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**Revealing the opportunities and risks for Kazakhstan within the
Eurasian Customs Union and Silk Road Economic Belt**

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Abstract

As regional and world powers, China and Russia have great political and economic impact on the world, especially the surrounding countries. Central Asia, as the center of Eurasia, has been greatly influenced by China and Russia. Kazakhstan, as the largest country in Central Asia, is the only Central Asian country bordering both China and Russia. Whether from a historical and cultural perspective or from a political and economic perspective, Kazakhstan has deep ties with these countries. From a historical point of view, Kazakhstan, as one of the former Soviet Union's allies, has a close relationship with Russia, and now Russia also regards Kazakhstan as its own backyard. On the other hand, China and Kazakhstan have had intermittent trade and cultural exchanges. From a political and economic point of view, Russia has established the Eurasian Economic Union, hoping to integrate the economy of the post-Soviet states. China, on the other hand, put forward the Belt and Road Initiative in order to solve its political and economic problems, the area of which covers all the countries and regions of Eurasia, and even includes many countries and regions outside the continent. In this context, the purpose of this study is to identify which projects are more beneficial for Kazakhstan, the Eurasian Customs Union or Silk Road Economic Belt.

Keywords: Kazakhstan, Russia, Eurasian Customs Union, China, Silk Road Economic Belt, transport and logistics hub, Eurasia, risks, opportunities.

Introduction

The years 1990-1991 were a historic turning point that saw the collapse of a major power – the Soviet Union - and the formation of new states in its former territory. This

proved a difficult time for the former Soviet countries as they were not ready for the shocks that lay ahead and had to fight for survival. Kazakhstan, like the rest of the former Soviet states, despite its newfound independence, had to rely on decisions made in Moscow. The Kazakh researcher, Murat Laumulin wrote that “with independence, Kazakhstan also gained many problems, such as: thousands of nuclear warheads leftover from Soviet rule, a huge territory to be protected, and a heterogeneous polyethnic population, half of which did not feel themselves to be citizens of a sovereign state. In addition, there was the issue of sharing long and unprotected borders with two global giants – Russia and China. Despite Kazakhstan’s rich natural resources, its remoteness from the sea and world communications entailed a reliance on trading via these two neighbors” (Laumulin 2004).¹

During the Soviet period, Kazakhstan as one of the Soviet Union republics was closely connected with the Russian economy. All the production enterprises were under the control of the Central Government – Moscow. Thus, even though Kazakhstan became politically independent state after the collapse of the Soviet Union, it was economically dependent on Russia. All existing pipelines in the Caspian Sea were designed to link the Soviet Union internally, and were routed through the territory of Russia, which meant that Russia controlled the economic lifeline of the region (Kubicek 2013: 173). This is why the main Russian oil and gas companies were actively involved in the development of Kazakh fields such as “Kumkol” and “Karachaganak” since the mid-1990s. In 1998, “Lukoil” company becomes the biggest investor in Kazakhstan. The involvement of Russian oil companies gave simultaneously economic benefits and significant

¹ Note on Translations: Unless otherwise stated, all quotations taken from Laumullin Murat have been translated by the author.

geopolitical advantages to Russia (Andreev 2009).

This situation was viewed unfavorably by the Kazakh Government, and thus the discussions on the need to reduce Kazakhstan's dependence on Russia occurred, which resulted in the initiative to create the Eurasian Union. In 1994, Nazarbayev proposed the creation of a Eurasian Union, which was an attempt to control Russia within this organization through cooperation with CIS countries, based on the model of the European Union. He noted, "I have called for the establishment of a "Eurasian Union" having studied the experience of different integration organizations, in particular the European Union" (Nazarbayev 2004). He described his choice as: "After all, Germany in Western Europe was the largest state, and still remains, but if before everyone was afraid of it, the situation has changed. Nowadays, Germany behaves on equal terms with Luxembourg and Belgium, and it evokes a confidence. What do we hear from various Russian politicians? 'We shall come, take away and invade; it is bad in Kazakhstan because the Russian people are treated badly there'" (Nazarbayev 1997: 275). It seems that in response to these threats, Nazarbayev decided to create the Eurasian Union by uniting all the CIS countries against Russia's imperialism. As Yuasa Takeshi writes,

"Mostly in the mid-90s, Kazakhstan focused on the concept "Eurasianism" as the idea of tying the post-Soviet states together and Nazarbayev proposed to develop the CIS into the Eurasian Union in the future. It appears that this kind of policy aims to check and restrain the actions of Russia by utilizing such frameworks rather than willing to remain under the dependence of Russia" (Yuasa 2012: 137).

Nazarbayev's concept of the Eurasian Union was based "on voluntary, equal integration into the political and economic co-development of the post-Soviet states" (Vystuplenie Nazarbayeva 2014). He hoped the Union could help create a balance in regards to Russian power through the presence of binding supranational authorities that can act freely, as in the European Union. He said at that time, "It would be great if we could create such supranational bodies as a joint parliamentary committee and then perhaps, move on to the Eurasian Union Parliament, elected on the whole territory" (Nazarbayev 1997: 275).

However, Nursultan Nazarbayev's initiative to create a Eurasian Union was rejected by some CIS countries, which delayed the time of integration for nearly 20 years. The CIS member-states had different approaches to integration processes. The foreign policy of such countries as Turkmenistan and Uzbekistan until now has emphasized the bilateral relations without joining the unions and associations with supranational authorities. Also, the old Soviet thinking that is an attempt to reestablish the Soviet Union prevented the creation of the Eurasian Union and smaller Central Asian states feared the initiative would cause them to lose their independence. President Saparmurat Niyazov of Turkmenistan was reported to have rejected the initiative as "doubtful and contradictory, with the danger of recreating the Soviet experience" (Aziya 1994). Conversely, some Russian commentators feared it would lead to a loss of the country's influence. The Russian journalist Vitaliy Portnikov noted that many in the Russian political establishment had a negative position towards the Eurasian Union idea as it means the "end of the inequality within CIS and a push against the influence of Russia" (Portnikov 1994).

Because of opposition like this, the first 1994 initiative to create a new

integration association could not succeed, but resulted in a smaller scale economic integration, called the *Common Economic Space* of five countries, Kazakhstan, Belarus, Kyrgyzstan, Russia, and Tajikistan on February 26, 1999 and has prompted these states to proceed towards the construction of a common market. Nevertheless, this opposition was related to the old concept of Eurasianism, whereas Nazarbayev's Eurasianism was about achievement of economic benefits through economic cooperation amongst all CIS countries, an open field for attraction of investments in the economy of the partner-states, in order to strengthen their security and balance the influence of Russia.

Individual statements of the opposition within the CIS have not stopped the process of integration. Nazarbayev has actively contributed to the signing of a Treaty on the establishment of the Eurasian Economic Community (EurAsEC) on October 10, 2000 in Astana between Kazakhstan, Belarus, Kyrgyzstan, Russia, and Tajikistan as a substitute to the CIS's inability to make progress in the areas of economic integration. It addressed issues of cooperation and the abolition of customs duties within the member-states. Seven years later, at the October 2007 EurAsEC meeting in Dushanbe, Kazakhstan, Russia, and Belarus considered the issue of forming the legal basis of the Customs Union and signed some agreements on the subject (Eurasian Economic Community). Both, Russia and Kazakhstan are major exporters of raw materials, while Belarus is an importer and a transit corridor to the West. Because of this, Kazakhstan is keen to protect its economy by using agreements to reduce duties on exports of oil and gas and export them through Belarus. The famous saying, "keep your friends close and your enemies closer" implies that Kazakhstan has to keep an eye on Russia, which is at the same time an ally and the potential threat to Kazakhstan's national security. Therefore, Kazakhstan had to proceed with the creation of a Eurasian Economic Union, which Nazarbayev believed

would protect Kazakhstan's national interests. In an article of October 25, 2011, he argued that the Eurasian Union should rest on four basic principles: 1) economic pragmatism; 2) voluntary participation of member countries; 3) principles of equality, mutual respect, non-interference in the domestic affairs of participating countries, and inviolability of state borders; and 4) an institutional structure confined to the national level in order to protect the national sovereignty of the member states (Nazarbayev 2011).

The next step towards the Eurasian Union was the signing of the Joint Statement of the legally binding Customs Code of the Customs Union on July 6, 2010. On November 18, 2011 the Declaration on the Common Economic Space was signed, and on May 29, 2014 the Treaty on the establishment of the Eurasian Economic Union was implemented. On January 1, 2015 the Eurasian Economic Union – a new geopolitical “pole” of the modern world began (Evraziyskaya ekonomicheskaya integratsiya 2005: 7).

The 2010 Eurasian Customs Union and Kazakhstan's attempt to increase production

By creating a common economic space with Russia and Belarus, Kazakhstan expected to increase production in the industrial sector, which will help to reduce dependence on oil and other natural resources. Kazakhstan wanted to use the Eurasian Customs Union as a platform for the diversification of Kazakhstan's economy (The speech of Nazarbayev 2012: 8). The foreign investors who have so far focused on Kazakhstan's natural resources, might take a greater interest in manufacturing ventures to diversify the economy away from oil and gas (Gorst 2011). Despite the fact that Kazakhstan is a landlocked country, the geographical position of Kazakhstan, bordering with Russia and China gives country not only the opportunity to be a transit hub, but also

to attract the investments (The speech of Nazarbayev 2012: 8). In addition, Kazakhstan can be a bridge connecting China and the EU, which will reinforce Kazakhstan's power in trade dialogues with Russia and make it to act adequately.

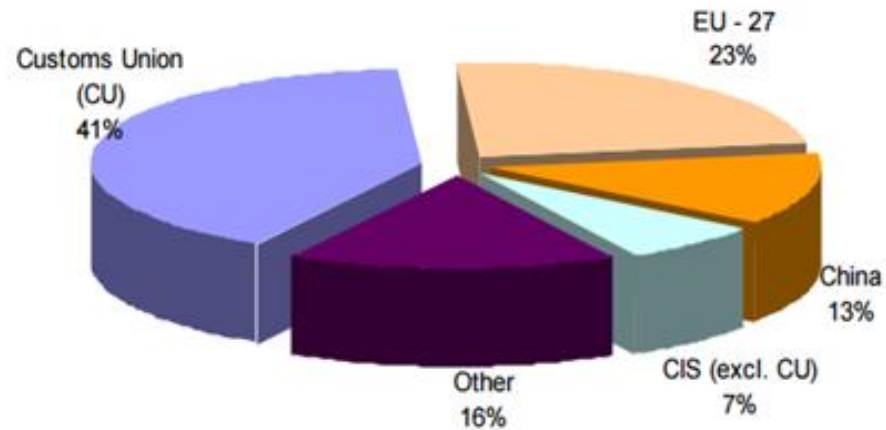
The Eurasian Customs Union is an inter-state organization, within which customs barriers are eliminated and there are no administrative restrictions in mutual trade. Furthermore, the Eurasian Customs Union ensures the free movement of goods, services, capital and labor, and creates a supranational legal regulation in order to contribute to the stability and growth of national economies. A supranational legal regulation was created on November 27, 2009 known as 'Customs Code of Customs Union'. According to this Code, all the 3 member-states had an equality in trade and had a chance to develop their own production and trade policies (Customs Code 2010).

At the start of the Customs Union, there was a favorable impetus for a significant increase in Kazakhstan's exports to the market of the Customs Union. The supply of raw materials and goods to Russia grew by 138% in 2011 compared to 2010 (Likhachyov 2014). However, on the contrary of Kazakhstan's hope to increase its bargaining power with Russia, the Eurasian Customs Union has created an adverse balance of trade between the countries within the organization (Isakova, Koczan & Plekhanov 2013: 4). For instance, as Figure-1 illustrates, in 2010 over 40% of Kazakh imports came from within the Customs Union, 23% from the EU-27 countries; 13% from China; 7% from CIS countries excluding Russia and Belarus; and 16% from elsewhere in the world (Isakova & Plekhanov 2012: 5).

Initially, Kazakhstan joined this organization in order to find new markets, and the Eurasian Customs Union was the path to modernization of Kazakhstan, the introduction of new and innovative technologies that will allow Kazakhstan to promote

economic self-sufficiency. By being more independent from Russia, Kazakhstan desired to increase its economic power (Noonan 2016) and have more economic leverage in negotiations with Russia.

Figure-1. Kazakhstan: Import shares by trade partner, 2010

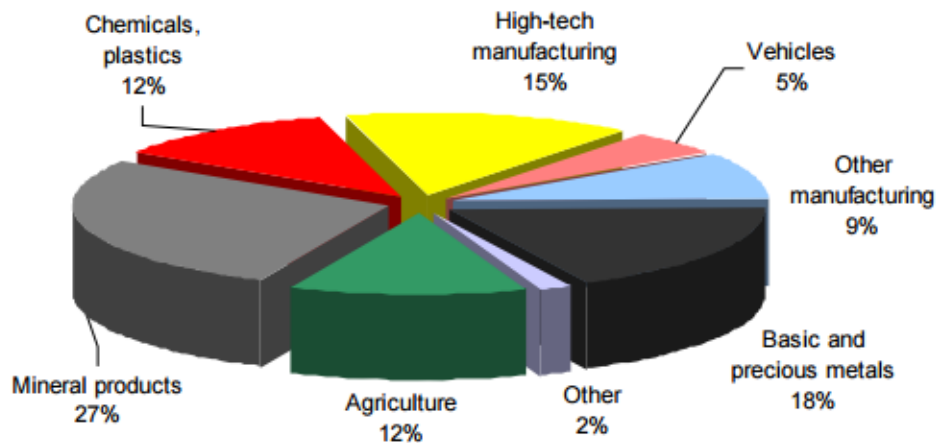


Source: Isakova Asel and Plekhanov Alexander (2012)

Nevertheless, because Russian exports to Kazakhstan were primarily concentrated in such commodities as agricultural and non-agricultural, petrochemicals and metals, Kazakhstan did not move ahead and was stuck on the path of regression. For instance, Figure-2 shows that higher-value-added manufacturing and vehicles account only for 20% of Kazakhstan's imports from Russia, whereas as Figure-3 demonstrates, the 27 countries of the EU export primarily higher-value-added manufacturing goods and vehicles (56% of the total) (Isakova & Plekhanov 2012: 6-7). Here we can see the big overlap between export positions of the EU and the Customs Union, the benefits of which Kazakhstan started to doubt. In comparison with the Customs Union, the EU contribute much more to the economic development of Kazakhstan. It is especially important in light of 2008 financial crisis, when Kazakhstan attempted to decrease its dependence on oil

exports and become a more technologically advanced country.

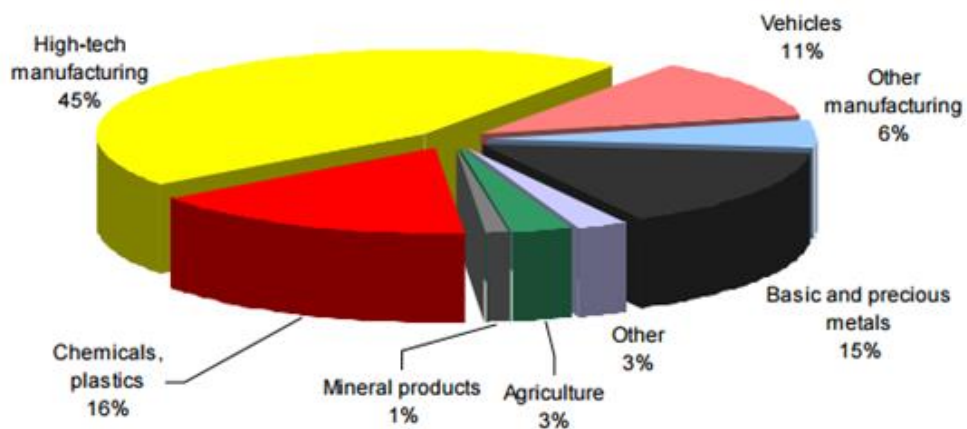
Figure-2. Kazakhstan: Structure of imports from Belarus and Russia, 2009



Source: Isakova Asel and Plekhanov Alexander (2012).

The contrast picture of the EU export of higher-value-added goods to Kazakhstan.

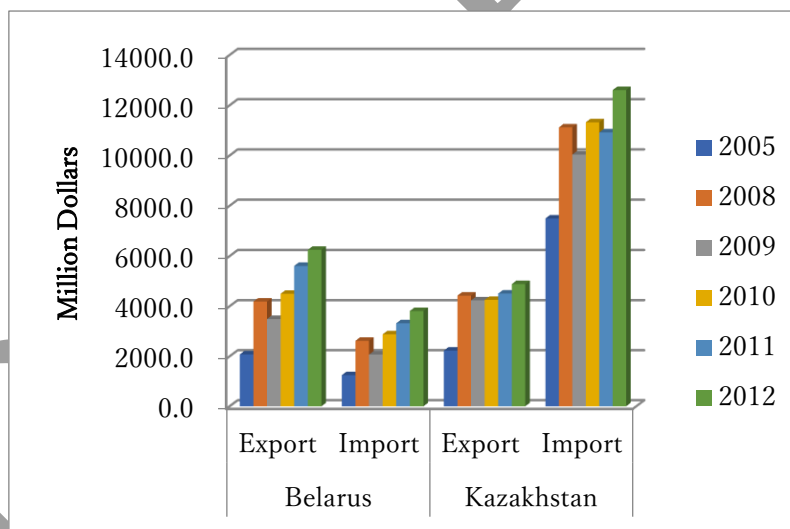
Figure-3. Kazakhstan: Structure of imports from the EU, 2009



Source: Isakova Asel and Plekhanov Alexander (2012).

Also, after the establishment of the Eurasian Customs Union, Kazakhstan had an unfavorable experience within this organization. Since the common external tariff was dictated by Russia, it increased economic efficiency only for the Russian businesses and Kazakhstan's balance of trade deficit rose. By imposing the common external tariff, the tariffs on many items not produced in Kazakhstan, but in Russia have been increased, and led to a substantial increase in imports from Russia (Tarr 2012: 3). In 2012 it was a negative of about \$12,000,000 (Kudaibergenov 2013), which gave gains for Russia and losses for Kazakhstan economy.

Graph-1. Export and Import of Kazakhstan and Belarus within the Customs Union



Graph is based on data: Kratkiĭ statisticheskiĭ sbornik.

Because Kazakhstan's interests were not fully taken into account by Russia, President Nazarbayev was eager to join China's Silk Road Economic Belt.

About the Silk Road Economic Belt

In September 2013, Chinese President Xi Jinping delivered a speech at Nazarbayev University in Astana, where he proposed that China and Central Asia work

together to build a Silk Road Economic Belt (SREB). His speech generated a great deal of discussion in China and overseas, and it was the most frequent subject of articles in China's official daily, the *People's Daily* (Laruelle 2018: 10). The Great Silk Road, which once stretched across three continents, was added to the UNESCO World Heritage List in June 2014. Since then, the establishment of the new 'Silk Road Economic Belt' has continued to garner a great deal of attention. A total of seven belts have been planned in various fields, including transport, energy, trade, information, science, agriculture, and tourism. This project has the potential to become a large-scale free trade zone spanning from Central Asia to the north-western provinces of China, then on to Eastern and Central Europe.

As Chinese experts have noted, "In a situation, where the eastern direction of the development of China is blocked by the US and Japan, the idea of an economic belt of the Silk Road helps China to establish and develop strategies towards the West and thereby, can contribute to effectively support China's economic growth, as well as the development of the Eurasian Economic Cooperation. However, competition amongst the great powers in Central Asia is becoming tougher, and therefore the construction of the economic zone of the 'Silk Road' is believed to help reduce conflict and help find a mutually beneficial means of development" (Xin 2016, Zhang 2015, Yang 2015, Wang, Sun, Zhao, Wu 2014). Similarly, another Chinese scholar, Zeng Xiang Hong has argued that the Silk Road Economic Belt provides relevant countries with a new degree of freedom as they can choose whether to engage in bilateral or multilateral cooperation according to their need and preference. He also noted that China only seeks economic cooperation with other countries along its border, and has no intention to expand political power (Zeng 2016).

The reason why Xi Jinping delivered his speech in Kazakhstan was because in comparison to other Central Asian states, Kazakhstan offers key geographical advantages. China will have been well aware of Kazakhstan's capacity to open up new cargo routes, access markets in the Customs Union, and the country's favorable investment climate.

Kazakhstan's goal to access international markets are laid out in the state '100 concrete steps' program, which is in line with China's plans to implement infrastructure projects for the New Silk Road. At the Second Summit for Silk Road Countries, the Institute of World Economy and Politics of the Republic of Kazakhstan Director Sultan Akimbekov stated that China's strategy to build a transport corridor along the New Silk Road will provide Kazakhstani products with access to world markets, bringing huge economic benefits to the country in the process. Director Akimbekov views Kazakhstan as the center of all transit and logistics corridors that run through the Central Asian region, a geographical position that comes with huge financial reward (Miras 2015).

The Chinese side have laid out a path for the northern channel of the new Silk Road that passes from Western China through Kazakhstan, Russia, the Baltic Sea, Belarus, and then on to Western Europe. This means that current Chinese view of the Silk Road sees Kazakhstan not only as transit country (a state that derives economic reward from the transit of cargo through its territory), but also a key player in the northern Eurasian corridor (Zhao 2015). This will be further discussed in the next section.

Kazakhstan as the largest transport and logistics hub in Eurasia

According to Kazakhstan and Chinese analysts, "the key role in the implementation of the 'Silk Road Economic Belt' has been given to Kazakhstan, and Kazakhstan is in the best position in terms of attracting investments (Map-1). The

accumulated foreign direct investment (FDI) from China to countries of the Eurasian Union in 2009-2013 increased from \$11.02 billion to \$24.67 billion. An impressive 91.5% of the total figure (\$22.57 billion) was directed at Kazakhstan. From September 2013 to December 2015, the two countries signed investment agreements worth \$54 billion. China's participation in the formation of a renewed Kazakh transport infrastructure includes plans for the construction of the Almaty ring road, a road leading towards Alashankou station, and a large-scale project that will help optimize Astana's public transportation system. These plans have gained a great deal of attention in Kazakhstan (Kaukenov 2017: 160). Indeed, the adoption in November 2014 of the new economic policy 'Nurly Zhol – Path to the Future', the main focus of which was on infrastructure development is in fact, consistent with the Chinese 'Silk Road Economic Belt' initiative and aims at maximizing the benefits of its implementation.

Map-1. Kazakhstan's position within the New Silk Road



Speaking at the Astana Economic Forum in Astana on May 22, 2015 the president of Kazakhstan Nazarbayev offered to create a new high-speed multi-modal transport route

called the Eurasian transcontinental corridor. He noted, “It will run through the whole territory of Kazakhstan and will allow for the free transit of goods from Asia to Europe and back. This is much shorter than the maritime route” (Nazarbayev 2015). The President stressed that even today the volume of trade between China and the European Union accounts for almost 600 billion US dollars and is projected by 2020 to rise to 800 billion US dollars. Nursultan Nazarbayev stated “therefore, the development of a land route to Europe is of great importance to the growth of Asia as a whole. And here will arise new opportunities for Kazakhstan, because as noted by specialists, the land route will be much shorter than the maritime route - almost three times” (Nazarbayev 2015).

The main cargo of the “New Silk Road” will be carried out from East to West. The western and central provinces of China will be in direct railway communication with the EU on the rail route through Kazakhstan’s Dostyk station. The delivery of goods to Europe by rail is, on average, 2-3 times faster than the sea, which is a significant competitive advantage for the transportation of goods that require high speed delivery. In addition, the transport infrastructure of East China (the inland waterway on the Yangtze river) is heavily congested, leading to an increase in time for the transportation of goods from the western and central provinces by sea. Thus, cargo to Europe through Kazakhstan’s Dostyk can be delivered over 16-17 days and the cost is 8,100 US dollars, which is significantly lower than through Russia, at 11,200 US dollars (Ekonomicheskiy koridor 2012).

According to Forbes Kazakhstan, the implementation of the Silk Road project involves several steps. One of the steps of cooperation in the field of transport was the document signed during the second meeting of the Kazakh-Chinese Business Council. This agreement between Joint Stock Company “KTZ Express” and “GK Lianyungang

Port” is aimed at strengthening and improvement of the international traffic through the new Eurasian continental transport corridor. As part of the newly created joint venture, the work on the construction of a logistics terminal in the port of Lianyungang is being held. For those purposes, the project proposes investments totaling 99.3 million US dollars, in which the share of the Kazakh side is 6 billion 126 million 666 thousand tenge (Kuda poidut 2015).

Another “transport” document was signed between Joint Stock Company “Kazakhstan Temir Zholy” and the corporation “Chinese Railways”. The agreement provides for the development of freight traffic between Kazakhstan and China, as well as railway transport corridor such as: China – Kazakhstan – Europe, China – Kazakhstan – Central Asia and in the opposite direction. In addition, the planned development of the border railway crossing Dostyk - Alashankou and Altynkol - Horgos, as well as the railway infrastructure nearby them, electronic data exchange, improving the technology of container transport, increasing the number of container trains, the deepening of cooperation of logistics companies, quality improvement and working conditions of employees of both sides. According to specialists, the turnover of China and the EU should rise to 800 billion US dollars in 2020. Nowadays the share of Kazakhstan in this turnover is very low. Thus, it is planned that the modernization of transport and logistics hub will increase it to 8% (Kuda poidut 2015).

As noted previously, in order to implement its new economic policy on infrastructure development called ‘Nurly Zhol – Path to the Future’, Kazakhstan joined the China-led Asian Infrastructure Investment Bank on October 24, 2014, which was initiated by President Xi Jinping in 2013. The main purpose of AIIB is to promote economic development, create wealth, and improve the interaction of infrastructure in

Asia. According to Tom Miller, Xi Jinping has created its own multilateral development bank because “bilateralism has its limits, and smaller states do not want to be reduced to Chinese clients” (Miller 2017: 36). The authorized capital of the bank amounts to \$100 billion, but it plans to lend no more than \$2 billion per year for its first five years of operation. (Miller 2017: 40). The AIIB, co-founded by Kazakhstan, received the highest credit rating of Moody’s (AIIB 2017). In fact, two years earlier, Kazakhstan’s Minister of National Economy Erbolat Dosayev pinned his hopes on the AIIB by saying, “hopefully it will become one of the most prominent banks in the region when it comes to financing social and economic projects in the field of energy, transport, logistics, urban and rural infrastructure” (V Almaty 2015).

China also established a special fund for the Silk Road in the amount of 40 billion US dollars, which will focus directly on the funding of projects, for which Kazakhstan holds a key geographic position. All these agreements provide opportunities for building infrastructure and rely on investments. China is the biggest trade partner of Kazakhstan, along with the European Union and Russia. Indeed, most of Kazakhstan’s exports (oil, gas, mining products) are with China. The latest agreement with China regarding development in the non-oil sector, which includes the transfer of a number of industrial enterprises to Kazakhstan, as well as cooperation in the field of logistics, and collaboration between “Kazakhtelecom” and Chinese “Huawei”, have already brought fruitful results. Moreover, Astana could be turned into a regional hub of the Asian Bank of Infrastructure Investments (Akizhanov 2015).

According to Kazakhstan researcher of China Konstantin Syroezhkin, Kazakhstan also can obtain the benefits from AIIB such as: the possibility of obtaining bank loans on favorable terms (interstate loans are always more expensive and harder),

and implementation of projects of interest to Kazakhstan. Since Kazakhstan is one of the founder-states of the bank, it will have certain preferences. He also added that the advantages for Kazakhstan in the project Silk Road project are the following: “Kazakhstan, primarily because of its geography, is a transit country. One way or another, but all transportation routes in the Economic Belt of the Silk Road pass through Kazakhstan’s territory. Hence, Kazakhstan can use Chinese interest in Silk Road in order to develop its transportation and logistics infrastructure. Secondly, the money for transit. Third, new jobs. Fourth, the expansion of areas of cooperation with China, since the project includes not only roads, but also cooperation in the real sector of economy” (Syroezhkin 2015).

Kazakh-Chinese investment cooperation is upgraded to a new level. Until nowadays, the majority of investment companies of China in Kazakhstan have been associated with the fuel sector – oil and natural gas, as well as the construction of pipelines. From now on, the interaction will be in the non-primary sector. The turning point was the December talks of Heads of Government Karim Massimov and Li Keqiang in Astana, when they signed a package of agreements worth 14 billion US dollar to implement joint projects in the fields of energy, industry, transport, agriculture, oil and gas (Kuda poidut 2015).

A new phase of investment cooperation could be seen from the fact that Kazakhstan supported the proposal of Chinese program for the transfer of production capacity to its territory such as the production of glass, cement and processing of agricultural products. According to an independent director of Joint Stock Company “Baiterek development” Emil Milushev, signing of the agreements with China will give a powerful impetus to the development of non-primary sectors of Kazakhstan’s economy

such as transport and logistics, production of building materials, processing of agricultural products (Kuda poidut 2015).

Today, Kazakhstan is unequivocally the leader in terms of attracting Chinese Foreign Direct Investments (FDI) among the countries of the Eurasian Economic Union. The accumulated foreign direct investment (FDI) from China to the Eurasian Union in 2009-2013 increased from 11.02 billion US dollars to 24.67 billion US dollars and 22.57 billion US dollars (91.5% of the total amount) accounted for Kazakhstan. This is stated in a report published by the Center for Integration Studies of the Eurasian Development Bank “Monitoring of direct investment in the countries of Eurasia-2014”. According to experts, this is largely due to the less favorable tax and investment climate in Russia in comparison with its partners in the Eurasian Union (Bayazitova 2015).

Every argument has two sides and the next section discusses the opportunities and risks for Kazakhstan in the creation of the Silk Road through its territory.

Opportunities and risks for Kazakhstan in the construction of the Silk Road

If the opportunities of the New ‘Silk Road’ for China is obvious, what are the opportunities for Kazakhstan in the construction of such a transport corridor? First of all, there are economic benefits from transit through its territory, which could increase the trade turnover between Kazakhstan and China by up to \$40 billion by 2015. By comparison, in 2013 it amounted to \$28.5 billion (Tret’ya prezentatsiya 2015). According to Nazarbayev, it is expected that by 2020 the volume of trade between the neighboring countries of Kazakhstan will grow by half, reaching \$1 trillion (Nazarbayev 2012). By 2020, the road is expected to increase the gross domestic product (GDP) of Kazakhstan by 68% compared to 2010. On the other hand, Kazakhstan hopes that China and other

donors will increase investments. Thus, the Asian Development Bank (ADB) has provided \$700 million to the Republic of Kazakhstan to assist in the reconstruction of the main road of the project 'New Silk Road' that will help transform the country's economy (Aziatskiy bank razvitiya 2015).

Secondly, the Trans-Kazakhstan route linking Europe and Asia will account for 5-8% of the potential trade between China-the EU-China every year until 2020. Across the next 10 years, over \$30 billion of public and private investment will be pumped into the transport sector. Investment in infrastructure in the broadest sense - in the spheres of finance, transportation and human capital - are the basic conditions for the long-term socioeconomic development of Kazakhstan. The extensive program to develop Kazakhstan's infrastructure "Nurly Zhol" includes a qualitative re-organization of transport (land, air and sea) links. In addition, this program will allow the country to have greater access to world markets (Koshanov 2016: 7-8). Speaking at the One Belt, One Road High Level Forum on International Cooperation in May 2017 in Beijing, President Xi emphasized that Kazakhstan is a "champion" in enhancing its transit and transport potential (Nuryshv 2018). A new large trade artery called the Khorgos-East Gate Special Economic Zone, which was announced on July 2, 2014 by Kazakhstan's president Nursultan Nazarbayev is slowly taking off. The Altynkol train station, which feeds the Dry Port, has received 353, 000 containers in the first nine months of 2018, a figure 45 percent greater than all of 2017 (Le Corre 2019). This improved logistic ecosystem will mean that Kazakh producers of food, machinery, leather products and many other emerging industries will be able to quickly enter foreign markets. China's active trade balance with the EU means that many trains will return from Europe with empty containers. Importing goods from the EU and exporting to China will give Kazakh

producers the chance to reduce their transportation costs. A new network of industry can emerge along the New Silk Road and benefit the people of Central Asia (Kakova rol' Kazakhstana 2017).

Thirdly, the agriculture sector could prove profitable for Kazakhstan, with a potential market of more than a billion people. In an interview to a Kazakhstani newspaper, Chinese Ambassador, Zhang Hanhui noted, "Your food (wheat, flour, honey, vegetable oil, and especially meat) is needed in China. There is a deficit and a sense of demand. We are working to resolve all these problems, remove all obstacles and give the Chinese market the best possible access to Kazakhstani products". Most importantly, for these products, China's agriculture industry does not constitute serious competition like Russia (Shymshykov 2017). In his May 2017 keynote speech at the opening ceremony of the Belt and Road Forum (BRF) for International Cooperation in Beijing, Xi noted that for Kazakhstan and other Central Asian countries alone, customs clearance time for agricultural produce exporting to China is cut by 90% (Xi 2017). In the same year, China imported wheat, sunflower seeds and other agricultural products from Kazakhstan, which exceeded 500, 000 tonnes, a comparable increase of 20 percent, which was a new and significant event in bilateral trade. In addition, in 2018, Kazakhstan became China's first trading partner in Central Asia and the second among Commonwealth of Independent States (CIS) countries (Zhang 2018).

Finally, the SREB provides Kazakhstan with other advantages such as diversification in the delivery of oil and gas to foreign markets. The strategy of Kazakhstan is to diversify routes and decrease its dependence on Russian-led pipelines, which can be seen as a Kazakhstani balancing tool that aims to limit Russia's power in the energy sector. Chinese companies have invested billions into pipelines that connect

Kazakh oil and gas to China. In an interview to the Chinese Channel CCTV, the President of Kazakhstan Nazarbayev said, “The SREB will allow Kazakhstan to enter the Caspian Sea. This lets us go south through Iran to the Persian Gulf. Last year, Turkey, Georgia, Azerbaijan, the Caspian Sea and Kazakhstan were linked. A special port at Kuryk, which sees cargo pass through to Caucasus and Turkey via the Bosphorus to Europe. Such huge scale work has been carried out over several years. This is a very far-sighted idea that will work for the benefit of our people” (Prezident Kazakhstana Nursultan Nazarbayev 2018).

Risks

Along with the positive aspects of the creation of the New Silk Road, there are also dangers for Kazakhstan. As China is expanding its economic influence, Kazakhstan risks becoming too dependent on China economically and politically. As mentioned earlier, China is a major strategic partner of Kazakhstan with a trade turnover of nearly \$20 billion in 2018 (Han 2019). Beijing has also invested nearly \$30 billion in the country’s mining, oil, transport, and agricultural sectors, and buys almost 25% of Kazakh oil output, with a reduced share going to Italy, the Netherlands, France and other European states (Le Corre 2018). According to Dosym Satpaev, a Kazakh political analyst and the Director of Kazakhstan Risk Assessment Group, the major risk is if Kazakhstan like Kyrgyzstan, Tajikistan or Turkmenistan comes to depend on Chinese loans, because China already occupies 40% of the external debt of Kyrgyzstan and China is their main creditor. In this regard, Kazakhstan also is at risk. The trade wars between the USA and the European Union have an impact on the investment capacity of the EU on Kazakhstan. Besides, investments in Kazakhstan are mainly in the oil and gas sector, other segments are not interesting for Western companies. Therefore, it is natural that Kazakhstan, within

the framework of its investment program, is trying to attract other investors, including in the financial segment. The Chinese are major investors because they have resources and the desire, and China is trying to come to those segments that are not yet occupied: this is the agriculture and financial sector. As China has already acquired Altyn Bank there is a high probability that China's financial presence will expand in the future. The Chinese are also actively involved in such areas as services, telecommunications and innovation. Nowadays, China is actively developing Chinese transnational and innovative corporations, such as Huawei. Therefore, there is the risk that in the absence of large flows of loans and investments from other regions of the world, Kazakhstan will have only one alternative – China. China is well aware that Central Asian states need the investments to develop their economy, and thus provides loans at very good interest rates and for a long time, as they did it in Tajikistan, in exchange for deposits. If the country is not able to pay China back, then China demands deposits, or agricultural land. In April 2016, there was a protest in Kazakhstan against the transfer of agricultural land to China, because there was a real risk that if Kazakhstan could not pay their loans, the Chinese could demand Kazakhstan's land. In Tajikistan, the government has already allocated certain land to the Chinese for a long-term lease of 49 years, certain land for agriculture. Moreover, in April 2018, in Tajikistan, the Chinese company have acquired the right to extract gold from the Upper Kumarg mine in exchange for building a power plant Dushanbe-2, which was a barter (Interview of author with Dosym Satpayev 2018). Thus, Kazakhstan needs to find a way to deal with its powerful neighbor's economical ambitions while benefiting from them.

Another risk is the liberalization of access for Chinese companies into national markets, which could lead to the failure of local companies in the competition with

Chinese companies because of the lack of access to cheaper credit, and consequently decreasing the capacity of local industry. For instance, in 2016, there was a negative attitude coming from both Kazakh officials and the expert community to transfer 51 types of production from China at a sum of \$26 billion (Zuenko 2018).

Integration in the framework of this project is connected to interaction with the huge continent of Asia, and will, along with the flow of goods also bring in waves of people, and migration, particularly from China. According to Azad Garibov, between 1993 and 1995, about 150 to 200 Chinese “tourists” entered Kazakhstan per day. Of these, 30 to 50 did not return to China, perhaps because they settled in Kazakhstan or moved to other countries such as Russia. Based on this, government of Kazakhstan estimated that between the early 1990s and the early 2000s, approximately 130,000-150,000 Chinese illegally stayed and worked in Kazakhstan. To tackle this issue of illegal migration, Astana tightened work permit and registration requirements by introducing a quota system for Chinese companies that wanted to hire Chinese workers. This resulted in decreasing the amount of illegal workers. Between 2002 and 2005, 5,800 Chinese citizens received a work permit, which amounts to 12 percent of all legal foreign labor in Kazakhstan. The Ministry of Internal Affairs of Kazakhstan announced that as of 2013, there were 25,600 legal foreign workers, of whom 5,300 (or 23 percent), were Chinese citizens. Though the issue with the illegal migration could be solved, in 2016 the number of Chinese legal workers has increased to 12,700 (or 34.5 percent) (Garibov 2018: 145). Thus, voices of the expert community call for the necessity of Kazakhstan to keep the situation with migration under control. Also, in the development of Kazakhstan industry, Chinese technologies will arrive and after the enterprises in Kazakhstan, Chinese workers will come and will threaten the livelihoods of local workers.

Moreover, China, through this project will be able to increase its economic strength and receive advanced technology from all over the world. Kazakhstan, as a transit country, will not have access to these new technologies. As is known, the construction of the final product directly contributes to the growth of economic power, to the continuous development of GDP. Thus, Kazakhstan could be left behind in the wake of the giant economic growth of China.

Besides, repayments to Chinese creditors are also a risk because they increase Central Asian states' debt exposure to a single country rather than the multilateral organization as IMF or WB. As such, Kazakhstan must take into consideration all the advantages and disadvantages of this mammoth undertaking in order to maximize the benefits it can obtain from this cooperation. Kazakhstan will develop and strengthen if it succeeds in considering all the risks and challenges regarding the "New Silk Road" project.

Conclusion

During the Soviet Union, all the production enterprises were under the control of the Central Government – Moscow. Thus, even though Kazakhstan became politically independent state after the collapse of the Soviet Union, it was economically dependent on Russia. In 1994, Nazarbayev proposed the creation of a Eurasian Union, which was an attempt to control Russia within this organization through cooperation with CIS countries, based on the model of the European Union. However, Nursultan Nazarbayev's initiative to create a Eurasian Union was rejected by some CIS countries. After 20 years, in 2010, Kazakhstan, Russia and Belarus have created a Eurasian Economic Union, which Nazarbayev believed would protect Kazakhstan's national interests. By creating a common economic space with Russia and Belarus, Kazakhstan expected to increase

production in the industrial sector, which will help to reduce dependence on oil and other natural resources. Kazakhstan wanted to use the Eurasian Customs Union as a platform for the diversification of Kazakhstan's economy. At the start of the Customs Union, there was a favorable impetus for a significant increase in Kazakhstan's exports to the market of the Customs Union. However, because Russian exports to Kazakhstan were primarily concentrated in such commodities as agricultural and non-agricultural, petrochemicals and metals, Kazakhstan did not move ahead and was stuck on the path of regression. Kazakhstan needed a fresh start that was brought by China's leader Xi Jinping.

Chinese investors were eager to develop transportation and logistics infrastructure of Kazakhstan and, China even established a special fund for the Silk Road in the amount of 40 billion US dollars, which will focus directly on the funding of projects, for which Kazakhstan holds a key geographic position.

China, the largest trade partner of Kazakhstan relies on the support of Kazakhstan in the implementation of the Silk Road project because the transportation of goods to Europe through Kazakhstan's territory is the shortest and cheapest route. These interests are mutually beneficial for Kazakhstan and China.

At the same time, there are risks for Kazakhstan in participating in the Silk Road Economic Belt. The major risk is the possible dependency on Chinese loans due to the economic recession in the West. Within the framework of its investment program, Kazakhstan attempts to attract other investors in different segments of the economy. However, in most cases, the Chinese are major investors because they have resources and the desire, and China is trying to come to those segments that are not yet occupied, that is the agriculture and financial sector. Another risk is the loss of control over the promotion of local companies due to the competition with Chinese companies. Along

with the flow of goods, there might be a flow of illegal migration from China. There are voices from the expert community that call for the necessity of Kazakhstan to keep the situation with migration under control. Also, in the development of Kazakhstan's industry, Chinese technologies will arrive and after the enterprises in Kazakhstan, Chinese workers will come and threaten the livelihoods of local workers.

However, overturning the agenda of cooperation with China is not of interest to Kazakhstan, Kazakhstan needs China as a counterweight to the influence of Russia and diversification of its oil routes. While Kazakhstan has achieved substantial results in attracting foreign investments into priority sectors, FDI and exports have still been highly concentrated in natural resources. Against this backdrop Kazakhstan needs to influence Chinese policy by persuading China to diversify the FDI into technological development of Kazakhstan. As such, Kazakhstan can get significant benefits from the SREB project.

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