which measured the degree of President Putin's authority in different countries, Kazakhstan ranked in fourth place, even ahead of Belarus. Putin's policies were supported by 72% of the Kazakhstani population.<sup>71</sup>

It is noteworthy that public opinion polls conducted in both countries show a high level of trust in each other. Most of Kazakhstan's respondents, at 84%, put Russia at the top of the states most friendly to Kazakhstan. Those interviewed in Russia, at 54%, put Kazakhstan in second place after Belarus.<sup>72</sup> The Russians' greater recognition of the latter can be attributed to ethno-cultural ties and common history.

## Transport and transit

As commodities exporters, Russia and Kazakhstan depend on each other for the transit of goods to other countries. The bulk of Kazakhstani oil is exported to Europe through the territory of Russia via the pipeline of the Caspian Pipeline Consortium (CPC) from Atyrau to Samara. Also, the main ground transport corridor from Kazakhstan to Europe passes through the territory of the Russian Federation. In turn, Kazakhstan allows the transport of cargo from Russia by rail to Tajikstan and Kyrgyzstan via the route Western Siberia – Kazakhstan – North Kyrgyzstan – South Kyrgyzstan – Tajikstan. Joint participation in international transport and transit infrastructure projects has been another point of mutually beneficial cooperation. In particular, transport ties between the two countries in overland trade corridors between China and Europe look promising. In this

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<sup>68</sup>"The concept of information security of Kazakhstan by 2016," (O Koncepcii informacionnoj bezopasnosti RK do 2016 goda), The Republic of Kazakhstan President's Decree of 14 November 2011 № 174. <http://adilet.zan.kz/rus/docs/U1100000174>

<sup>69</sup>[http://tengrinews.kz/kazakhstan\\_news/politolog-kazahstane-suschestvuet-ugroza-informatsionnoj-200417/](http://tengrinews.kz/kazakhstan_news/politolog-kazahstane-suschestvuet-ugroza-informatsionnoj-200417/)

<sup>70</sup>Interview of Dosym Satpayev, director of "Risks Assessments Group." [http://tengrinews.kz/kazakhstan\\_news/politolog-kazahstane-suschestvuet-ugroza-informatsionnoj](http://tengrinews.kz/kazakhstan_news/politolog-kazahstane-suschestvuet-ugroza-informatsionnoj)

<sup>71</sup>Source: <http://www.nur.kz/800198-politologi-uviteli-opasnost-v-popul.html>

<sup>72</sup>The attraction of Russia cannot be explained only by the fact that the largest in Central Asia Russian ethnic group, at 21.0%, lives in Kazakhstan. Russia also ranks first on foreign policy preferences of the populace in the rest of Central Asia. "Integration Barometer," EABD, Number 33, 2015, St. Petersburg, pp. 7, 147. [http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB\\_Centre\\_Report\\_25\\_Analycal\\_Summary\\_Rus.pdf](http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analycal_Summary_Rus.pdf)

regard, construction of a “Western Europe – Western China” transit highway, supported by international development agencies, is planned to be finished by the end of 2016. It is assumed that the implementation of the Silk Road Economic Belt will lead to a significant increase in the volume of freight traffic and lower shipping costs, which will eventually decrease the price of transported goods.<sup>73</sup>

## **Eurasian integration**

The Customs Union and the Eurasian Economic Union have, without a doubt, raised the political trust between the “core” countries of Eurasian integration; Russia, Kazakhstan and Belarus. Removing border and customs barriers within the union has facilitated domestic and foreign trade.

Given the length of the Kazakh-Russian border, this integration project is of crucial importance for cross-border cooperation. This is helped along by the fact that the relevant infrastructure, such as transport connections between the two countries, is already in-place. For example, Uralsk, the capital of the western Ural oblast’ of Kazakhstan, is twice as close to Russia’s Samara as to the nearest Kazakhstani city of Aktobe, at 260 kilometers and 474 kilometers respectively.

## **LIMITATIONS**

### **Kazakh-Russian economic relations, close but unequal**

Relations between Russia and Kazakhstan are considered as very close and mutually beneficial. However, closer examination reveals that the imbalances between Kazakhstan and Russia mentioned above cannot but have an impact on their economic ties. In this regard the position of Kazakhstan appears as the one more vulnerable.

There is obvious asymmetry in the trade turnover between the two countries. Kazakhstan’s share is only 2.7%, whereas Russia’s share is more than six times higher at 19.1%. This inequality is also reflected in the ratio of exports to imports. In monetary

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<sup>73</sup>“Container Report for the first half-year, July 2015 (forecast until the end of 2016),” (Konteynernyj otchet za I polugodie. Ijul’ 2015 (prognoz do konca 2016), INFRANEWS, (Courtesy of Alexei Bezborodov, head of the INFRANEWS agency), p. 102.

terms, the value of Kazakhstan's exports into Russia is more than five times lower than the value of Russia's exports into Kazakhstan.<sup>74</sup>

There are also disproportions in the volume of mutual investments. Russian investments in Kazakhstan amounted to \$9.7 billion, whereas Kazakhstan invested only \$2.86 billion in Russia,<sup>75</sup> which speaks of the difficulty Kazakhstani companies have getting access to the Russian market. Yet, the prospect of opening the huge Russian market to Kazakhstani companies was billed as one of the main benefits of Eurasian integration.

This economic inequality between the two countries has a negative impact on Kazakhstan's food security. Kazakhstan is 30% dependent on food imports, exceeding the allowable limits. Kazakhstan has this negative balance in food trade with Russia because the value of its imports is greater than that of its exports. The Russian proportion of such popular items as sausages, cheese products, poultry and canned juices on the Kazakhstani market on average comprises from 50% to 95%.<sup>76</sup> In general, the bilateral trade balance between the two countries has been mostly unfavorable to Kazakhstan because the Russian Federation significantly "out-performs" Kazakhstan.

Once in a while these unequal trade relations result in "trade wars" between the two countries as an attempt to protect their own producers. Kazakhstan, as the more vulnerable of the two sides, occasionally resorts to protectionist measures, such as temporarily restricting the import of cheaper Russian products, such as chicken or milk, on the basis of food safety regulations.

Generally speaking, the two countries have not made each other a trade priority, especially Kazakhstan for Russia. During the period 2012 to 2014, the level of mutual trade turnover decreased by 2.2%. Statistics show that, despite being close neighbors and long-standing allies, the EU and China became the main trading partners of both countries.

The share of EU and Chinese trade in Kazakhstan stands at 44.4% and 14.4% respectively, and in Russia these figures are at 48.2% and 11.3% respectively. Overall,

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<sup>74</sup> "Customs Union and cross-border cooperation between Kazakhstan and Russia," Eurasian Development Bank. Center for Integration Studies, (Tamozhennyj sojuz i prigranichnoe sotrudnichestvo Kazahstana i Rossii. Evrazijskij bank razvitiya. Centr integracionnyh issledovanij), St. Petersburg, 2014. [http://www.ved.gov.ru/monitoring/foreign\\_trade\\_statistics/monthly\\_trade\\_russia/](http://www.ved.gov.ru/monitoring/foreign_trade_statistics/monthly_trade_russia/)

The foreign trade of the Russian Federation with the main countries and groups of countries January - September 2015, (Vneshnjaja trgovlja Rossijskoj Federacii po osnovnym stranam i gruppam stran janvar' - sentjabr' 2015 g), in millions of dollars. [http://www.customs.ru/index2.php?option=com\\_content&view=article&id=22034&Itemid=1976](http://www.customs.ru/index2.php?option=com_content&view=article&id=22034&Itemid=1976)

<sup>75</sup> "Monitoring of mutual investments in the CIS countries," (Monitoring vzaimnikh investicii), Eurasian Development Bank. Center for Integration Studies, St. Petersburg, 2015. [http://www.eabr.org/general//upload/CII%20-%20izdania/MonitoringVzaimnikhInvesticii/2015/MVI\\_2015\\_Prezentatsiya\\_Ezhegodnogo\\_Doklada\\_rus.pdf](http://www.eabr.org/general//upload/CII%20-%20izdania/MonitoringVzaimnikhInvesticii/2015/MVI_2015_Prezentatsiya_Ezhegodnogo_Doklada_rus.pdf)

<sup>76</sup> "Presentation of Altynbek Moldashev, Executive director of the Kazakh Research Institute of agricultural economics and rural development," Almaty Business Forum IV, 2015, 9-10 June 2015. <http://www.nur.kz/783072-kazakhstan-nev-sostoyanii-obespechit-p.html>

the Customs Union's members' percentage in the foreign trade of the Russian Federation, the "locomotive" of integration, was only 6.7%. Whereas the same indicator for Kazakhstan alone is more than twice as much, at 16.5%. Given the fact that the trade turnover within both the Customs Union and the EAEU mostly consists of Kazakhstani-Russian trade, at over 96%, it can be seen "how low the level of macro-economic integration between the member states is."<sup>77</sup> The weak trade relations between Kazakhstan and Russia are largely explained by the fact that both are energy resource exporters. In this sense they have not been partners so much as competitors.

Despite their long common border and adjacent infrastructure, Russia and Kazakhstan have not been able to realize the full potential of mutually beneficial cross-border cooperation. Administrative barriers, weak institutional ties and the different sanitary regulations established in both countries hamper a collaborative process. According to the Eurasian Development Bank, the "total foreign trade turnover of Russian regions bordering on Kazakhstan, in absolute value, is comparable to the foreign trade turnover of Kazakhstan as a whole."<sup>78</sup>

## Divergence in foreign policy orientation

In order to maintain secure borders Kazakhstan cannot ignore the recent conflicts between Russia and its neighbors, Ukraine and Georgia. Among these are the «Crimean campaign,» the «hybrid warfare» in the southeast of Ukraine, and the Russian-Georgian war. Also, the exchange of sanctions between Russia and the West, the self-labeling of the former as "non-Western," and anti-Turkish sanctions (lifted recently), have strengthened the confrontational attitude of

<sup>77</sup>«Indicators of Eurasian Integration.» (Sistema indikatorov evrazijskoj integracii), Eurasian Development Bank. Center for Integration Studies, Number 22, St. Petersburg, 2014. [http://www.ved.gov.ru/monitoring/foreign\\_trade\\_statistics/monthly\\_trade\\_russia/](http://www.ved.gov.ru/monitoring/foreign_trade_statistics/monthly_trade_russia/); ; [http://www.customs.ru/index2.php?option=com\\_content&view=article&id=20494:-2014-&catid=125:2011-02-04-16-01-54&Itemid=1976](http://www.customs.ru/index2.php?option=com_content&view=article&id=20494:-2014-&catid=125:2011-02-04-16-01-54&Itemid=1976)

"The main indicators of foreign trade of the Republic of Kazakhstan," (Osnovnye pokazateli vneshnej torgovli Respubliki Kazahstan), Committee on Statistics, Kazakhstan. [http://www.stat.gov.kz/faces/publicationsPage/publicationsOper/homeNumbersCrossTrade?\\_afriLoop=6303175828317793#%40%3F\\_afriLoop%3D6303175828317793%26\\_adf.ctrl-state%3Dy3xon4bo7\\_201](http://www.stat.gov.kz/faces/publicationsPage/publicationsOper/homeNumbersCrossTrade?_afriLoop=6303175828317793#%40%3F_afriLoop%3D6303175828317793%26_adf.ctrl-state%3Dy3xon4bo7_201)

Regional Trade Integration and Eurasian Economic Union, chapter 4, p. 76. <http://www.ebrd.com/downloads/research/transition/tr12d.pdf#EABR>; [http://www.eabr.org/general//upload/izdania/Proekti/dokladi/Monitornng\\_PII/MPII\\_Evrazija\\_projekt.pdf](http://www.eabr.org/general//upload/izdania/Proekti/dokladi/Monitornng_PII/MPII_Evrazija_projekt.pdf)

"Russian foreign trade by countries and major groups of countries," The Customs Service of Russia, [http://www.customs.ru/index2.php?option=com\\_content&view=article&id=20494:-2014-&catid=125:2011-02-04-16-01-54&Itemid=1976](http://www.customs.ru/index2.php?option=com_content&view=article&id=20494:-2014-&catid=125:2011-02-04-16-01-54&Itemid=1976)

<sup>78</sup>"Customs Union and cross-border cooperation between Kazakhstan and Russia," (Tamozhennyj sojuz i prigranichnoe sotrudnichestvo Kazahstana i Rossii), Eurasian Development Bank. Center for Integration Studies, St. Petersburg, 2010. [http://www.eabr.org/general//upload/CI%20-%20izdania/Doklad\\_TS\\_RF\\_KR.pdf](http://www.eabr.org/general//upload/CI%20-%20izdania/Doklad_TS_RF_KR.pdf)

Russian foreign policy. In its National Security Strategy of December, 2015, the rhetoric of the Cold War is used, and it is stated that Russia's foreign and domestic policy is "opposed by the US and its allies, who are seeking to maintain their own dominance in world affairs."<sup>79</sup>

Being a partner to the parties involved in the conflict, Kazakhstan could not avoid negative consequences. Due to war sanctions its trade with the West, Ukraine and Turkey suffered because the bulk of Kazakhstan's cargo goes through the territory of the Russian Federation. For instance, at the Russian border freight trucks from Turkey were blocked from transiting through to Kazakhstan.

The pragmatic, de-ideologized and multi-vector foreign policy of Kazakhstan is especially noticeable against the backdrop of the anti-Western rhetoric employed by Russia's political and media establishment. According to Kazakhstan's Minister of Foreign Affairs, Erlan Idrisov, "Kazakhstan adheres to a philosophy of 'great profit' for all, Russia, China, the USA, Europe, India, Iran, Turkey."<sup>80</sup> For instance, in November, 2015, Kazakhstan signed a collaborative agreement with the United States in the "C5+1" format (five Central Asian states and the USA) and an agreement on enhanced partnership with the EU. In February, 2016, in the midst of the Russian-Turkish dispute, the President of Kazakhstan met with the Turkish prime minister, and stressed that "Astana would never stop cooperating with Ankara." Economically, Turkey has been one of Kazakhstan's top ten trading partners, and there are about 1,500 Turkish companies operating on its territory.<sup>81</sup> Turkey and Kazakhstan have enjoyed friendly relations with each other. Turkey, for instance, was the first state to recognize Kazakhstan's independence, and both countries are members of the intergovernmental organization, the "Turkic Council."

### **Eurasian integration: politics or economics?**

There is some dispute between Russia and Kazakhstan regarding the goals of the Eurasian Economic Union. While economic cooperation is the main goal for Kazakhstan in the EAEU, Russia has been more inclined to see the EAEU as a

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<sup>79</sup>"On Russia's National Security Strategy" (O strategii nacional'noj bezopasnosti Rossijskoj Federacii), 31 December 2015. <http://www.garant.ru/hotlaw/federal/688504/>

<sup>80</sup><http://365info.kz/2015/11/stanet-li-kazahstan-posrednikom-mezhdu-evropoj-i-rossiej/>

<sup>81</sup>[http://forbes.kz/process/urbanity/turetskiy\\_marsh\\_1](http://forbes.kz/process/urbanity/turetskiy_marsh_1)

political union pushing the same foreign policy priorities.<sup>82</sup> The politicization of the union is not in Kazakhstan's interests, which are oriented towards pursuing independent politics, especially in its foreign policy. Russia strives towards closer political integration, suggesting, for instance, the creation of supra-national political institutions such as a common Eurasian parliament. However, reality shows that, after several years of attempted integration, the degree of economic integration between Russia and Kazakhstan remains low and is not in Kazakhstan's favor.

## FINDINGS

The asymmetry in the size of the economies of the two countries, with the predominance of Russia, determines the dynamics of bilateral economic ties, but not political ones. There are differences in the perception of Eurasian integration goals and foreign policy orientation.

Against a backdrop of Kazakhstan's open, pragmatic and multi-vector foreign policy, economic cooperation with Russia in mutually beneficial areas such as cross-border infrastructure development, "green technology," and other innovative projects, is of crucial importance. And, some Russian analysts suggest that Kazakhstan is capable of becoming a mediator in Russia's conflict with various countries.<sup>83</sup>

Bilateral relations between Kazakhstan and Russia should be supported by joint participation in multilateral projects with other countries and with international development agencies, such as the UN. It is particularly important to expand horizontal linkages at the non-governmental level that go beyond ethnic ties and Russia's ambiguous policy of so-called support of its compatriots living in 'the near abroad.'

The accumulated potential of long-term cooperation, as one of the tools of so-called "soft power," should be seized and used to protect Kazakhstan's interests. In this regard it is important to continue to pursue a balanced policy in bilateral relations. This should include cooperation on a multilateral basis with other countries and international development agencies.

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<sup>82</sup>For details, see, Nursha, Askar, "Evolution of political thought in Kazakhstan on Eurasian integration "Evrzooptimists" and "Evrzoskeptiks,"" Institute of World Economics and Politics, Astana, Almaty 2014. [http://iwep.kz/files/attachments/article/2014-04-07/doklad\\_-\\_diskussiya\\_dlya\\_daniyara.pdf](http://iwep.kz/files/attachments/article/2014-04-07/doklad_-_diskussiya_dlya_daniyara.pdf)

<sup>83</sup>For an example, see, "Interview of Andrey Kazantsev, Director of the Analytical Center of Moscow State University," <http://365info.kz/2015/11/stanet-li-kazahstan-posrednikom-mezhdu-evropoj-i-rossiej/>



## Chapter IV. Uzbekistan

The common border with Uzbekistan, at 2,330 kilometers, is Kazakhstan's second largest after the border with Russia. Uzbekistan plays special role in Central Asia, with the largest regional population of more than 30 million, and ranks as the most militarily powerful country in the region.<sup>84</sup>

Kazakhstan and Uzbekistan have formalized their relations by entering into bilateral treaties of friendship, and even treaties of “eternal friendship,” in 1997 and 1998.<sup>85</sup> It has become customary in official rhetoric to speak of “friendly and brotherly” relations between the two countries and their respective societies. During the recent visit of Uzbekistan President Islam Karimov\* to Kazakhstan in November, 2014, President of Kazakhstan Nursultan Nazarbayev spoke of the historical and cultural proximity of the two countries. He stressed that “the stability and the progress of Central Asia” depend on relations between Kazakhstan and Uzbekistan, and is of key importance for the region.<sup>86</sup> The Uzbek president responded by underlining Kazakhstan's support for Uzbekistan, calling Kazakhstan “the closet country and a close neighbor which has always been with us in both hard and joyful days.”<sup>87</sup>

### OPPORTUNITIES

#### Economic relations

Neighborly relations, a common history, and economic pragmatism create the basic conditions for cooperation between Kazakhstan and Uzbekistan.

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<sup>84</sup>Global Firepower (GFP), 2016. Of 126 countries rated, Uzbekistan ranks at 48<sup>th</sup>, Kazakhstan at 52<sup>nd</sup>, Turkmenistan at 86<sup>th</sup>, Kyrgyzstan at 110<sup>th</sup>, and Tajikistan at 112<sup>th</sup>. <http://www.globalfirepower.com/countries-listing.asp>

<sup>85</sup>Among these are; “the Treaty of friendship, cooperation and international assistance between Kazakhstan and Uzbekistan,” “the Treaty of eternal friendship between the Republic of Uzbekistan and the Republic of Kazakhstan,” “the Treaty of friendship, cooperation and mutual assistance between the Republic of Kazakhstan and the Kyrgyz Republic,” “the Treaty of friendship, cooperation and partnership between the Russian Federation and Ukraine,” “the Treaty of friendship and cooperation between Russia and Kazakhstan,” “the Treaty of friendship, cooperation and mutual assistance between Tajikistan and Uzbekistan,” “the Treaty of friendship, good-neighborliness and cooperation between the Russian Federation and the Republic of Belarus.”

\*While this paper was being prepared for publication President Karimov fell ill and died on September 2, 2016.

<sup>86</sup><http://newtimes.kz/politika/item/8465-nursultan-nazarbaev-kazakhstan-i-uzbekistan-dolzheny-ukreplyat-druzhbu-rasshiyat-torgovlyu-razvivat-vzaimootnosheniya-po-voprosam-vnutrennej-i-vneshnej-bezopasnosti>

<sup>87</sup>Ibid.

However, the evolution of this cooperation is not quite smooth. Although the two countries signed agreements on bilateral and multilateral economic integration, these agreements have not come into force. These include a treaty on a common economic space between Uzbekistan and Kazakhstan in 1994, to which Kyrgyzstan was added, the Central Asian Economic Community, and the Central Asian Cooperation Organization.

As of the present time, according to statistics, the two neighboring countries have not become priority trading partners for each other. Uzbekistan's share in the foreign trade of Kazakhstan is minimal, accounting for only 1.8%. Although, Kazakhstan's share in its neighbor's foreign trade turnover is significantly higher, at 10.2%.<sup>88</sup>

In their official policy both countries regularly stress the need to deepen their relations with each other. The most recent "Strategy of economic cooperation between Uzbekistan and Kazakhstan for 2007-2016" envisaged mutually beneficial cooperation in such areas as transport, communications, oil, and gas.

Uzbekistan's lucrative consumer market is attractive to Kazakhstani exports, such as oil, flour, and wheat, which form more than half of its exports at 55.6%.<sup>89</sup> Thus, Uzbekistan has become the largest Central Asian trading partner for Kazakhstan. The bulk of total Central Asian regional imports, at 61%, comes to Kazakhstan from Uzbekistan.<sup>90</sup> What's more, Uzbekistan has shown steady economic growth at no less than 8% over the period 2011 to 2014 (the latest available data).<sup>91</sup> Kazakhstan has also been an important market for Uzbekistan as the most accessible and solvent market for such Uzbek products as gas, fertilizers, fruits, and vegetables, which constitute a large portion of total Uzbekistani exports, at 32.8%.<sup>92</sup>

Transit through Kazakhstan's territory is especially important to Uzbekistan as it is a double landlocked country, being surrounded by neighbors which have no

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<sup>88</sup>"The main indicators of foreign trade of Kazakhstan, January-December, 2014." [http://www.stat.gov.kz/faces/wcnav\\_externalId/homeNumbersCrossTrade?\\_afzLoop=155965271719298#%40%3F\\_afzLoop%3D155965271719298%26\\_adf.ctrl-state%3Dgz6c6pbsw\\_34](http://www.stat.gov.kz/faces/wcnav_externalId/homeNumbersCrossTrade?_afzLoop=155965271719298#%40%3F_afzLoop%3D155965271719298%26_adf.ctrl-state%3Dgz6c6pbsw_34);

<sup>89</sup>"The Main indicators of social and economic development of Uzbekistan, January-September, 2012," Stat Committee on statistics of Uzbekistan. <http://old.stat.uz/reports/213>

<sup>90</sup>Presentation on, "Overview of trade relations between the Republic of Kazakhstan and the Republic of Uzbekistan," (Obzor torgovoyh vzaimootnoshenij mezhdur Respublikoj Kazahstan i Respublikoj Uzbekistan), JSC, Center for Trade Policy Development," (Akcionerhoe obshhestvo «Centr razvitiya torgovoj politiki»), Astana, 2013. <http://car-rec.net/userfiles/obzortorgovoyhvzamootnosheniykziuz.pptx>

<sup>91</sup>Yusupov, Yulii, "Central Asian intraregional economic cooperation potential," (Potencial vnutriregional'nogo jekonomicheskogo sotrudnichestva v Central'noj Azii), Report of the international conference, "Central Asia: New Realities, Challenges," Institute of World Economics and Politics (IWEP), 15 September 2015, Almaty.

<sup>92</sup>Kazakhstan, which was already dependent on commodity exports, became more vulnerable when world prices for raw materials fell, and has shown a significant decrease in economic growth, from 7% in 2011 to 3% in 2014. The World Bank. <http://data.worldbank.org/country/uzbekistan>.

<sup>93</sup>Data for 2013. See, Yusupov, Yulii, "Central Asian intraregional economic cooperation potential."

access to the open sea. The railway passage through the Kazakhstan – China border crossing at Dostyk – Alashankou has been especially beneficial to Uzbekistan as it connects the country both with China, whose share in its economy is growing, as well as with Russia and Europe.

### **Kazakh-Uzbek cooperation – a key factor in the Central Asian region**

Central Asia's prospects for long-term growth are dependent on relations between Kazakhstan and Uzbekistan, as these are the two core countries of the region. In many respects, such as economic size, location, population, etc., these two states remain ahead of Central Asia's other states (see graphs 1, 2 and tables 2, 3). Kazakhstan has the highest GDP and an advantageous geographic position as a transport and logistics center in the region. Uzbekistan possesses the most lucrative consumer market and the most stable economic growth among the Central Asian countries.

Kazakhstan's Minister of Foreign Affairs stated, "the concept of a Central Asia which unifies East and West as a center of global trade is not a new one."<sup>93</sup> In particular, he proposed establishing a "Foundation for Economic Development in Central Asia." In turn, Uzbekistan's Foreign Minister emphasized the unique, regional role of the two countries, stating, "Taking into account their own potentials and opportunities, Uzbekistan and Kazakhstan play a significant role in solving many fundamental issues of security, maintaining stability, and enhancing sustainable development in the region."<sup>94</sup> The USA, one of the major geopolitical players in the region, has shown an interest in Central Asian inter-regional cooperation by proposing the multilateral agreement format "C5+1" (the five Central Asia states plus the United States). Apparently, the US aims to strengthen the region's position against the dominant influence of Russia and China.

In media and analytic circles one can encounter the notion of an unspoken rivalry between Kazakhstan and Uzbekistan, and this is believed to be one of reasons preventing closer regional cooperation between the two. However, the President of Kazakhstan denied this, stating that "competition between the two countries is a myth" since there are no disputes between them. Indeed, the idea of rivalry or competition is only speculation, as there is no concrete evidence present.

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<sup>93</sup><http://www.kazpravda.kz/articles/view/bolshaya-vigoda-a-ne-bolshaya-igra-kak-kazakhstan-prokladivaet-svoe-sobstvennii-kurs-v-mire1>

<sup>94</sup><http://www.mfa.uz/ru/cooperation/countries/60/>

## Labor migration

Labor migration is one of the issues which connect Kazakhstan and Uzbekistan. Kazakhstan is the second-largest destination for Uzbek labor migrants, at 12%. Russia is the largest destination for Uzbek migration, at 86%.<sup>95</sup> The outflow of laborers from Uzbekistan reduces demographic pressure, the burden on social services, and unemployment in the country itself. It should be taken into account that Uzbekistan has a quite large youth cohort, in which children and adolescents comprise 30.1% of the population. This will only increase demographic pressure on its labor market in the future.<sup>96</sup> On the other hand, monetary remittances from migrant workers have become a very important source of hard currency in Uzbekistan. A recent World Bank study estimated the number of Uzbek citizens living abroad at about 2 million. This corresponds to an emigration figure of about 7% of its total population.<sup>97</sup> Also, labor migrants from Uzbekistan into Kazakhstan make up for labor shortages in labor-intensive sectors such as construction and agriculture. However, due to a slowdown in economic growth and the sharp devaluation of the Kazakhstan tenge at the end of 2015, Kazakhstan may become a less-attractive destination for Uzbek labor migrants. They may also face increased competition in the local labor market. Most likely this will slow down the rate of Uzbek labor immigration into Kazakhstan, but not too much. This is because wages in Kazakhstan remain higher than in Uzbekistan, and Uzbek labor migrants fill a niche by performing seasonal work which is not particularly popular among Kazakhstanians.

## Security Interests

Both Kazakhstan and Uzbekistan are interested in stability and security in a region in which historical memories are not marred by tragic events and armed conflict. Uzbekistan, which shares a border with unstable Afghanistan, is important to Kazakhstan as a security buffer zone.<sup>98</sup> Countering external threats, originating

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<sup>95</sup>The Skills Road: Skills for Employability in Uzbekistan,” World Bank, 2014. <http://documents.worldbank.org/curated/en/2014/01/20241167/uzbekistan-skills-road-skills-employability-uzbekistan>

<sup>96</sup>Tskhai, L. A., “Demographic processes in Uzbekistan in the long term perspective,” (Demograficheskoe razvitiye Uzbekistana v dolgosrochnoj perspektive), Demoscope Weekly, Numbers 617 - 618, 13 - 16 November 2014. <http://demoscope.ru/weekly/2014/0617/analit04.php>

<sup>97</sup>The mobility of the population of Uzbekistan is more than twice higher than the world average, at 3.2%, although it is much lower than in Europe and Central Asia, at 10.7%. See, “The Skills Road: Skills for Employability in Uzbekistan,” p. 17.

<sup>98</sup>Even if the northern part of Afghanistan is relatively the most peaceful region of the country, it is difficult to speak of its stability due to the absence of functioning state institutions in general.

from south of their borders such as terrorism, extremism, and drug trafficking, is in the interests of both countries, which work together on a bilateral and a multilateral basis.

In principle, the foreign policies of Kazakhstan and Uzbekistan do not oppose each other. Both states are members in a number of multilateral, regional and political organizations, such as the SCO, CICA, Council of the CIS Heads of State, and the Central Asian Regional and Information Coordination Center (CARICC). For instance, Uzbekistan coordinates activities against drug trafficking issuing from Afghanistan, in particular along the “northern route” which passes through the territories of Uzbekistan and Kazakhstan.<sup>99</sup> In 2011, Uzbekistan supported the candidacy of Kazakhstan for OSCE chairmanship.

However, there are some differences in the foreign policy of the two countries in the degree of openness. Uzbekistan clearly distances itself from participation in military-political alliances, for instance, by giving up membership in the Collective Security Treaty Organization (CSTO). Uzbekistan does not share a common border with Russia, the dominant geopolitical power in the territory of the former Soviet Union, and clearly prefers cooperation with neighboring states in a bilateral format. The country’s leadership does not intend to join Eurasian integration for fear of losing its nation’s sovereignty. For Uzbekistan’s President Karimov, such integration is reminiscent of the Soviet past, and he stresses that Uzbekistan, in following its own path, “will not join either the Eurasian Union or the Customs Union.”<sup>100</sup>

Uzbekistan, by distancing itself from post-Soviet integration, which is seen by external observers as mostly Russia’s geopolitical project, distinguishes itself from the rest of the Central Asian states. Uzbekistan is credited as being relatively independent of Russia, as having the largest demographic potential in Central Asia, and as possessing stable economic growth. But, at the same time the country needs substantial market reforms and a more liberal trade regime with its neighbors.<sup>101</sup>

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<sup>99</sup>The profits from drug trafficking for just the year 2010 are estimated at \$1.4 billion. See, “Opiate Flows Through Northern Afghanistan and Central Asia: A Threat Assessment,” UNDC, 2012, Number 106, p. 15. [http://www.unodc.org/documents/data-and-analysis/Studies/Afghanistan\\_northern\\_route\\_2012\\_web.pdf](http://www.unodc.org/documents/data-and-analysis/Studies/Afghanistan_northern_route_2012_web.pdf)

<sup>100</sup>[http://vesti.uz/index.php?option=com\\_content&view=article&id=48326](http://vesti.uz/index.php?option=com_content&view=article&id=48326)

<sup>101</sup>Kuchins, Andrew C., Mankoff, Jeffrey, Kourmanova, Aitolkyn, Backes, Oliver, “Central Asia in a Reconnecting Eurasia: Uzbekistan’s Evolving Foreign Economic and Security Interests,” CSIS.org, 4 June 2015. [http://csis.org/files/publication/150612\\_Kuchins\\_CentralAsiaUzbekistan\\_Web.pdf](http://csis.org/files/publication/150612_Kuchins_CentralAsiaUzbekistan_Web.pdf)

## **The ethnic diaspora factor**

As is the case in many parts of Central Asia in which border areas possess ethnic groups from both sides, the Kazakh-Uzbek border has historically been inhabited by compact Kazakh and Uzbek ethnic groups. There are 899,200 Kazakhs in Uzbekistan, or 3% of the total population, mostly in the environs of Tashkent. Uzbeks in Kazakhstan amount to 3.04% of the total population, and are largely concentrated in the Makhtarl district of southern Kazakhstan.<sup>102</sup> But, there are some differences between the two countries in their approach to their respective diaspora populations.

The gradual decline in the number of Kazakhs living permanently in Uzbekistan over the last decades is closely related to a Kazakhstani resettlement program which brings ethnic Kazakhs into Kazakhstan from abroad. But, for Uzbekistan, the situation is different. The Uzbek diaspora living in Kazakhstan and other neighboring countries is not an issue of Uzbekistan's foreign policy. For instance, during the tragic events of 2010 in Osh, Kyrgyzstan, the local Uzbek population was especially affected by inter-ethnic massacres. Uzbekistan expressed concern over the destabilization near its borders and did not close its border to Uzbek refugees from Osh. But, the authorities in Uzbekistan did not make a statement on the "protection of our Uzbek compatriots" in Kyrgyzstan, nor did they enact a policy of returning ethnic Uzbeks to their "homeland." Such a neutral approach to the Uzbek diaspora living in neighboring countries is largely explained by the fact that the country is experiencing demographic pressure on its highly-overloaded labor market.

In general, however, the issue of ethnic diaspora populations has not become a matter of bilateral relations between Kazakhstan and Uzbekistan, and there are no sound reasons for its politicization, primarily due to the low proportion of Kazakh and Uzbek diaspora groups in each other's nominal homelands.

## **LIMITATIONS**

### **Barriers to bilateral trade**

Trade and economic relations between Kazakhstan and Uzbekistan remain underdeveloped despite the countries' close proximity and the potential benefits

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<sup>102</sup>The population of the Republic of Kazakhstan by selected ethnic groups in early 2014. Kazakhstan Committee on Statistics, Astana, 2014.

of such trade. Although trade turnover between the two has grown in just one year in the period from 2011 to 2012 to 11%, and a Joint Intergovernmental Commission on Bilateral Cooperation has been formed, the two countries have not been priority trading partners for each other (see the above figures). Attempts to achieve closer economic cooperation, including a 2008 agreement on the establishment of a free economic zone, have failed.

The answer to the question as to why this failure occurred lies both in the inefficiency of the two economies, which are dependent on raw material exports to a greater or lesser extent, and in administrative and technical barriers. The latter is primarily due to the protectionist policy of Uzbekistan's foreign trade, which is reflected in the "high-tariff and non-tariff barriers on the import of finished goods, excessive government interference in the economy, discriminatory taxes on imports, restrictions on international payments (currency conversion restrictions), and other administrative barriers." For instance, a tax on imports may be higher than 70%. Among other impediments are an underdeveloped infrastructure in transport and logistics, and a high level of corruption.<sup>103</sup>

Also, the potential benefits of mutual trade are diminished by the commodities export orientations of both countries. Still, Uzbekistan's exports are more diversified. Non-metal and non-mineral products, as well as manufactured products such as cars, electric machinery and equipment, cotton and chemical productions, fertilizers, and food, comprises approximately 30% of Uzbekistan's exports. But, Kazakhstan's exports of similar products, such as food, machinery and equipment, chemical products, etc., is lower, at about 13%.<sup>104</sup>

### Cross-border complications

The common border between Kazakhstan and Uzbekistan is longest interstate border in Central Asia. During the period 1999 to 2003, bilateral agreements on border delimitation and demarcation were signed. However, some sections of the border remained in an uncertain status since they run along such fuzzy geographic

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<sup>103</sup>Khaknazar, Umida, "The Accession of Uzbekistan to the Agreement on the CIS Free Trade Zone: Union without Obligation?" (Prisoedinenie Uzbekistana k Dogovoru o zone svobodnoj trgovli SNG: sojuz bez objazatel'stv?), ICTSD.org, 12 April 2014. <http://www.ictsd.org/bridges-news/присоединение-узбекистана-к-договору-о-зоне-свободной-торговли-снг-союз-без>;

"Overview of trade relations between the Republic of Kazakhstan and the Republic of Uzbekistan," (Obzor torgovyh vzaimootnoshenij mezhdou Respublikoj Kazahstan i Respublikoj Uzbekistan).

<sup>104</sup>Official statistics data of the two countries in 2014. <http://www.mfer.uz/ru/export/statistics/>, <http://kazdata.kz/04/2014-12-export-import-kazahstan.html>

lines such as rivers, or through the center of a residential area.<sup>105</sup> This uncertainty sometimes leads to incidents of «illegal» border crossings by local residents. In order to resolve such border issues, the two countries have worked together at a high official level, for instance creating an intergovernmental demarcation commission.

It should be noted that, in general, disputes over borders between the Central Asian states are not a rare phenomenon. The most contentious border disputes, complicated by overlapping ethnic groups, occurred on the Uzbek-Kyrgyz, Uzbek-Tajik and Kyrgyz-Tajik borders.<sup>106</sup> For instance, Uzbekistan planted mines along some segments of its borders as a measure to prevent a repetition of past incidents in which armed groups attempted to enter its territory.

## The trans-boundary water issue

The use of trans-boundary water has been a problem area in Kazakh-Uzbek relations. Kazakhstan receives 14.6 cubic kilometers of water from the Syr Darya river flowing from Uzbekistan. The only other source of fresh water coming from outside Kazakhstan comes from China.

With the collapse of the Soviet Union, the water supply regulation system, which took into account the interests of all the Central Asia republics, was destroyed. As a result, Kazakhstan began receiving less water from the Syr Darya river for agricultural use. According to the estimates of Kazakhstani specialists, Uzbekistan no longer acknowledges Kazakhstan's interests and increased water intake. This has had a negative impact on ecology and agriculture in southern Kazakhstan.<sup>107</sup> The shrinking Aral Sea has become one of the worst inter-state consequences of this.

Water contamination is also an urgent issue, as water from the Syr Darya river on Kazakhstan's territory has become unsuitable "for agriculture as well as for the fishing industry."<sup>108</sup> Since this river also flows through the territories of Tajikistan

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<sup>105</sup>Uncertainty in this matter led to a curious incident. For instance, after the demarcation of the border, the Bagys village was divided between the two countries. To draw attention to their complicated situation in a fit of despair, the village residents declared themselves «an independent state» in 2002. [www.nomad.su/?a=12-200201080100](http://www.nomad.su/?a=12-200201080100)

<sup>106</sup>For details see, Central Asia: Border Disputes and Conflict Potential," International Crisis Group, 4 April 2002. [http://www.crisisgroup.org/~media/Files/asia/central-asia/Central%20Asia%20Border%20Disputes%20and%20Conflict%20Potential.pdf](http://www.crisisgroup.org/~/media/Files/asia/central-asia/Central%20Asia%20Border%20Disputes%20and%20Conflict%20Potential.pdf)

<sup>107</sup>Nysanbek, U.M., "Water Security of the Republic of Kazakhstan: regional and national environmental issues," (Bezopasnost' vodnyh resursov Respubliki Kazahstan: regional'nye i nacional'nye jekologicheskie problem), ANALYTIK. Number 1, 2005.

<sup>108</sup>An analysis of the Syr Darya water in Kazakhstan has shown a high degree of contamination by pesticides and heavy metals. See, <http://kazvesti.kz/mir/1034-vodu-v-reke-syrdarya-priznali-negodnoy-dazhe-dlya-poliva.html>



and Kyrgyzstan, a solution to this problem demands the coordinated effort of all four countries which share the river's resources. However, they have still not signed an intergovernmental protocol on the use of water and energy resources from the Naryn / Syr Darya Cascade Reservoir.<sup>109</sup>

But, at the same time, Kazakhstan and Uzbekistan do agree on some issues. In particular, as downstream countries they oppose the construction of hydropower plants in the upstream countries of Tajikistan and Kyrgyzstan. Uzbekistan is in an especially vulnerable position in this regard since the bulk of water for its extensive agricultural sector is taken from the upstream states.

## FINDINGS

Uzbekistan is important for Kazakhstan as a lucrative market for its grain and flour exports. In turn, Uzbek agricultural products have already occupied a niche in the Kazakhstani consumer market. The mutual benefits of bilateral cooperation between Kazakhstan and Uzbekistan are evident in the transport and communication sectors. There is a need to reach an agreement on the reform of customs and border policies in order to facilitate bilateral trade in goods and services. It is obvious that the economic benefits arising from the close proximity of the two countries remain largely unused due to different economic policies.

The weak economic effect of Eurasian integration, the strengthening role of China, and the inability of the Central Asian states to attain sustainable development separately, all fuel the idea that closer regional cooperation between them is necessary. The interaction of Kazakhstan and Uzbekistan, as the two most powerful countries in Central Asia with a combined population of about 50 million people, may, in the future, form the basis for a regional common market. Proponents of this idea reference a number of potential advantages should it be implemented. In particular, the elimination of tariffs and other barriers will lead to stronger and healthier competition, the inter-regional division of labor and cooperation, more efficient local manufacturing, the formation of a large and lucrative market, and the attraction of foreign investors.<sup>110</sup> Common

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<sup>109</sup>“Water security - is necessary for the world and is necessary for progress,” (Vodnaja bezopasnost' – neobhodimo dlja mira, neobhodimo dlja progressa), UNSC Kazakhstan, October 2014. <http://www.kazakhstanunsc.com/ru/wp-content/uploads/sites/4/2014/10/UNSC-Occasional-Paper-Water-Security-Paper-RU.pdf>.

<sup>110</sup>Yusupov, Yulii, “Central Asian intraregional economic cooperation potential.”

borders and the elimination of obstacles to such cooperation are in themselves important prerequisites.

However, unfortunately, for more than two decades, the assurances of “eternal friendship and brotherhood” have not been backed up by any real partnership. This is made manifest by the fact that effective mechanisms for mutual trade, cross-border cooperation, etc., are still lacking. Mutually beneficial cooperation will enhance the sovereign status of Kazakhstan and Uzbekistan at both the regional and international levels.

## Chapter V. Kyrgyzstan

Kazakhstan and Kyrgyzstan share a common border, the 1,212 kilometer length of which has been demarcated. There are no territorial claims between the two countries. And, their relations are not marred by any serious or unresolved, long-standing issues. There are no differences in their respective foreign policies, and both countries are members in the same multilateral, political and economic organizations, such as the CSTO, SCO, CICA, EAEU and the CIS Council of Heads of State.

Of all of Kazakhstan's neighbors, Kyrgyzstan has the smallest economy and is the poorest country by per capita income. Kyrgyzstan also scores low in world rankings on economic indicators (see Table 1). Kazakhstan also leads Kyrgyzstan in social development. According to the global Human Development Index (HDI), Kazakhstan scores at 70<sup>th</sup>, while Kyrgyzstan scores at 125<sup>th</sup>.<sup>111</sup> The poverty rate in Kyrgyzstan, at 70%, is several times higher than in Kazakhstan, at 30%.<sup>112</sup>

It is perceived that Kazakh-Kyrgyz relations are the closest ones in Central Asia, especially as regards socio-cultural ties. This is rooted in history, especially the Soviet period. One reason for this is the geographic proximity of their largest urban centers, Almaty and Bishkek. These metropolises are located little more than 250 kilometers from each other, accounting for the intensive mutual contact between the two countries.

In surveys, the majority of the populace of both Kazakhstan and Kyrgyzstan place each other among the top three of the most-preferred foreign partners. Respondents from Kazakhstan put Kyrgyzstan in third place after Russia and Belarus, whereas respondents from Kyrgyzstan put Kazakhstan in second place after Russia.<sup>113</sup>

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<sup>111</sup>“Global Competitiveness Report 2014–2015.” [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

<sup>112</sup>This is relative to the “PPP” (purchasing power parity) at a \$4.30 day threshold. “Poverty, inequality and vulnerability in transition and developing economies of Europe and Central Asia,” UNDP Regional Bureau for Europe and the CIS and UNDP Bureau for Policy and Program support, October 2014 p. 53.

<sup>113</sup>“Integration barometer,” EABD, 2015, p. 147.

## OPPORTUNITIES

### Trade

There are several prerequisites for mutually beneficial cooperation between Kazakhstan and Kyrgyzstan. Kazakhstan ranks third among Kyrgyzstan's trade partners at 9.8%, after China at 49.5%, and after Russia at 16.9%.<sup>114</sup>

But, first and foremost, Kazakhstan is an important neighbor for Kyrgyzstan as one of the leading importers of its products, accounting for 28.5% after Uzbekistan. Of the total volume of all Kyrgyz exports, the majority goes to Kazakhstan, with dairy products accounting for 99%, live animals accounting for 74%, and garments accounting for 98%.<sup>115</sup>

Among all of Kazakhstan's Central Asian neighbors, Kyrgyzstan's trade balance is especially vulnerable because the value of its imports, at over €7 billion, far exceeds its exports, at €827 million. This is well illustrated in Kyrgyzstan's balance of trade with its main partners, especially with China. In 2014, China secured a leading position mainly because of a sharp, negative trade balance between the two countries.<sup>116</sup>

Kazakhstan plays a key role as a transit country for Kyrgyzstan in its growing ties with Russia. Kyrgyzstan is one of the main recipients of transit cargo coming through Kazakhstan's territory, at 19%.<sup>117</sup> But, Kyrgyzstan's share in trade turnover with Kazakhstan is much smaller, at only 0.9%. In many respects this is due to Kyrgyzstan's small market in comparison with the larger Kazakh economy (see graph 1).<sup>118</sup> The Kyrgyzstan economy has a demand for such Kazakhstani commodities as petroleum products at 33%, grain seeds at 13%, and ferrous metals at 6%.<sup>119</sup>

A rise in mutual trade between Kazakhstan and Kyrgyzstan was expected in June, 2015, when Kyrgyzstan joined the Eurasian Economic Union (EAEU) with the subsequent abolition of customs barriers along their common border. But,

<sup>114</sup>“EU Commission data for 2014.” [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113409.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113409.pdf)

<sup>115</sup>Data for the first 8 months of 2015. “From the speech of the Prime minister of Kyrgyzstan R. Sariev,” Sputnik Kyrgyzstan. <http://ru.sputnik.kg/economy/20150302/1014532223.html#ixzz3gQUfc1ZW>

<sup>116</sup>EU Commission data for 2014.” [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113409.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113409.pdf)

<sup>117</sup>Connecting to Compete 2014: Trade Logistics in the Global Economy, 2014. p. 9. <http://www.worldbank.org/content/dam/Worldbank/document/Trade/LPI2014.pdf>

<sup>118</sup>But according to some Kyrgyz experts, such as Kubat Rakhimov, in reality, these volumes are higher in as much as part of the cargo from Kyrgyzstan crosses the border illegally and thus is not reflected in official statistics.

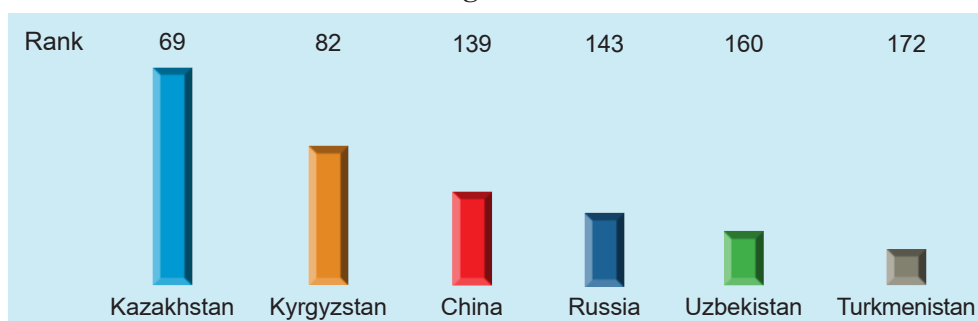
<sup>119</sup>“Data from the National Committee on Statistics of the Kyrgyz Republic for the first eight months of 2015.” <http://www.easttime.ru/news/kyrgyzstan/statistika-vneshnei-torgovli-kyrgyzstana-v-nyneshnem-godu/9653>

2015 figures instead showed that the volume of trade had decreased. Also, trade between Kyrgyzstan and its leading partners, China and Russia, had decreased. There are several reasons for this. One is that Kyrgyzstan could no longer rely on revenue from the re-export of Chinese goods. Another is that Kyrgyzstan's major trading partners faced reduced economic growth. According to Kyrgyzstan's Customs Service, in 2015 Kyrgyzstan's foreign trade fell by almost two times, particularly with Kazakhstan.<sup>120</sup>

However, at the same time, the small scale of mutual trade between the two countries is compensated by the relative ease of doing it because, unlike other countries in the region, they have adopted similar liberal economic policies. According to the global Index of Economic Freedom's 2015 listing of 178 countries, Kyrgyzstan ranked at 82nd place, the closest to Kazakhstan's 69th place compared to its other neighbors in the region (see graph 4). Moreover, there is the potential for deeper cooperation in such sectors as agriculture, services and especially the resort and tourism industry.

*Graph 4*

**Countries' ranking in the Index of Economic Freedom, 2015**



Source: *Index of Economic Freedom-2015* <http://www.heritage.org/index/ranking>

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<sup>120</sup>According to Zhamanak Nusurkanov of the State Custom Service of Kyrgyzstan. <http://rus.azattyk.org/content/article/27473262.html>

## Investments

Among Kazakhstan's closest neighbors, Kyrgyzstan remains one of the most affordable places for Kazakh investments. Therefore, it is not surprising that Kazakhstan's share of all foreign investments in Kyrgyzstan in recent years was the largest, at 22.5%.<sup>121</sup> The most attractive areas for investment are tourism and agriculture.

Tourism, especially, has the potential for growth. On the one hand, Kyrgyzstan has long-established itself as an attractive tourist destination for Kazakhstan's middle class. On the other, it could become yet more appealing as a budget tourist destination given the sharp devaluation of the Kazakh tenge, which has made vacationing abroad unaffordable. The share of tourism in Kyrgyzstan's GDP is gradually growing, and reached 4.8% in 2014.<sup>122</sup>

Kazakhstan has also become a major buyer of its neighbor's agricultural products. While Kyrgyzstan's membership in the Eurasian Economic Union increased its political and economic ties with Russia (for instance, there is a Russian air base near the Kyrgyz town Kant), Kazakhstan provides a competitive advantage to Kyrgyzstan economically.

## LIMITATIONS

### The internal situation in Kyrgyzstan

Kyrgyzstan experienced two unconstitutional changes in government, which were accompanied by violence, in 2005 and 2010. It also went through a conflict with a major foreign investor, the gold-mining company Kumtor, in several attempts to disrupt its operation, which were accompanied by protests and violence. And, there has been a surge of criminality in the country. The weakness of the central government in the face of strong regional elites divided into the north and south of the country has been a feature of Kyrgyz statehood.

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<sup>121</sup>For the years 2006–2012. See, Sarabekov Zh., “Kyrgyzstan’s Eurasian Choice: and a Challenge for Kazakhstan and Russia,” (*Evrasijskij vybor Kyrgyzstana: vyzov dlja Kazahstana i Rossii*), Working Paper - Institute of World Economics and Politics (IWEP), August, 2015, p. 28.

<sup>122</sup>“Tourism in Kyrgyzstan 2010-2014,” (*Tourism v Kyrgyzstane*), Statistical Yearbook, National Committee on Statistics of the Kyrgyz Republic, Bishkek, 2015. <http://www.stat.kg/media/publicationarchive/7de1e895-4804-4cd6-96a0-ab1361f0f69b.pdf>

*The Western presence in Kyrgyzstan's is gradually shrinking due to that state's fall into the orbit of Russia, which is strengthening its influence there. Kyrgyzstan's membership in the World Trade Organization, one of the first in Central Asia, eventually helped to increase China's influence in the country. In the beginning, the admission of Kyrgyzstan to the WTO was a rather symbolic step for Western support of the "island of democracy" in the region. The subsequent period has shown that the decision was more politically than economically motivated.*

This, unfortunately, has made for negative publicity, and Kyrgyzstan is seen as an unstable country which is unreliable socially and politically. Consequently, Kazakhstan – Kyrgyzstan relations have been negatively affected. In particular, Kyrgyzstan tried to dispute previously-signed agreements on Kazakhstan's ownership of some resorts at a popular tourist destination, lake Issyk-Kul. Also, in April, 2010, Kazakhstan was forced to close the border with Kyrgyzstan because of fears of a flood of refugees and criminals after Kyrgyzstan President Bakiyev's overthrow, and the consequent temporary power vacuum in the country.

Although, in the last three years, the political situation has returned to normal, an internal assessment of domestic affairs can still be quite pessimistic. For instance, "...Kyrgyzstan is shaken by demonstrations, and major investment projects are accompanied by scandals. Against this backdrop there is still no rule of law."<sup>123</sup> Such negativity is explained by the fact that the transition to "normal development" after several years of political turmoil is accompanied by increased expectations.

## **Drug trafficking**

Kyrgyzstan, as well as Uzbekistan, have been used as a transit territory for the flow of narcotics from Afghanistan into Kazakhstan, and then further on into Russia. One side effect of the easing of border crossings between members of

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<sup>123</sup>Ponomarev, Sergey, president of the Association of Trade and Services Enterprises of Kyrgyzstan, at the investment forum in Bishkek, February 16, 2016. <http://regnum.ru/news/economy/2079788.html>

the EAEU is that it could potentially lead to the growth of drug trafficking. In turn, this may aggravate organized crime in Kazakhstan along with the associated negative consequences.

## Labor migration

Kazakhstan, after Russia, has become the second top destination of labor migrants from Kyrgyzstan. The total number of Kyrgyz labor migrants, according to various estimates, is more than one million. By way of comparison, the total population of Kyrgyzstan is 5.3 million. More than half of Kyrgyzstan's labor migrants work in the Russian Federation, while the rest work in Kazakhstan. Migrant remittances constitute an important source of national income for the Kyrgyz Republic, at about 32% of its GDP. At one time, Kyrgyzstan ranked as the world's third top recipient of migrant money inflows, after Tajikistan and Liberia. Kyrgyz labor migrants in Kazakhstan are mainly employed in trade, at 41%, and agriculture, at 5%.<sup>124</sup>

There are some issues regarding the labor migration into Kazakhstan which concern Kyrgyzstan migrants, as well. Labor migration remains unregulated, and therefore can lead to negative consequences such as illegal migration, the legal defenselessness of migrants, the slave trade and, in general, the criminalization of the issue. This situation is complicated by the fact that there is no agreement at the intergovernmental level.

The current economic crisis in Kazakhstan could potentially lead to increased unemployment and more competition on the local job market. This, in turn, could curb labor migration into Kazakhstan and force some migrants to return home. Due to Kyrgyzstan's already tight labor market, the social situation there may deteriorate, leading to a corresponding negative impact on political stability.

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<sup>124</sup>"The consequences for labor market and human capital of Kyrgyzstan as a result of joining the Customs Union and Common Economic Union," (Posledstviya vstupleniya Kyrgyzstana v Tamozhennyj sojuz i EEP dlja rynka truda i chelovecheskogo kapitala Kyrgyzstana)," The Eurasian Bank of Development, St. Petersburg, 2013, p. 12.

"Analytical Report Remittances of the labor migrants from Kyrgyzstan and their impact on the socioeconomic situation in the country," ICCO Cooperation Central Asia, Bishkek, May, 2014. <http://www.icco-international.com/int/linkservid/5994FA1C-B561-12BF-9E5537DCE46B4883/showMeta/0/>



## **Kyrgyzstan's tensions with its neighbors**

Kyrgyzstan has uneasy relations with some of its neighbors, particularly with Uzbekistan and Tajikistan, due to territorial disputes. These countries have not fully resolved some border issues. The inter-ethnic mix which exists in contested border areas complicates territorial claims, and these can lead to incidents of inter-ethnic conflict. Sometimes these conflicts are criminalized, accompanied by violence, and are spontaneously resolved. But, if these conflicts repeat under unfavorable circumstances, their evolution into interstate conflicts cannot be ruled out.

The distribution of trans-boundary water resources is another source of tension between Kyrgyzstan, the upstream country, and Uzbekistan, the downstream country. These two countries have been unable to agree on equitable water distribution. Kyrgyzstan is interested in using water for hydropower, but Uzbekistan needs it for agricultural purposes. The two countries have not coordinated their efforts to resolve the conflict thus far.

One can grasp how acute the issue of water supply is for the Kyrgyz Republic, taking into account that, on the one hand, it has a very weak economy and, on the other, it could greatly benefit from the sale of hydropower to markets with a growing demand for it, such as Afghanistan and Pakistan.

## **FINDINGS**

Among Kazakhstan's neighbors, Kyrgyzstan possess the weakest economy and the smallest share in trade turnover with the former. Given the complicated, post-Soviet political dynamics of its neighbor, Kazakhstan, of course, has a vested interest in a politically stable and prosperous Kyrgyzstan. Stronger economic cooperation between the two countries is seen as an important step in achieving this goal. In particular, Kazakhstan's investments into Kyrgyzstan's tourist and agricultural sectors look promising. The favorable prerequisites are already in place, including, first of all, the mobility of capital, people and services between the two main economic drivers of the two countries – Almaty and Bishkek. Kyrgyzstan's resort infrastructure will undoubtedly continue to be attractive and accessible to Kazakhstan's, especially in light of the devalued Kazakh tenge. The guarantee of investments and ownership rights of Kazakhstani companies in Kyrgyzstan should become a focal point of intergovernmental agreements.

## Chapter VI. Turkmenistan

Of all of Kazakhstan's common borders with its neighbors, the border with Turkmenistan, including the water boundary on the Caspian Sea, is the shortest, and is almost completely demarcated.

Kazakhstan's and Turkmenistan's economic and political ties have been of limited scale. For instance, Turkmenistan's share in Kazakhstan's trade turnover is only 0.4%. Kazakhstan's share in Turkmenistan's foreign trade is slightly higher, at 1.6%. Such a low degree of cooperation between the two countries is primarily due to the similarity of their exports, which are dominated by commodities, such as natural energy resources (oil and gas). It is no surprise that Turkmenistan's main trading partners are China, at 43.7%, Turkey, at 13.6%, and the EU, at 11.6%, in as much as they are among the biggest importers of energy resources. Turkmenistan predominantly exports natural gas, and the bulk of that goes to China, at 69.7% in 2015. Although, this is slightly less than a year ago, when it was 78%.

### OPPORTUNITIES

*Having Turkmenistan as a neighbor opens up an entire range of opportunities for Kazakhstan to enter Middle Eastern markets, such as Iran, the Gulf States and Turkey, and to make for additional transport connectivity into Europe.*

### Transport, transit and access to Iran

Traditionally, Kazakhstan has been important to Turkmenistan as a transit territory. Turkmenistan accounts for 8% of total transit cargo.<sup>125</sup> However, with the removal of anti-Iranian Western sanctions in January, 2016 and the gradual return of Iran's regional power status, a new window of opportunities has opened

<sup>125</sup>“Connecting to Compete 2014: Trade Logistics in the Global Economy, 2014,” p. 9. <http://www.worldbank.org/content/dam/Worldbank/document/Trade/LPI2014.pdf>

for Kazakhstan and Turkmenistan in cooperation with Iran. In particular, there is the potential for establishing transport corridors as well as entry into new and promising markets in the Gulf region and the “Greater” Middle East.

On the eve of Kazakhstan President Nazarbayev’s visit to Iran in May, 2016, Kazakhstan organized a business forum in Tehran in which agreements on investment and trade cooperation between the two countries were reached. This included investments in Iranian ports, the creation of joint ventures and the export of various products from Kazakhstan to Iran, such as locomotives, transformers, building materials, meat, grain, etc.<sup>126</sup>

In light of all this, it is hard to overestimate the importance of the Kazakhstan – Turkmenistan – Iran railway line commissioned in 2014. Being the shortest land route to Iran, which borders with 15 countries, it has far-reaching significance for Kazakhstan. Both the foreign trade and transit potential of Kazakhstan could be extended and a “range of possibilities for its multi-vector orientation” could be opened up.<sup>127</sup>

Kazakhstan’s bilateral relations with Iran could be taken to a new level, while Kazakhstan itself is becoming a key transit link in new international transport connectivity between China, Iran and Europe. In February, 2016, the first test container was sent by train from China’s eastern province to Tehran via Kazakhstan. In February, 2016, the first test container train was sent from China’s eastern province to Tehran via Kazakhstan. Rail transport despite its limitations such as higher transportation costs and lower freight volumes is twice as fast as maritime shipping through Iran’s Bandar Abbas sea port. Such an alternate overland route can help Kazakhstan and Turkmenistan overcome their “continental trap.”

Kazakhstan’s and Turkmenistan’s relationship has a wider international dimension and enters into international transit and transportation links, and thus exceeds just a bilateral context. The two countries share similar national priorities, namely the development of transportation infrastructure. The “National Program for Turkmenistan’s Economic Development, 2011 to 2030” aims to develop infrastructure both within its own territory as well as jointly with its neighbors.

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<sup>126</sup><http://www.kazpravda.kz/fresh/view/budut-vzaimnie-investitsii>

<sup>127</sup>Paolo Sorbello, Chief Editor of “EnergyBrains.org,” and expert on European and Post-Soviet energy. See, Sorbello, Paolo, “Persian Gulf. The railway Kazakhstan - Turkmenistan – Iran: are there any prospects?” (Persidskij nedoliv. Est li perspektivy u zheleznoj dorogi Kazahstan – Turkmenistan – Iran?). [http://www.kursiv.kz/news/industry-issues/persidskiy\\_nedoliv\\_kakovy\\_perspektivy\\_zheleznoy\\_dorogi\\_kazahstan\\_turkmenistan\\_iran\\_812/](http://www.kursiv.kz/news/industry-issues/persidskiy_nedoliv_kakovy_perspektivy_zheleznoy_dorogi_kazahstan_turkmenistan_iran_812/); Iran is also benefiting from this route, according to RAI (Railroad Company of Iran) managing director Abdolali Saheb-Mohammadi, who states, “when the Eastern Railway Corridor is fully operational, Iran could earn \$285 million annually via rail transit fees, creating 7,300 jobs.” See, <http://www.silkroadreporters.com/2014/11/18/central-asia-gets-first-access-sea/#sthash.x7jzdfu1.dpuf>

Kazakhstan, Turkmenistan and Iran have already agreed on the joint construction of relevant infrastructure along an established railway corridor, including trade and freight terminals.<sup>128</sup>

The opening-up of Iran will boost Kazakh-Turkmen cooperation in the Caspian Sea between the ports of Turkmenbashi and Aktau. Kazakhstan is already actively investing in its port infrastructure and is building another port, that of Kuryk. The two countries are also involved in multilateral infrastructure projects in the energy sector. One example of this is the gas pipeline built between Turkmenistan, Uzbekistan, Kazakhstan and China in 2009.

## Foreign policy

Turkmenistan's policy of "permanent neutrality" does not make for closer political relations with its neighbors, although the necessity of economic cooperation mitigates this policy in a positive way. At the beginning of 2016, Turkmenistan officially expanded its presence in Kazakhstan by opening a consulate in Mangistau oblast', Kazakhstan, which borders with the Balkan Velayat region of Turkmenistan. The two countries interact in several regional organizations, such as the Council of the CIS Heads of State, the Central Asian Regional Information and Coordination Center (CARICC) and the CICA. Turkmenistan is also an observer within the Shanghai Cooperation Organization (SCO).

Despite all of the differences between Kazakhstan's and Turkmenistan's foreign policies, both seek to diversify their external relations and pursue a multi-vector orientation. China has been a priority trade partner for Turkmenistan since 2012 as the largest importer of its main export commodity, natural gas. However, Turkmenistan's authorities opened their markets to other countries even though they are China's competitors. For instance, during the visit of Japan's Prime Minister to Turkmenistan in 2015, the two countries signed an agreement on cooperation in the energy sector worth \$18 billion. By way of comparison, economic cooperation between Turkmenistan and China was only \$10 billion in 2013.<sup>129</sup>

Kazakhstan and Turkmenistan have no contentious issues, such as territorial claims, in their relations. Also, the two countries are not involved in any conflicts with their neighbors.

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<sup>128</sup><http://www.easttime.ru/news/turkmenistan/turkmenistan-i-yaponiya-dogovorilis-na-18-milliardov-dollarov/9749>  
<http://www.chrono-tm.org/en/2014/05/turkmenistan-china-sign-series-of-bilateral-intergovernmental-documents/>

<sup>129</sup>Ibid.

The results of opinion polls conducted in the CIS countries are quite revealing in this regard. They showed that Kazakhstan's and Turkmenistan's respondents had the lowest anxiety levels in their perception of the outside world. These two countries had the highest portion of those who believe that "there are no countries unfriendly to them."<sup>130</sup> Thus, it is no coincidence that, in many respects, Kazakhstan's relationship with Turkmenistan has a minimum of constraints in comparison with that of its other neighbors.

## LIMITATIONS

### **Turkmenistan's isolation**

Turkmenistan's policy of "permanent neutrality" cannot but limit its potential for bilateral cooperation with Kazakhstan, to some degree. Turkmenistan's peculiar characteristics, such as its protectionist policies, its visa regime and other points, restrict opportunities for a deeper cooperation between it and Kazakhstan in various spheres.

It should be mentioned that the populations of both Kazakhstan and Turkmenistan show a low level of mutual interest in each other. According to opinion polls, Turkmenistan respondents did not rank Kazakhstan as one of the top three countries friendliest to their homeland. Instead, their list of preferences began with Russia, Belarus and Ukraine. Kazakhstan's respondents gave a similar answer, naming Russia, Belarus and Kyrgyzstan as the top three countries friendliest to them.<sup>131</sup>

## FINDINGS

Among all of Kazakhstan's neighbors, relations with Turkmenistan are the most minimal. However, they are, nevertheless, of strategic importance. First of all, the removal of Western sanctions against Iran has opened up a new, geo-economic reality in which Turkmenistan has become an important element in the diversification of Kazakhstan's transport connectivity, particularly towards the

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<sup>130</sup> "Integration barometer," EABD, 2014, p. 28. [http://www.eabr.org/general//upload/CII%20-%20izdania/2014/Barometr-2014/EDB\\_Centre\\_Report\\_25\\_Analytical\\_Summary\\_Rus.pdf](http://www.eabr.org/general//upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analytical_Summary_Rus.pdf)

<sup>131</sup> Ibid.

southwest. Accordingly, the attractiveness of Kazakhstan as a central link in the transit-transport chain between China and Europe has increased. Also, the opening of Iran through Turkmenistan's territory creates opportunities for the entry of Kazakhstan's capital into new markets. New economic realities may become an impetus for the development of new bilateral ties, moving them to an international level. It is obvious that, in this new context, relations with Turkmenistan are only just beginning, and have significant prospects for the foreign economic strategy of Kazakhstan.

## Chapter VII. Beyond physical borders: the international context

In an interconnected world of new technologies, such as in communications, the military, satellites, drones, electronic commerce and so on, the political borders between states are becoming more porous and more easily traversed.

### **The “Collective West” – the US and its allies**

This section covers the impact of those countries with which Kazakhstan has no common border, and from which it is separated by great distances. In particular this is the United States and its allies, especially the European Union, which are the world’s leading economic, political and military actors, the interests of which extend far beyond their territories.

Economically, the US remains the strongest country in the world, with a GDP of \$17.4 trillion, and is the largest contributor to the world economy, at 23.4%. By way of comparison, the EU’s share is at 17%. China’s GDP is \$10.3 trillion dollars, and its contribution to global GDP is 14.5%. Russia’s share is only 1.5%.<sup>132</sup>

For continental, land-locked Kazakhstan, which shares a border with two regional, global powers such as Russia and China, its relations (political, economic and cultural) with the so-called “collective West” are of particular importance. Such relations allow Kazakhstan, on the one hand, to balance the political influence of neighboring Russia and China and, on the other, to diversity its economic ties.

### **The United States**

The United States is not a particularly important trading partner for Kazakhstan economically. In trade turnover the share of the US is minimal, at only 2.0%, although this is twice more than the volume of Kazakhstan-Kyrgyzstan trade.

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<sup>132</sup>IMF. <http://www.imf.org/external/datamapper/index.php>

Nevertheless, the US presence in concentrated in Kazakhstan's key oil and gas sector, in which Chevron Company is the largest private oil producer. It owns a total of about 60% of most of the country's major oil fields, including Tengiz and Karachaganak, as well as the majority share in the Caspian Pipeline Consortium (CPC).<sup>133</sup> The US has also become the third largest exporter of goods into Kazakhstan, after China and Germany.

The US role in Kazakhstan, and in Central Asia as a whole, appears more prominent in terms of its geopolitical interests. In particular, US policy seeks to prevent the transformation of the region into "a physical threat to the security of the United States"<sup>134</sup> and into a zone under the exclusive influence of other countries, in particular Russia and China. Restraining the latter is a real concern of the US, despite the fact that the US has distanced itself from a more active role in Central Asia after Afghanistan post-2014. Referencing both economics and security cooperation in the region, the US makes an unequivocal stance on countries' rights "to be free of external pressure and intimidation."<sup>135</sup>

The main strategy in achieving this goal is a geo-economic one, which aims to increase the sovereignty of the Central Asian region by reducing its dependence on Russia's influence and the growing role of China. In particular, the US offers to extend access to new markets to the south and to deepen Central Asian cooperation. An example of the former is the strengthening of transport connectivity through a network of alternative transport corridors, such as the New Silk Road (NSR), the Turkmenistan – Afghanistan – Pakistan – India (TAPI) gas pipeline, and the Trans-Caspian International Transport Route (TCITR).

In order to facilitate in-depth cooperation between the countries of the region, as well as with the US itself, a new multilateral format, "Central Asia + the United States" (C5+1) was discussed during a meeting of John Kerry with the foreign ministers of the five, post-Soviet, Central Asian countries in New York City and in Samarkand in the autumn of 2015. The Secretary of State's visit to the five Central Asian countries was, in itself, rather symbolic. It seems that it is in the interests of the US to deal with the region as a collective subject on a multilateral basis in addition to bilateral regions with individual states.

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<sup>133</sup><http://www.chevron.com/documents/pdf/kazakhstanfactsheet.pdf>.

<sup>134</sup>Gabuev, Alexander, "Geo-Economics of Eurasia: A View from the United States," Report on the "Geo-Economics of Eurasia", Astana Club, Astana, November, 2015, p. 56.

Rumer, Eugene, Sokolsky, Richard and Stronski, Paul, "U.S. Policy Toward Central Asia 3.0," Carnegie Endowment for International Peace, January, 2016, p. 35. <http://carnegieendowment.org/2016/01/25/u.s.-policy-toward-central-asia-3.0/it2s>

<sup>135</sup>Kerry, John, "Remarks at the Opening of the C5+1 Ministerial Meeting." <http://www.state.gov/secretary/remarks/2015/11/249046.htm>



In order to support the diversification of the regional economy, the facilitation of trade between states and investment ties, the US put forward a new aid package to the region, consisting of eight programs under the “New U.S. Assistance Program in Central Asia.” Among these are programs for agriculture, logistics, education and improvements in regional trade cooperation.<sup>136</sup>

A distinct feature of the West’s policy towards Kazakhstan is that the latter is considered in a broader Eurasian, or especially Central Asian, context. However, the US is distancing itself from the region due to the decreased importance of Afghanistan for the US foreign policy agenda. The West’s attention, in general, is shifting toward other parts of the world and to other crises in strategically important regions, such as the Greater Middle East and Asia-Pacific. Central Asia can “no longer make for any kind of particular opportunities for the advancement of American interests.”<sup>137</sup>

Kazakhstan is the only Central Asian country to which the US must orient its strategy, in the opinion of American experts. This is explained by the fact that as the largest economy in Central Asia, it offers the best possibilities to the US. For the US, aid to Kazakhstan in its progress towards “a more modern, transparent and diversified economy” would be an advantageous investment.<sup>138</sup>

## The European Union

Economically, the EU is of great importance to Kazakhstan. About half of Kazakhstan’s trade turnover, at 41.3%<sup>139</sup>, is with EU countries. Besides, Kazakhstan is the union’s main trade partner in the Central Asian region.

However, it does not appear that the EU is seeking to play a key geopolitical role in Central Asia. As European analysts point out, the EU does not possess sufficient resources for that role as primarily it “is preoccupied by its own economic, political and institutional crisis, which will not be solved in the foreseeable future.”<sup>140</sup> However, relations between the European Union and Central Asia, and in particular Kazakhstan, will remain, if not a decisive factor, at least an important factor in regional influence.

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<sup>136</sup>“New U.S. Assistance Programs in Central Asia.” <http://www.state.gov/r/pa/prs/ps/2015/11/249051.htm>

<sup>137</sup>Rumer et. al., “U.S. Policy Toward Central Asia 3.0.”

<sup>138</sup>Ibid.

<sup>139</sup>“Foreign trade of the Republic of Kazakhstan in January-December, 2015.” [http://stat.gov.kz/faces/wcnav\\_externalId/homeNumbersCrossTrade?\\_afzLoop=25852266018160555#%40%3F\\_afzLoop%3D25852266018160555%26\\_adf.ctrl-state%3D1dgnb7vqie\\_42](http://stat.gov.kz/faces/wcnav_externalId/homeNumbersCrossTrade?_afzLoop=25852266018160555#%40%3F_afzLoop%3D25852266018160555%26_adf.ctrl-state%3D1dgnb7vqie_42)

<sup>140</sup>Meister, Stefan, “Geo-Economics of Eurasia: A View from Europe?” Report on the “Geo-Economics of Eurasia”, Astana Club, Astana, November, 2015, p.37.

In particular, relations between the EU and Central Asia are supported within the framework “The EU and Central Asia: Strategy for a New Partnership,” which was adopted in 2007. The EU budget for this program has been increased to €1.03 billion for the period 2014 to 2020. At the same time Kazakhstan became the only Central Asian state with which the EU signed an agreement on an extended partnership going beyond economic ties, the “EU-Kazakhstan Enhanced Partnership and Cooperation Agreement,” which was signed on December 21, 2015 in Astana. This agreement includes twenty areas of cooperation, including: “international relations, regional security, disarmament, trade and economic issues, investment and infrastructure development, as well as other areas such as innovation, culture, sports, tourism and cooperation in law enforcement.”<sup>141</sup> In turn, Kazakhstan became the only Central Asian country to launch a state program for closer ties to Europe, the “Path to Europe,” on the eve of its chairmanship to the OSCE. The program was for the period 2009 to 2011, and its purpose was to establish a «strategic partnership with leading European countries» in various spheres, such as political, economic and humanitarian.<sup>142</sup>

## Findings

Kazakhstan’s international relations with the «collective West» as represented by the US, EU and their allies, although distant and remote, are as important as those with its closest neighbors. On the one hand, Kazakhstan is involved in integration with Russia, and it has become China’s largest partner in Central Asia. On the other, Kazakhstan seeks to overcome its geographical isolation and reduce its dependence on its mega-neighbors, Russia and China, by strengthening ties with the collective West.

It is noteworthy to mention that Kazakhstan and Kyrgyzstan are the only countries in Kazakhstan’s neighborhood which are unilaterally opening their borders to the developed countries of both the West and the East by establishing a visa-free regime for their citizens.<sup>143</sup>

Its balanced foreign policy allows Kazakhstan, which is located close to such powers as Russia and China, to expand its “window of opportunities” to the outside world. This, in turn, strengthens country’s economic, political and legal sovereignty.

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<sup>141</sup>[http://tengrinews.kz/kazakhstan\\_news/kazakhstan-evropeyskiy-soyuz-podpisali-soglashenie-286090](http://tengrinews.kz/kazakhstan_news/kazakhstan-evropeyskiy-soyuz-podpisali-soglashenie-286090)

<sup>142</sup>[http://tengrinews.kz/zakon/prezident\\_respubliki\\_kazakhstan/hozyaystvennaya\\_deyatelnost/id-U080000653](http://tengrinews.kz/zakon/prezident_respubliki_kazakhstan/hozyaystvennaya_deyatelnost/id-U080000653)

<sup>143</sup>Kazakhstan established a visa-free regime with all of its post-Soviet neighbors (except for Turkmenistan). There is no reason to assume that it will apply the same visa policy to China. Although, in 1988, both Kazakhstan and China introduced a visa-free policy as a result of the late Soviet ‘perestroika’ period. In early 1994, Kazakhstan, and then China canceled this policy.

## Conclusion

- Generally speaking, Kazakhstan's immediate neighborhood does not pose a direct threat to its national security. There are no contentious issues between Kazakhstan and its neighbors which cannot be resolved. The opportunities outweigh the limitations.
- Each country is important to Kazakhstan in its own way, depending on its economic might, and on its political and social situation. In the case of each country the economic aspect, the political aspect or their combination, may be of special importance.
- Kazakhstan, located as it is between two major, gravitational forces, those of Russia and China, depends on their mutual relations, strategies and tactics in the region. Steering away from an exclusively commodities-dependent economy will not drastically reduce this dependence. The development of Kazakhstan's transit and logistics capacity will be closely intertwined with cargo traffic from China to Europe, and with transit routes through Russia. At the same time, alternative transport corridors, to the south and in other directions, will be put to the test.
- Economics is the determinant factor in Kazakhstan's relations with China, while politics and security overweigh its ties with Russia. Both economic and political considerations influence Kazakhstan's relations with its Central Asian neighbors due to the similar issues all are facing, and due to the need for coordinated efforts to address them.
- Although there are no imminent threats to Kazakhstan's security from the side of neighboring countries, some negative factors should be taken into consideration. And, although the situation in greater Eurasia remains politically uncertain in light of recent conflicts, all countries in the region have a vested interest in pursuing economic growth.
- Overcoming the "continental trap" has been of crucial importance even for maritime powers such as Russia and China. Some of these countries' territories are landlocked and located far from the open sea, such as Eastern Siberia in Russia, or the northwest provinces of China. Therefore, the connectivity of transport corridors, communications, transit and logistics, act as a unifying point for Kazakhstan and its neighbors.

- Thus, Kazakhstan's location in the center of the region's transport corridors takes on particular importance. It becomes a decisive factor in overcoming continental landlock and in creating an international transit-transport network. Therefore, the "neighborhood factor" has far-reaching economic and social effects not only for Kazakhstan, but for the entire Eurasian region, as well.

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## THE INSTITUTE OF WORLD ECONOMICS AND POLITICS UNDER THE FOUNDATION OF THE FIRST PRESIDENT OF KAZAKHSTAN

The Institute of World economics and Politics (IWEP) under the Foundation of the First President of Kazakhstan is a research institute that addresses global economic and political issues. The IWEP was founded in 2003. It has a status of a public foundation.

The aim of the IWEP is to optimize knowledge of the modern global economic and political processes and prepare practical recommendations to develop economic and foreign policy of the Republic of Kazakhstan.

In its activities, the IWEP combines an independent research character with an active participation in public discussion and with its involvement in real processes of transformation in Kazakhstan. The independent public status of the Institute supports its participation in revealing and expressing national interests of our country.

The institute conducts research in the following main areas:

- contemporary global problems and their influence on Kazakhstan and other CIS countries;
- analysis and forecasts of the world economic dynamics and socio-political challenges;
- international, regional and national security issues;
- political, economic, social and legal problems of Kazakhstan, its place in the global community;
- economic, political and social processes in Central Asia, Russia, China, the US, EU, Japan and other countries;
- international political research;
- international comparisons.

Other fields of the IWEP activities include:

- distribution of objective and valid information about the Republic of Kazakhstan in the country and abroad;
- publication of results of theoretical and practical research, scientific journals, periodicals, monitoring;
- organization of conferences, seminars, public discussions;
- undertaking international research projects;
- international contacts and cooperation with leading research and analytical organizations in the world;
- contribution to international cooperation, peace and stability.



