

Chinese loans will counterbalance Russia's influence in Kazakhstan

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On 29 May 2014, the presidents of Kazakhstan, Russia, and Belarus signed a treaty establishing the Eurasian Economic Union (EaEU). One week prior, Kazakhstan's President Nursultan Nazarbayev and Chinese President Xi Jinping announced investment agreements worth US\$10 billion. The timing of the two events reflects Nazarbayev's determination to use Kazakhstan's burgeoning economic relations with China to counterbalance possible Russian domination. The most telling sign of this intention was the announcement of a US\$1 billion loan from China to modernise Kazakhstan's Shymkent oil refinery.



Since 2000 Kazakhstan has witnessed an impressive rate of economic growth, transforming the country into the dominant economic power in Central Asia. Driven initially by hydrocarbon exports, Kazakhstan's boom has resulted in [a tenfold increase in per capita income](#) ^[1] over the first decade of its economic boom. The World Bank now designates Kazakhstan as an 'upper-middle-income' country. Kazakhstan's [per capita GDP of US\\$13,000](#) ^[2] in 2013 places its economy on a par with EU members Poland and Hungary. Kazakhstan's economy as a whole is more than double the four other Central Asian nations combined.

Kazakhstan's sustained economic growth is reliant on its [relationship with China](#) ^[3]. China–Kazakhstan bilateral trade accounts for [approximately 28 per cent](#) ^[4] of Kazakhstan's total trade volume. At the same time, Kazakhstan's deepening economic ties with Beijing are counterbalanced by its extensive trade relationship with the EU and its membership in the Russian-led Eurasian Customs Union, the precursor to the EaEU.

Kazakhstan's development success and economic growth are the result of a carefully constructed [‘multi-vectored’ foreign trade policy](#) ^[5], based on the foreign policy principles of ‘pragmatism, consistency and balance’. President Nazarbayev is seeking to implement his ambitious [‘Strategy Kazakhstan 2050’](#) ^[6] which aims to see Kazakhstan become a Europe-to-Asia transportation and energy hub.

Members of the [Russian-led EaEU](#) ^[7] are scheduled to establish the legal and regulatory framework to create a Single Economic Space by January 2015. But Kazakhstan has become increasingly wary of Russia's political influence. Kazakhstan is constrained politically by the far superior military power of its northern neighbour. Most of Kazakhstan's population along the Russia–Kazakhstan border are ethnic Russians. Fears within Kazakhstan about Moscow's intentions have heightened due to Russia's March 2014 annexation of Crimea and ongoing support for separatists in eastern Ukraine.

Kazakhstan also fears that Moscow will use the economic union to bolster its sagging economy at the expense of Kazakhstan's continued growth. Of particular concern are Russia's attempts to ensure [Kazakhstan's oil industry](#) ^[8] remains subordinate to its own oil industry. Oil is a key sector in Russia and underpins both the Russian economy and the stability of the Putin government. In early 2013, Russia saturated the Kazakhstani market with refined petroleum products causing severe losses to Kazakhstan's refineries which were forced to cut production. In response, the Kazakhstani government imposed a ban on Russian petroleum products which ended 1 January 2014. Astana fears that Moscow will use Russia's oil trade regulations to exercise an inordinate amount of control over Kazakhstan's oil exports to Europe.

For this reason, China's loan of US\$1 billion to modernise the Shymkent oil refinery is a telling sign that President Nazarbayev is making skillful use of Kazakhstan's economic relations with China to offset potential vulnerabilities.

Built in 1985 during the Soviet period, the Shymkent refinery is responsible for 30 per cent of Kazakhstan's refining capacity. The [Shymkent upgrade](#) ^[9] will increase refining capacity to 6 million tons per year and will enable the refinery to produce high quality fuels that meet Euro-4 and Euro-5 standards, making Kazakhstani exports more attractive to the EU.

President Nazarbayev's meeting with President Xi was the seventh meeting between the two leaders in less than a year. The May 2014 announcement of \$10 billion in investment agreements follows President Xi's September 2013 visit to Astana during which 22 agreements were concluded between China and Kazakhstan. The agreements, worth US\$30 billion, included the sale of an 8.33 per cent stake in Kazakhstan's massive Kashagan oil field to the China National Petroleum Corporation for \$5 billion. During this trip President Xi also proposed that China and Kazakhstan work together in building the ‘Silk Road Economic Belt’, China's grand vision of a China-to Europe commercial corridor running westward from Xi'an through Central Asia and then onto Europe via Turkey.

As Kazakhstan seeks to placate Moscow with its membership in the EaEU, it will simultaneously deepen its partnership with Beijing to preserve its national sovereignty and economic growth. Moscow's drive to create a Russian-led EaEU will further incentivise Kazakhstan, along with

other post-Soviet nations, to partner with China in creating a Beijing-led economic silk road.

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[1] a tenfold increase in per capita income:

<http://www.voanews.com/content/kazakhstan-faces-political-challenges-despite-economic-boom-111132724/131572.html>

[2] per capita GDP of US\$13,000:

<http://www.worldbank.org/en/country/kazakhstan/overview>

[3] relationship with China:

<http://www.eastasiaforum.org/2013/09/27/china-goes-west-to-kazakhstans-benefit/>

[4] approximately 28 per cent:

http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113406.pdf

[5] 'multi-vectored' foreign trade

policy: <http://kazembassy.ca/kazakhstan/foreign-policy-concept-for-2014-2020/>

[6] 'Strategy Kazakhstan 2050':

<http://www.kazakhstanlive.com/Documents/Kazakhstanper cent202050per cent20Strategyper cent20summary.pdf>

[7] Russian-led EaEU:

<http://www.eastasiaforum.org/2014/05/24/no-reason-to-rush-into-a-eurasian-economic-union/>

[8] Kazakhstan's oil

industry:

<http://www.eastasiaforum.org/2014/05/22/divergent-prospects-flow-from-petroleum-riche-s-in-central-asia/>

[9] Shymkent upgrade:

<http://www.rompetrol.com/rominserv-part-shymkent-refinery-modernization-kazakhstan>

[10] Shalem College: <http://shalem.ac.il/en/personnel/michael-tanchum/>

[11] Truman Research Institute for the Advancement of Peace:

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