

Knitting Europe and Asia into Eurasia: Kazakhstan's Foreign Economic Policy

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Introduction

Over the last decade, Kazakhstan has become one of the most dynamic countries in the world, both in terms of its economic development and foreign relations. Kazakhstan is a member of a number of international organisations, including the Commonwealth of Independent States (CIS), the Eurasian Economic Community (EurAsEC), the Shanghai Cooperation Organisation (SCO), the Collective Security Treaty Organisation, and the Organisation for Security and Cooperation in Europe (OSCE), which it chairs in 2010. Recently, Kazakhstan established a customs union with Russia and Belarus, which became operational in 2010. Kazakhstan has good relations with all of its neighbours and continuously works on strengthening economic cooperation and integration with neighbouring countries.

The country's particular priority is regional economic cooperation and integration. 2009-2010 have so far been marked by major changes in the post-Soviet integration landscape, namely the establishment of the Russia-Kazakhstan-Belarus Customs Union as well as the stated goal to move forward the Single Economic Area (SEA) by 2012. Russian-Kazakh relations are shaping positive trends for regional cooperation in the post-Soviet space.

At the same time, Kazakhstan is thoughtfully and consistently targeting a multi-vectored foreign economic policy, as it widely draws on U.S., EU, Chinese, Japanese, and Korean investments to develop its economy (in particular, sectors such as oil and gas, metals, nuclear industry, and power generation) and to attract advanced technological solutions.

Kazakhstan and Nursultan Nazarbayev

In the 1990s and 2000s, the geopolitical and economic features of the region, bordering China, strongly affiliated to Russia, and yet at the same time being part of the Islamic world, created an urgent task for Kazakhstan's leadership: to establish the country as a new player in the international arena by forging diplomatic relations, joining international organisations and finding its place within the hierarchy of international relations.

The shape of Kazakhstan's foreign economic policy evolved under the influence of many internal and external factors along with the strengthening of its statehood and trends in the economic and social development of the country. The vision of the country's development path played an important role in this process.

Nursultan Nazarbayev is rightly viewed as the originator and champion of the idea of 'Eurasian integration' in the former Soviet Union and the special role which Kazakhstan has to play in this process. He called Kazakhstan 'the Eurasian bridge', implying a country with geographic, cultural and historic affiliation to both Europe and Asia. Based on this concept, the Kazakh president has proposed a number of far-reaching integration projects that are widely known as 'Eurasian' projects. One of Nazarbayev's conceptual statements reads: "... I have formulated, and will continue to promote the idea of Eurasian unity which, I

believe, has a strategic future...

Kazakhstan alone cannot realise its great transit potential, nor can any other neighbouring country do so. This should be done jointly, through close and mutually beneficial co-operation" (Nazarbayev, 1997).

The use of 'Eurasia' in the official Kazakh rhetoric deserves to be mentioned. First, the notion is that Eurasia situates Kazakhstan squarely in the centre of a far greater entity. At first sight, Kazakhstan is a landlocked country, far removed from the world's principal trade routes, faced with a precarious demographic balance and a difficult geopolitical position. Nazarbayev's argument turns these liabilities into an advantage. Another vital part of this notion involves the idea of the Eurasian Union. As it was conceived in the 1990s and 2000s, the Eurasian Union was intended to promote economic, social, and, to a more limited degree, political integration across post-Soviet space. Despite appearances, Nazarbayev's Eurasian Union idea for the re-integration of the post-Soviet world was substantially different from the nostalgic vision of the would-be restorers of the Soviet Union.

Recently, as part of the OSCE chairmanship, the Kazakh President went even further arguing in favour of continental Eurasian economic integration, which would knit together the western and eastern parts of the continent. Naturally, the Kazakh economy has a great deal to profit from forging greater economic unity.

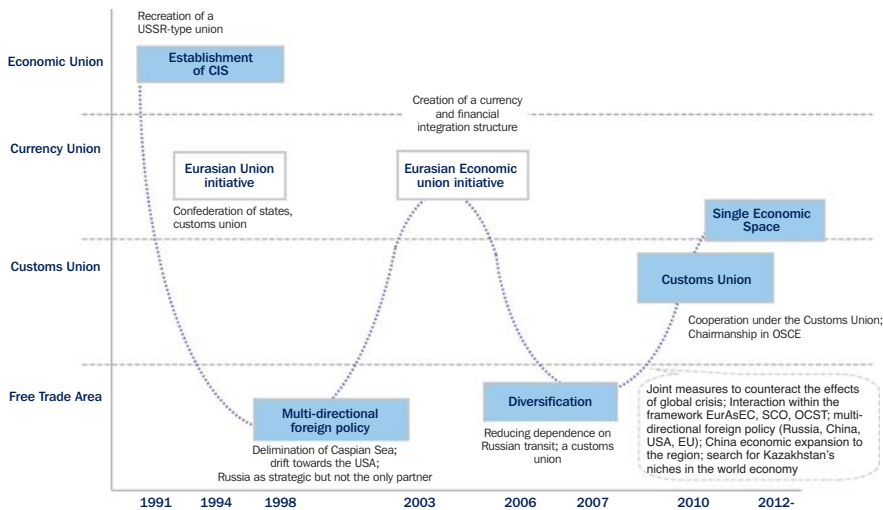
The Evolution of the Official Kazakh Position on Regional Integration

From Kazakhstan's independence in 1991 to the present day, the country's stance on regional economic cooperation has passed through several stages of evolution.

The chart depicts the distinct phases in this process. In addition, the Y-axis sets policy developments against the basic Balassa's classification of economic integration. On the whole, we single out five periods, or phases, in the development of the official Kazakh position towards its relations with Russia.

1. Phase one (1991-1996) was associated with the break-up of the Soviet Union and the inception of the CIS. Amidst the political and economic turmoil, Kazakhstan's leadership suggested full economic union with Russia and went on to specify the Eurasian Union initiative.
2. The multi-directional foreign policy of the second half of 1990s: balancing the interests of major powers to preserve sovereignty. The understanding of oil as a mainstay of the Kazakh economy underpinned foreign economic policy.
3. The early 2000s: revival of economic fortunes and a new round of regional integration initiatives.
4. 2005-2007: the goal of the Eurasian Union is set aside once again. Diversification of commodities' exports and transit routes is at the forefront.

Evolution of the official Kazakh economic policy within the post-Soviet space



Source: Vinokurov (2010b).

Note: Saturated boxes represent actual events or state of affairs, while two transparent boxes represent initiatives that were not implemented.

5. 2007-2010: Raw material transit diversification, economic integration under the Customs Union.

The Presidential address to the people of Kazakhstan of 2007 set the main strategic emphasis of Kazakhstan's domestic and foreign policy for the period that followed. The outlined strategy as a whole demonstrates that Kazakhstan had acquired a new vision and understanding of its position in the system of international relations. "We must set ourselves minimum and maximum targets for the task of entering and developing Kazakhstan's niches in the world economy, participation in the advanced projects with the foreign partners. The markets of Russia, China, Central Asian countries and Caspian and Black Sea regions should be seen as a priority" (Nazarbayev, 2007). It is maintained (and further practical steps reinforce the argument) that integration processes should continue under the aegis of integration organisations which set the course for a Customs Union, a common currency, common energy and transport markets, and collective security. Kazakhstan will make full use of the advantages it has in its energy resources, while maintaining a balance between the interests of major players.

The Customs Union is here to stay 2009-2010 brought a major breakthrough, namely the establishment and operationalisation of the Russia-Kazakhstan-Belarus Customs Union as well as the stated goal to move forward

the Single Economic Area (SEA) by 2012. These three countries constitute the 'integration core' of the post-Soviet space according to the comprehensive System of Indicators of Eurasian Integration managed by the Eurasian Development Bank (Vinokurov, 2010a).

Russia and Kazakhstan drew closer in the context of the EurAsEC, SCO, and CSTO major projects and initiatives, most importantly the Russia-Kazakhstan-Belarus Customs Union. Its creation essentially became the first major systemic integration initiative that went on to be implemented. The package of documents was signed at the EurAsEC Inter-State Council in Minsk on November 27, 2009. The common external tariff became operational on January 1, 2010, and the common customs territory became functional on July 1, 2010. Both deepening and widening of the union is expected: on the one hand, the heads of state envisage the development of the single economic space by 2012; on the other hand, Tajikistan and Kyrgyzstan have expressed their interest in acceding to the Customs Union.

The economic rationale of developing the customs union is straightforward: instead of an internal market of 16 million people the country will operate within a market of 170-million. In purchasing power terms, the capacity of Kazakhstan's internal market for Kazakhstan will grow by more than 12 times. The domestic producers will have a chance to capitalise on that in those industries where they have

comparative and competitive advantages (metallurgy and agriculture are particular instances).

The Customs Union is not without its drawbacks, however. First, the short-term consequences of raising import tariffs are likely to be negative, as it leads to a somewhat higher inflation rate (+1-1.5% in 2010). Second, competition within the union will become more demanding. Third, the WTO accession will become an even more cumbersome procedure, since the terms of accession must be harmonised between the union's members.

Major efforts in the economic sphere have been accompanied by advances in the regional security arrangements within the CSTO. In February 2009, its member states took a decision to establish first response collective forces. The final treaty was signed in Minsk on June 14, 2009. Russian and Kazakh troops constitute the main core of the collective forces. The first manoeuvres took place in October of the same year in Kazakhstan, underlining Central Asia as the primary vector for their potential employment.

In the Centre of Eurasia

Thus, the regional integration vector has become the main priority of Kazakh foreign economic policy. Having said that, there is no sign of a less friendly policy toward other centres of powers and sources of investment. China has become a leading source of foreign investment as other sources dried up in 2009. A further illustration of the careful balancing of interests is the uranium extraction industry, where Kazakhstan, eager to capitalise on its reserves and to develop an advanced nuclear sector, cooperates with all leading companies, including Areva, Toshiba, Westinghouse, and Rosatom.

To sum up, the current phase, marked by the establishment of the Customs Union and intensive work on the Single Economic Space with Russia and Belarus, is different and similar at the same time. It is different in regard to the fact that, for the first time in 20 years, the integration breakthrough is real. At the same time, it is similar to the previous phases as Kazakhstan continues – consciously and consistently – to aim at balancing the interests of major players in the region and avoiding economic and political dominance by Russia or China. In doing so, the country aims to knit Europe and Asia into Eurasia – and capitalise on that.

Sources

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