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Central Asia in a Reconnecting Eurasia

*Kazakhstan's Evolving Foreign
Economic and Security Interests*

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Preface

In January 2014 the CSIS Russia and Eurasia Program launched its new *Eurasia Initiative*. The vast Eurasian landmass, stretching from China in the East to Europe in the West and from the Arctic in the North to the Indian Ocean in the South, includes some of the world's most powerful and dynamic states, as well as some of the world's most intractable challenges. Scholars and analysts are accustomed to focusing on Eurasia's various regions—Europe, the former Soviet Union, East Asia, South Asia, and Southeast Asia—rather than on the interactions between them. The goal of the *Eurasia Initiative* is to focus on these interactions, while analyzing and understanding Eurasia in a comprehensive way.

More than any time since the collapse of the Silk Road five centuries ago, today we have to focus on Eurasia as a whole. Over the past two decades, Eurasia has begun to slowly reconnect, with the emergence of new trade relationships and transit infrastructures, as well as the integration of Russia, China, and India into the global economy. Even as this reconnection is under way, the center of economic dynamism in Eurasia, and in the world as a whole, has increasingly shifted to the East. The impact of these shifts is potentially enormous, but they remain poorly understood because of our tendency to limit analysis to a single country or region within the broader Eurasian space.

The first fruits of the *Eurasia Initiative* include the report you are holding in your hands, one of the five country studies making up our report series *Central Asia in a Reconnecting Eurasia*. Our decision to start with Central Asia stems from a concern that the drawdown of U.S. and allied troops from Afghanistan will augur declining international interest in the region, which has played a critical role over the course of the conflict. For U.S. policymakers, turning away from Central Asia now would be a serious miscalculation. The five states of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) are located at the heart of the Eurasian landmass, in close proximity to four of Washington's biggest foreign policy challenges: Afghanistan/Pakistan, Iran, Russia, and China. For that reason alone, the United States has a strong interest in developing economic and security ties with the states of Central Asia, and doing so in a way that is no longer driven by the exigencies of the war in Afghanistan, but is responsive to the needs and interests of the region itself, as well as enduring U.S. interests.

So in the spring, summer, and fall of 2014 we embarked on a “listening tour” to Central Asia that included extended visits to each country, where we interviewed government officials, experts, private-sector actors, and representatives of international organizations

to understand how Central Asian elites perceive the economic and security environment changing around them. We sought to discover how they are coming to define their national interests in the post-Afghanistan conflict world, including what they would like to see from the United States.

This report and the others in the series reflect what we gleaned from these interviews, along with analysis of published data and secondary literature, to provide a broad overview of how Central Asia sees the world. We should emphasize that the focus of these reports is on the foreign economic and security policies of the five Central Asian states. These reports do not seek to address domestic political issues, human rights, and many other issues, not because we think they are unimportant, but rather because we are interested in the strategic implications of a reconnecting Eurasia, which means concentrating on how these countries interact with the outside world. Of course, internal issues often do impact foreign ties. For instance, one of the main impediments to foreign investment in Central Asia is corruption, coupled with inefficient regulatory frameworks and bureaucratic institutions. The reports analyze these phenomena, but only insofar as they affect the Central Asian states' engagement with the outside world.

Central Asia lies at the heart of the Eurasian landmass, and in many ways has the most to gain from the process of transcontinental reconnection. That process can only reach its full potential, however, if the interests of the Central Asian states themselves are given proper consideration. The goal of this series on *Central Asia in a Reconnecting Eurasia* is to analyze the perspectives of these countries and bring them to the attention of policymakers in the United States.

Acknowledgments

There are many institutions and individuals to which we would like to express our gratitude for their crucial roles in the production of this report and others in the series. We would first like to thank the Smith Richardson Foundation, the Ministry of Foreign Affairs of the Republic of Kazakhstan, and Carlos Bulgheroni for their generous financial support for this project. We thank the Carnegie Corporation of New York for its support of the CSIS Russia and Eurasia program. We would like to thank all of the government officials, experts, private-sector actors, and representatives of international organizations that graciously shared their thoughts with us during our “listening tour.” We would also like to express particular gratitude to the Embassies of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan in the United States for their assistance in the facilitation of our research trips to their respective countries. Ambassadors Kairat Umarov of Kazakhstan, Kadyr Toktogulov and Muktar Djumaliev of Kyrgyzstan, Farhod Salim of Tajikistan, Meret Orazov of Turkmenistan, and Bakhtiyar Gulyamov of Uzbekistan deserve special thanks. Dana Kurmasheva with the Foreign Ministry of Kazakhstan, Dana Masalimova with the Embassy of Kazakhstan, Mukhamed Lou with the Embassy of Kyrgyzstan, Abat Fayzullaev with the Embassy of Uzbekistan, and Mirlan Isamidinov with the Diplomatic Academy of the Ministry of Foreign Affairs of the Kyrgyz Republic named after K. Dikambaev also deserve special thanks.

We would further like to express our gratitude to the members of our *Eurasia Initiative* advisory council, all of whom have provided critical guidance throughout the project. The advisory council includes: Najia Badykova; Stephen Benson; Edward Chow; Ambassador William Courtney; Rosemarie Forsythe; Roger Kangas; Ambassador Batu Kutelia; Johannes Linn; Michael Matera; Martha Brill Olcott; David Sedney; Craig Steffensen; and Ambassador Kairat Umarov. Marlène Laruelle and Timur Shaimergenov also deserve thanks for their insights. Finally, we would like to thank the many present and former members of the CSIS Russia and Eurasia Program staff who contributed to this project, including: Yulia Danilina; Eric Griffith; Kendra Harkins; Peter Krivicich; Allen Maggard; Sung In Marshall; Kirill Prudnikov; Dylan Royce; Narek Sevacheryan; Jason Siler; and Nic Wondra.

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1 The View from Astana

Kazakhstan



Source: Based on a United Nations map, <https://commons.wikimedia.org/wiki/File:Un-kazakhstan.png>.

Many of Kazakhstan's challenges and opportunities grow out of its geography. In the Soviet period, Kazakhstan was, with its Central Asian neighbors, on the periphery of an empire that looked to the West and East more than the South. With the Soviet collapse, Kazakhstan's geographic remoteness and paucity of connections to the outside would become major handicaps. Astana consequently developed an emphasis on promoting connectivity as a means of accessing distant markets and ensuring outside powers have a

stake in Kazakhstan's success. With the development of new transportation, communications, energy, and trade linkages, Kazakhstan is at the literal center of a larger post-Soviet Eurasia, and positioned to capture much of whatever overland transit emerges between Europe, East Asia, and possibly South Asia.

Along with their Central Asian neighbors, the Kazakhs were incorporated into the Russian Empire in the nineteenth century and later into the Soviet Union. Much of Kazakhstan's development then and now was defined by its vast mineral wealth and vast spaces along the 7,000-km border with Russia. A large ethnic Russian population in the northern part of the country is a legacy of this history, one that continues to shape Kazakhstan's development and foreign policy strategies.

Astana's challenge today lies in promoting increased connectivity while maintaining its freedom of action. Located in the center of Eurasia, Kazakhstan could substantially benefit from Eurasia's reconnection, a process its leadership has supported for more than two decades. Kazakhstan's strategy for development includes a strong focus on regional cooperation and integration across Eurasia. It foresees converting the country's geography to a bridge and a hub for regional trade and investment. Kazakhstan's focus on regional cooperation and connectivity is closely tied to its domestic goal of diversifying the economy, as laid out in the recently announced *Nurly Jol* (Bright Path) development strategy. Apart from infrastructure, Kazakhstan also aims to encourage regional cooperation and integration as tools for addressing many of the transboundary problems that plague Central Asia.

Kazakhstan has always maintained a close political and economic relationship with Russia and has participated in Russian-led multilateral bodies such as the Commonwealth of Independent States (CIS), Collective Security Treaty Organization (CSTO), Eurasian Economic Community (EurAsEC), Eurasian Customs Union (CU), and Eurasian Economic Union (EEU). At the same time, Astana's foreign and economic policy has emphasized "multivector" development designed to enhance Kazakhstan's sovereignty and economic ties with more distant markets. While Astana has characterized its foreign policy as multivectoral since the 1990s, the emphasis on multiple partnerships has grown in recent years as Kazakhstan has redoubled efforts to expand its ties both within Central Asia and beyond.

Though a close partner of Russia, Kazakhstan maintains good relations with the United States and Europe as well as with NATO. While European and American companies are significant investors in Kazakhstan's oil industry, China is now Kazakhstan's largest trading partner and a growing source of foreign direct investment (FDI) that many Kazakhs see as an economic and political counterweight to Russia. Chinese interests lie in energy as well as transportation (Kazakhstan sits astride Beijing's planned Silk Road Economic Belt [SREB], which Chinese president Xi Jinping unveiled during a trip to Kazakhstan in 2013) and raw materials. Astana also seeks to deepen its relationships with regional powers such as India, Iran, and Turkey, in part by emphasizing new trade and transit linkages.

Another consequence of Kazakhstan's unique history and geography is that, much more so than their neighbors, Kazakh officials and analysts are accustomed to viewing their country as neither specifically European nor (Central) Asian, but as *Eurasian*. Since shortly after the fall of the USSR, Kazakhstan has been at the forefront of efforts to maintain connections among the post-Soviet states. President Nursultan Nazarbayev was the first to call for a Eurasian Union, back in 1994 (a prospect that at the time was roundly rejected by both Russia and Uzbekistan).¹ Nazarbayev has also supported more recent efforts at Eurasian integration, albeit only insofar as they remain economically focused and do not compromise Kazakh sovereignty. Of course, this emphasis on Kazakhstan's Eurasian identity and, even more, on the process of Eurasian integration remains heavily identified with President Nazarbayev.

For Kazakhstan, the rest of Central Asia remains a principal destination for non-oil exports, and the expansion of trade and economic relations within the region could provide stimulus for the diversification of Kazakhstan's economy. Its neighbors, meanwhile, see Kazakhstan as an important economic partner, a transit corridor for Turkmenistan and Uzbekistan to reach China, and both a source of potential investment and a destination for labor migrants from Kyrgyzstan and Tajikistan.

Though Kazakhstan has been the strongest supporter of regional cooperation and integration in Central Asia, its vision faces numerous obstacles, both internally and abroad. Part of the problem is the emphasis on sovereignty common to all the Central Asian states, along with the breakdown of Soviet-era regional arrangements on issues such as water sharing that provided a framework for regional cooperation. Our interlocutors in the region feared that the emphasis on national sovereignty common to all the Central Asian states will make even those institutions and agreements that still exist on paper less effective at least in the near term.

Corruption, which afflicts all of the post-Soviet states to varying degrees (even if Kazakhstan does better than its neighbors on this score), is another obstacle, since it impedes the implementation of even well-designed proposals and creates uncertainty among potential donors and investors. Other challenges include questions about the unsettled succession issue and the sustainability of Kazakhstan's raw materials-based economic model, especially at a time of low oil prices, a falling currency, and a customs union with Russia that limits opportunities for adjustment. Despite Kazakhstan's economic successes, instability elsewhere in Central Asia or in the broader region (including Afghanistan) could impede new infrastructure projects and force regional governments to turn inward and focus on security, rather than follow through on their interest in expanding regional trade and cooperation.

Astana at least understands the nature of these challenges and has developed plans for addressing them. A presidential succession plan adopted in March 2015 emphasizes decentralization and strengthening the role of parliament. Similarly, the *Nurly Jol* plan provides

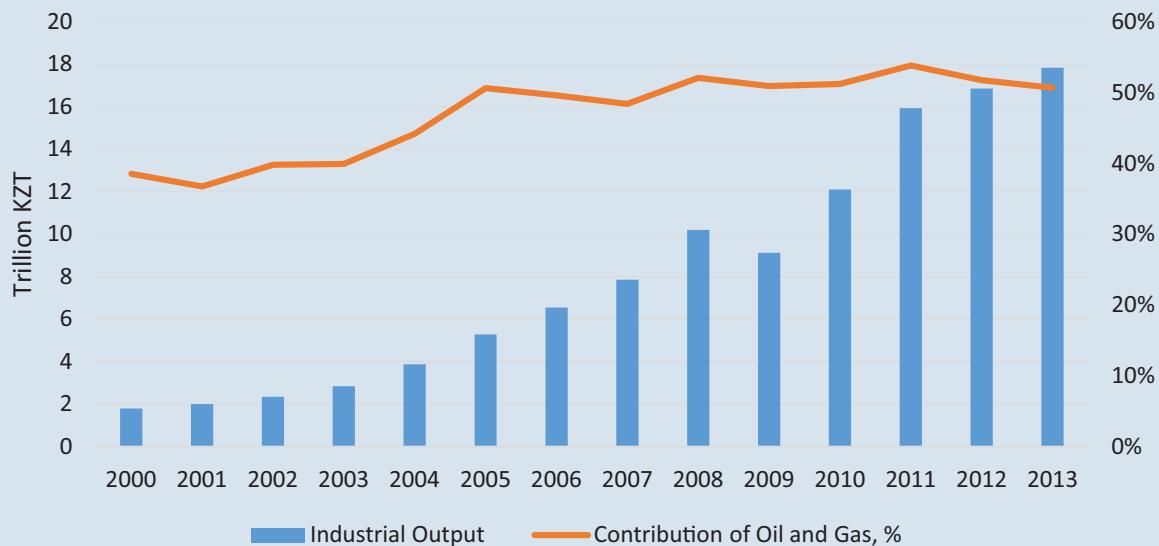
1. Nursultan Nazarbayev, "Formation of a Eurasian Union of States," *Kazakhstanskaya Pravda*, June 7, 1994; U.S. Foreign Broadcast Information Service (FBIS) Translation, in *Russia and the Commonwealth of Independent States: Documents, Data, and Analysis*, ed. Zbigniew Brzezinski and Paige Sullivan (Armonk, NY: M. E. Sharpe, 1997), 335–339.

A New Political Course

The *Kazakhstan 2050* development strategy, announced during President Nazarbayev's 2012 state of the nation address, puts forward a vision of Kazakhstan's future that includes: ¹

- Creation of a modernized, open, and innovative economy through policies focused on economic pragmatism; support for local entrepreneurship; attraction and promotion of foreign investment and technology transfers; human capital development; expansion of social welfare; consistent and predictable foreign policy; and the strengthening of Kazakhstan's statehood.
- Integration of Kazakhstan into global value chains through cooperation with China and the states of the Middle East, among others, on infrastructure development and trade promotion.
- Specialization in areas of competitive advantage, including the extraction and production of hydrocarbons and metals, as a bridge to a more knowledge-based economic model in the future.²

Kazakhstan's Industrial Output and the Contribution of Oil and Gas



Source: Committee on Statistics of the Republic of Kazakhstan.

- Liberalization of the domestic business environment, a large-scale privatization of state assets, the expansion of the social safety net, and a nearly fivefold increase in per capita GDP to \$60,000 by 2050.
- Becoming one of the top 30 most competitive economies in the world.

1. Address by President N. Nazarbayev of Kazakhstan, “‘Strategy Kazakhstan—2050’: New political course of the established state,” December 14, 2012, <http://strategy2050.kz/en/multilanguage/>.

2. Australian Government, “Kazakhstan country brief,” <http://www.dfat.gov.au/geo/kazakhstan/Pages/kazakhstan-country-brief.aspx>.

a template for diversification, for which Kazakhstan seeks additional foreign investment. In both instances, though, questions remain about implementation. The succession issue also raises challenges of maintaining interethnic balance, as some reports indicate that the non-Kazakh population increasingly questions if the next leader will be committed to implement policies associated with Nazarbayev. As Foreign Minister Erlan Idrissov has noted, “No country which is multiethnic is immune from inter-ethnic or inter-religious conflicts.”²

Kazakhstan under Nazarbayev has managed its development and security challenges reasonably well, and today Kazakhstan stands poised to benefit from the emergence of a more open, connected Eurasia. Yet Astana cannot create that kind of a Eurasia on its own, and will have to continue balancing its desire for greater openness and connectivity with the need to hedge against the emergence of a more competitive, zero-sum Eurasia.

2. Michael Birnbaum, “In Kazakhstan, fears of becoming the next Ukraine,” *Washington Post*, May 2, 2015, http://www.washingtonpost.com/world/europe/in-kazakhstan-fears-of-becoming-the-next-ukraine/2015/05/01/10f7e73c-e878-11e4-8581-633c536add4b_story.html?wprss=rss_world.

2 | Kazakhstan's Foreign Economic and Security Policy

The dominant themes in Kazakhstan's foreign policy are pragmatism in pursuit of domestic interests (especially economic development), coupled with an emphasis on multivector cooperation to ensure Kazakhstan's sovereignty and economic diversification. The *Kazakhstan 2050* strategy devotes comparatively little attention to foreign and security policy, laying out a vision of foreign policy “based on the principles of multivector [action], balance, pragmatism, mutual benefit, and solid defense of [Kazakhstan's] national interests.”¹ Kazakhstan's Foreign Policy Concept echoes this conviction and further emphasizes integration into regional and global trade structures, especially through membership in the World Trade Organization (WTO).²

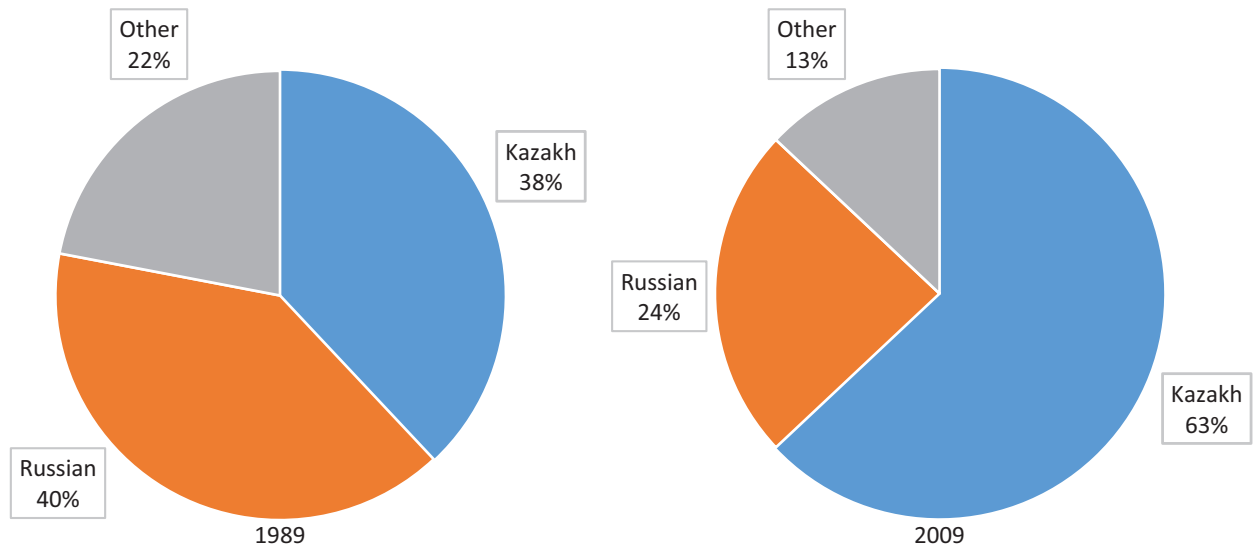
Perhaps Kazakhstan's greatest foreign policy concern is the preservation of its sovereignty, which it seeks to do by maintaining good ties in all directions, avoiding overreliance on any one foreign partner. In that sense, the ongoing crisis in Ukraine represents precisely the predicament that Kazakhstan's multivector foreign policy has sought to avoid since independence in 1991. Kazakh officials note that, unlike Ukraine, Kazakhstan would never allow itself to be “put in a situation of choosing between partners.” By maintaining good relations with a wide range of states, especially the major powers invested in Central Asia, and international organizations,³ Astana hopes to benefit from ties with all, retain its autonomy, and avoid being pulled into conflicts that do not advance its own interests.

1. “Foreign Policy Concept for 2014-2020 Republic of Kazakhstan,” Ministry of Foreign Affairs of the Republic of Kazakhstan, 2014, <http://www.mfa.gov.kz/index.php/en/foreign-policy/foreign-policy-concept-for-2014-2020-republic-of-kazakhstan>.

2. Ibid.

3. International organizations play an important role in Kazakhstan's multivector policy. Kazakhstan is a member of the Commonwealth of Independent States (CIS), the Conference on Interaction and Confidence-Building Measures in Asia (CICA), the Collective Security Treaty Organization (CSTO), the Shanghai Cooperation Organization (SCO), the Organization for Security and Cooperation in Europe (OSCE), the Organization of Islamic Cooperation (OIC), and the Cooperation Council of Turkic-Speaking States (CCTS). Moreover, Kazakhstan wishes to maintain good relations with widely disparate powers in order to become a hub for multilateral diplomacy and thereby bring more UN and international organization institutions to Almaty. Despite these ambitions and some successes (including hosting a session of the P5+1 talks with Iran), UN officials see Kazakhstan's interest in hosting multilateral institutions on a more permanent basis as an interesting, if distant, possibility.

Kazakhstan's Ethnic Demography, 1989 and 2009



Source: Verlag Münster, “Central Asia on Display: Proceedings of the VII Conference of the European Society for Central Asian Studies,” European Society for Central Asian Studies, 2005, 234, http://books.google.com/books?id=Q4olreTVoj0C&dq=%D0%BA%D0%B0%D0%B7%D0%B0%D1%85%D0%B8+6534616&source=gbs_navlinks_s.

Russia

Russia is Kazakhstan's most important partner. Economic interdependence, a shared post-Soviet political culture, and a large (if shrinking) Russian ethnic minority ensure Astana will always prioritize constructive ties with Moscow. Kazakh elites express sensitivity about potential Russian pressure. The 7,000-km, practically indefensible border represents a major vulnerability, especially given the demographic profile of northern Kazakhstan, where approximately one-quarter of the population is ethnic Russian, down from two-fifths during the waning years of the Soviet Union.^{4, 5} While Russians form a near majority in much of the north⁶ and nearly all of Kazakhstan's citizens speak Russian (only two-thirds claim fluency in Kazakh),⁷ ethnic Russians continue to emigrate in large numbers. An average of 20,000 left each year from 2009 to 2013.⁸

4. Verlag Münster, “Central Asia on Display: Proceedings of the VII Conference of the European Society for Central Asian Studies,” European Society for Central Asian Studies, 2005, 234, http://books.google.com/books?id=Q4olreTVoj0C&dq=%D0%BA%D0%B0%D0%B7%D0%B0%D1%85%D0%B8+6534616&source=gbs_navlinks_s.

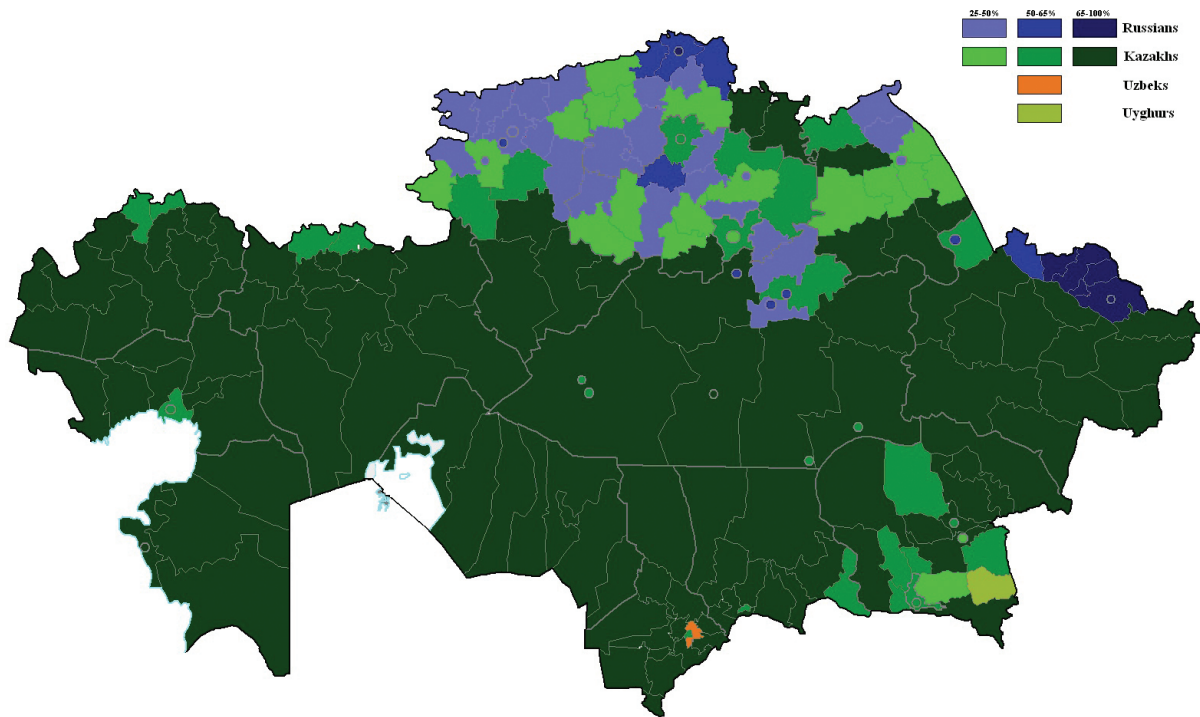
5. “Results of the 2009 National Population Census of the Republic of Kazakhstan,” Agency on Statistics of the Republic of Kazakhstan, 2011, 19–21, <http://bit.ly/1J2kTBm>.

6. “Infographic: Ties to Russia,” Radio Free Europe/Radio Liberty, <http://www.rferl.org/content/infographics/infographics/25304924.html>.

7. Joanna Lillis, “Kazakhstan: Astana Wants Kazakhstanis to Speak Kazakh,” *Eurasianet*, November 22, 2010, <http://www.eurasianet.org/node/62424>.

8. Population data by the Kazakh Statistics Committee, http://www.stat.gov.kz/faces/wcnav_externalId/homeNumbersPopulation?_afzLoop=998598439049789#%40%3F_afzLoop%3D998598439049789%26_adf.ctrl-state%3Ds2386bnig_50.

Ethnic Map of Kazakhstan, 2010



Source: Bosdemograf via Wikimedia Commons, [http://commons.wikimedia.org/wiki/File:Ethnic_map_Kazakhstan_\(2010\).PNG](http://commons.wikimedia.org/wiki/File:Ethnic_map_Kazakhstan_(2010).PNG).

No significant ethnic Russian unrest has occurred since the 1990s, and the Kazakh government remains committed to cracking down on any manifestation of ethnic division. “We will harshly punish any form of ethnic radicalism, no matter from which side it comes,” Nazarbayev said before the elections in April 2015.⁹

While Kazakh officials we interviewed expressed confidence that a breakdown in Kazakh-Russian relations regarding Ukraine was impossible, independent experts and civil society figures expressed more concern. The prominence of Russian media creates additional complications. Polling data indicates that a much higher percentage of Kazakhs who received their news from Russian outlets supported the annexation of Crimea compared to those whose main source of news was Kazakh (or Western) media.¹⁰

Kazakhstan remains a strong advocate of Eurasian integration as a concept. Although it is a member of Moscow-initiated projects like the EEU, Kazakh officials, up to and including President Nazarbayev, have indicated that Astana will only participate in these projects to the extent they serve Kazakhstan’s interests and respect its sovereignty. While President Nazarbayev first proposed a Eurasian Union in the early 1990s, many Kazakh officials and experts told us that today’s EEU is essentially a Russian invention whose economic benefits

9. Birnbaum, “In Kazakhstan, fears of becoming the next Ukraine.”

10. “Majority of Kazakh residents supports Crimea’s move to join Russia, poll,” Interfax-Kazakhstan, May 14, 2014, http://www.interfax.kz/?lang=eng&int_id=expert_opinions&news_id=7081.

for Kazakhstan are mixed at best—though external factors including lower oil prices and the devaluation of the Russian ruble are blamed for some of the difficulties. Our interlocutors also emphasized that the EEU remains a work in progress, and that Kazakhstan will continue to develop economic and political ties with a range of partners even as it pursues integration with the EEU; in particular, it will continue its path toward WTO membership.

Concerns about the longer-term economic impact of EEU membership remain as well. The common tariff established for members of the Eurasian CU, set to allow Russia to remain compliant with its WTO obligations, compelled Kazakhstan to raise tariffs on goods from nonunion members from a trade-weighted average of 5.3 percent in 2011 to 9.5 percent in 2012;¹¹ in an effort to keep up its competitiveness, Kazakhstan devalued its currency in February 2014 by 19 percent, both of which led to reduction of imports. Total trade in 2014 fell by 10.5 percent from the previous year, the first annual decline since 2008. Simultaneously, many Kazakhs complain that, even as Astana has lowered barriers to imports of Russian goods, Russia imposes nontariff barriers that should have been abolished with the signing of the CU agreement. Russian and Belarusian customs agencies have, for instance, refused sanitary certificates for Kazakh produce, a dispute exacerbated by accusations that Kazakh middlemen were reimporting banned European Union (EU) foodstuffs into Russia under the aegis of the CU to circumvent Russian sanctions.

Kazakh officials do envision long-term benefits of membership, including the EEU's ability to help Kazakhstan overcome its landlocked status and open up new markets for Kazakh exports. International development officials we spoke with also acknowledged some long-term benefits of EEU membership. The influx of cheaper and higher-quality products from Russia is currently challenging local producers, but should over time spur Kazakh businesses to become more competitive.¹²

A bigger concern for many Kazakhs is the Russian ambition to make the EEU more of a supranational body with a political agenda. Astana has blocked efforts to create an EEU parliament or a common currency,¹³ as it sees such efforts as attempts to subordinate the bloc to Russian geopolitical ambitions at the expense of members' sovereignty. President Nazarbayev insisted in September 2013 that the EEU remain confined to economic issues, a point our interlocutors reiterated, with one stating that the EEU is "an economic union—period." In August 2014, Nazarbayev emphasized Kazakhstan's right to withdraw from the EEU if its interests or sovereignty were threatened—a statement Astana quickly qualified.¹⁴

11. "Kazakhstan in the Customs Union: Losses or Gains?," *World Bank*, April 18, 2012, <http://www.worldbank.org/en/news/feature/2012/04/18/kazakhstan-in-the-customs-union-losses-or-gains>; Jeffrey Mankoff, "Eurasian Integration: The Next Stage," *Central Asia Policy Brief* 13, 2, <http://origin.library.constantcontact.com/download/get/file/1110347635144-129/Policy+Brief+13,+December+2013.pdf>.

12. Kazakhstan may have already entered the ranks of the 50 most competitive countries, according to some estimates. However, its experience with the EEU has shown that factors of production, such as labor, capital, and resources, remain too expensive for it to compete successfully without protective tariffs on goods from Russia and Belarus.

13. Astana sees the introduction of a common currency at best as a longer-term objective for the EEU.

14. "Kazakhstan not intending to withdraw from EEU, Nazarbayev's words misunderstood—parliament committee head," *Interfax*, September 2, 2014, <http://www.interfax.com/newsinf.asp?id=533405>.

Besides the EEU, Kazakhstan is also an active participant in the Russian-led CSTO, where it contributes the second-largest contingent after Moscow to the CSTO's collective units.^{15, 16} The CSTO is being increasingly molded into a force for the preservation of members' internal stability, with its charter amended in 2010 to allow the alliance to intervene in member states' internal affairs (with their consent).¹⁷ Kazakhstan has enthusiastically supported this move. In 2010, Nazarbayev called for the CSTO to construct an "impregnable wall" against the potential advance of the Arab Spring.

The Ukraine crisis, of course, has significantly affected the way that many Kazakhs view relations with Russia. Assessments of the crisis within the Kazakh elite varied, with some blaming the West and Ukraine's "radical" government for the crisis and others expressing a negative view of the annexation of Crimea. Regardless of their assessment of events, Kazakh officials made clear that a close economic relationship with Russia was absolutely necessary. Nongovernmental experts with whom we spoke tended to interpret Russia's role in the Ukraine crisis and Kazakhstan's continued dependence on Russia less enthusiastically. They depicted Russia as a fading though potentially still dangerous empire, and interpreted official Kazakh support for Russia's position as the result of fear for domestic political and economic stability. One expert said that Crimea "is like our 9/11" in terms of the shock it delivered in Kazakhstan. Both officials and experts were against Western sanctions, however, primarily because they damage Kazakhstan and its neighbors economically by harming one of their major trading partners.

China

Kazakhstan has welcomed growing economic ties with China, though at least some of our interlocutors noted the potential downsides of a stronger China for Kazakh interests. China is engaged in a strategic effort to integrate the region's economy with its own through the SREB, unveiled by President Xi Jinping in a September 2013 speech in Astana. A key component of this strategy is the Chinese government's investment in industrial development and transit and energy infrastructure across Central Asia, including in Kazakhstan. More investment in infrastructure is expected from the Chinese side, as China committed \$40 billion to set up a Silk Road infrastructure fund to boost connectivity across Asia. Beijing's most significant impact on Kazakhstan is thus as a trade partner and source of investment, especially in infrastructure. Between 2005 and 2013, the share of Kazakhstan's trade turnover conducted with China tripled from 8 percent to 24 percent. As of September 2014,

15. Wikileaks, https://wikileaks.org/gifiles/docs/18/1805843_-eurasia-fwd-iran-middle-east-center-operational-strategic.html.

16. Matthew Bodner, "With Ukraine Revitalizing NATO, Russia Dusts Off Its Own Security Alliance," *Moscow Times*, October 23, 2014, <http://www.themoscowtimes.com/business/article/russia-s-csto-stumbles-on-regional-conflicts-in-drive-to-rival-nato/509986.html>; "Независимая газета" получила информацию о численности и составе спецвойск ОДКБ," *Lenta.ru*, June 3, 2009, <http://lenta.ru/news/2009/06/03/ksor>. http://www.odkb-csto.org/documents/detail.php?ELEMENT_ID=1679; and Sergei Blagov, "The CSTO Seeks Stronger Security Arrangements," *Eurasia Daily Monitor* 8, no. 98 (May 20, 2011), http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=37951&no_cache=1#.VF6WYFPF-UQ.

17. Roger McDermott, "CSTO Moves into the Information Age," *Radio Free Europe/Radio Liberty*, September 4, 2011, http://www.rferl.org/content/commentary_csto_moves_into_information_age/24317363.html.

the stock of Chinese FDI in Kazakhstan was nearly \$4 billion, making China the third-largest source of FDI in 2014.¹⁸

China's economic penetration has brought with it new areas of tension as well. Poorly worded Chinese statements on acquiring Kazakh agricultural land¹⁹ and Chinese companies' preference for importing Chinese workers have at times increased tension with locals, especially in the comparatively impoverished western region of Kazakhstan.

Management of water resources, a major challenge throughout Central Asia, has also arisen in the China-Kazakh relationship. China's construction of hydropower stations on the Irtysh and Ili rivers, near Ürümqi, threatens to severely shrink Lake Balkhash, as happened with the Aral Sea during the Soviet period, causing serious damage to Kazakh agriculture. The volume of water diverted by China greatly exceeds the level originally promised,²⁰ and the entire project has aroused great public controversy in Kazakhstan.²¹ China's diversion of the Irtysh also has the potential to impact Russian agriculture, and continued unilateral action by the Chinese could push Kazakhstan and Russia further together.²²

While Kazakhstan, like other hydrocarbon-producing countries, broadly welcomes Chinese and other foreign investment in its oil and gas sector, the state strives to limit the impact of foreign penetration in this strategic sector. Astana seeks to manage Chinese investment and has placed restrictions on Chinese purchases of oil and gas projects from third-country investors, along with quotas on foreign labor and a ban on foreign ownership of agricultural land (motivated by popular concern about Chinese land purchases).^{23, 24} For example, the China National Offshore Oil Company and Sinopec sought to acquire a stake in the Kashagan oil field in 2003, but only now, with some Western companies backing out of the project, does China appear likely to gain a stake in it (after Astana steered the project away from India's Oil and Natural Gas Corporation).²⁵

One of China's most important interests in Central Asia is ensuring stability in its restive Xinjiang Uyghur Autonomous Region, which shares a long border with Kazakhstan. Beijing worries about the activities of Uyghur activists and potentially terrorist groups

18. National Bank of Kazakhstan, "‘Монета жұлдыздары-2014’ конкурсының қорытындылары," November 25, 2014, <http://nationalbank.kz/?docid=680&switch=russian>.

19. Georgiy Voloshin, "Land Lease Scandal Blurs Pre-Election Campaign in Kazakhstan," *CACI Analyst*, March 30, 2011, <http://old.cacianalyst.org/?q=node/5527>.

20. Eric W. Sievers, "Transboundary Jurisdiction and Watercourse Law: China, Kazakhstan, and the Irtysh," *Texas International Law Journal* 37, no. 1 (2002): 12, <http://www.tilj.org/content/journal/37/num1/Sievers1.pdf>.

21. *Ibid.*, 7–13.

22. *Ibid.*, 8.

23. Jane Perlez and Bree Feng, "China Gains New Friends in Its Quest for Energy," *New York Times*, September 23, 2013, <http://www.nytimes.com/2013/09/24/world/asia/china-gains-new-friends-in-its-quest-for-energy.html?pagewanted=all&r=0>.

24. Keith Bradsher, "Kazakhstan's Bet on Rail," *New York Times*, November 20, 2013, <http://www.nytimes.com/2013/11/21/business/international/kazakhstans-bet-on-rail.html?pagewanted=all>.

25. Perlez and Feng, "China Gains New Friends in Its Quest for Energy."

across the border (Uyghurs comprise around 1.5 percent of Kazakhstan's population).²⁶ Kazakhstan works to suppress these groups with Chinese assistance.

Central Asia

Kazakhstan has been the most outspoken proponent of regional engagement within Central Asia for the better part of three decades. The promotion of the “politically stable, economically sustainable and safe development of Central Asia” is the top priority listed in Kazakhstan's Foreign Policy Concept, a goal that Kazakhstan views as best addressed through the dual policies of pursuing integration in Central Asia and addressing regional security concerns.²⁷ Most importantly, Astana clearly sees these policy tracks as complementary.

Most of our interlocutors were, however, skeptical that efforts to enhance cooperation among the five Central Asian states would have much near-term success. According to one international official we spoke with, there were more opportunities for Central Asian integration 20 years ago than there are today. A high-ranking Kazakh official agreed that the region's current generation is more focused on self-identity, and that intraregional integration will be “a matter for future generations” that will be more united by economic ties.

In practice, even informal coordination is often difficult because of tensions among the Central Asian states. Because of these tensions, many of the region's borders are closed, and the five states rarely even meet under the auspices of international organizations; economic disparities among them further complicate any efforts at integration. Implementing ambitious transport projects, including China's SREB, will require a greater level of coordination between the Central Asian states than currently exists. As it stands, the issue of borders within the region will most likely emerge as the main barrier to China's SREB strategy.

One indicator of the problem is the low level of regional trade integration. As of 2013, only 6.2 percent of the five Central Asian republics' trade was conducted with each other. Kazakhstan's official intraregional trade was even lower, at 3.7 percent, though this figure does not capture the high volume of informal trade, which some analysts estimate could be comparable in value to formal trade.²⁸ In general, intraregional trade focuses on perishable agricultural produce, which is less exportable and involves small shuttle traders. In addition, there is a large share of re-exports from Kyrgyzstan across the region.

26. Igor Rotar, “Islamic Radicalism in Kazakhstan: Myth or Reality?,” *Eurasia Daily Monitor* 9, no. 125 (July 2, 2012), http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=39573#.VDFUtyldWURs.

27. “Foreign Policy Concept for 2014-2020 Republic of Kazakhstan,” Ministry of Foreign Affairs of the Republic of Kazakhstan.

28. Roman Mogilevsky estimates that informal intraregional trade turnover between Central Asia countries in 2010 was approximately US\$2.7 billion, which is comparable in value to formal trade. See Roman Mogilevskii, “Trends and Patterns in Foreign Trade of Central Asian Countries,” University of Central Asia, 2012, <http://www.ucentralasia.org/downloads/UCA-Trends&PatternsForeignTradeCA-Eng-May2012.pdf>.

Central Asia



Source: Based on a United Nations map, <http://www.un.org/Depts/Cartographic/map/profile/centrasia.pdf>.

Kazakhs would benefit from having more prosperous, stable neighbors, which could more effectively counter the spread of drugs, crime, and extremism that could pose significant dangers to the entire region. Concerns about state weakness are mostly directed at Kyrgyzstan and Tajikistan, to which Kazakhstan has provided financial, technical, and humanitarian aid. Having resolved a border dispute with Uzbekistan²⁹ and clarified some uncertainty with Kyrgyzstan,³⁰ Kazakhstan's only other outstanding border disputes stem from the lack of maritime delimitation agreements with Turkmenistan and Iran in the Caspian Sea.³¹

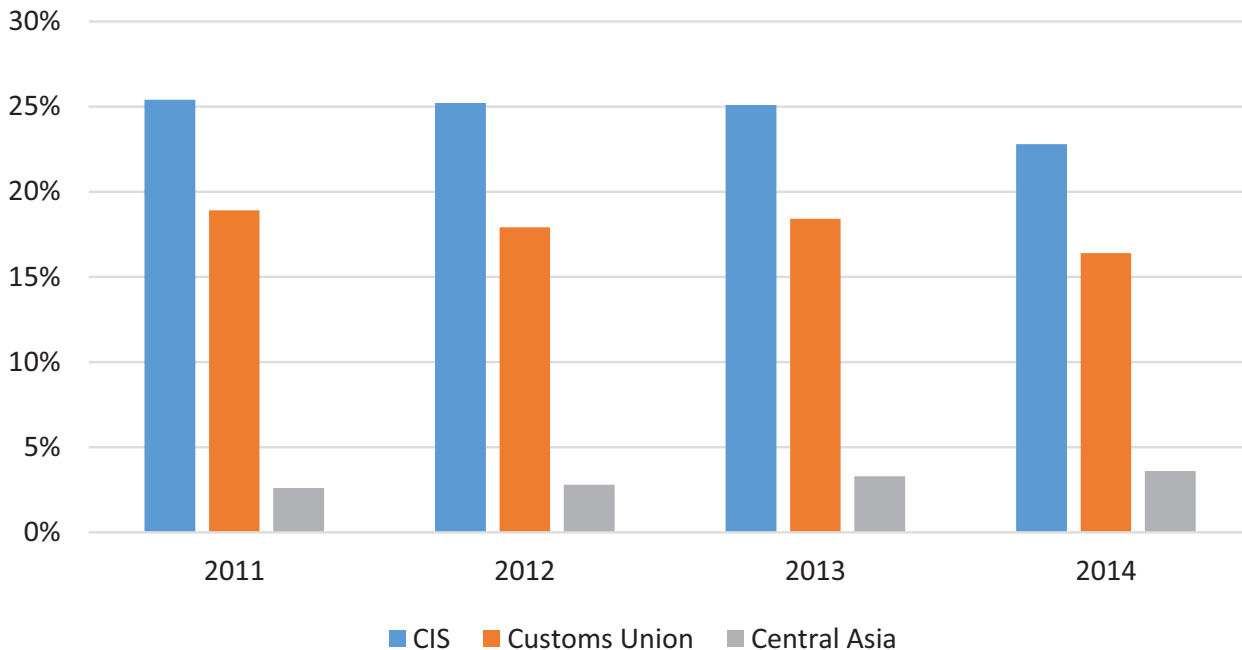
While Kazakhstan remains one of the most stable of the Central Asian states, the government is concerned that Islamist violence could become a serious threat in the future,

29. Brenda Shaffer, "A border conflict resolved without war," *Christian Science Monitor*, October 11, 2002, <http://www.csmonitor.com/2002/1011/p11s03-cojs.html>.

30. Asker Sultanov, "Kyrgyzstan and Kazakhstan complete border demarcation process," Central Asia Online, February 26, 2012, http://centralasiaonline.com/en_GB/articles/caii/features/main/2013/02/26/feature-01.

31. "Overview of oil and gas in the Caspian Sea region," U.S. Energy Information Administration, August 26, 2013, <http://www.eia.gov/countries/regions-topics.cfm?fips=csr>.

Share of Regional Trade in Kazakhstan's Global Trade Ties



Source: Committee on National Statistics of the Republic of Kazakhstan.

particularly given the proliferation of radical Islamism in neighboring states. Kazakhstan's lack of legitimate and autonomous religious institutions during the Soviet period left it with a vacuum upon independence that was filled by foreign, sometimes radical figures, especially from Saudi Arabia and Pakistan. While Astana is beginning to realize the seriousness of the problem and moving to delegitimize Salafism and "Wahhabism," some mosques continue to recruit young Kazakhs for the conflicts in Syria, Iraq, and Afghanistan. The Kazakh government acknowledges that hundreds of Kazakh citizens have already gone to fight, including children apparently recruited to fight for the so-called Islamic State.³² Furthermore, ethnic Kazakhs appear to be playing an increasingly large role in Islamist violence within their own country, whereas it used to be primarily imported by Uzbeks and other immigrants.³³

Despite the complicated relations among the five Central Asian states, Astana would like to play a larger role in the region and is developing tools to support its aims of promoting development and cooperation. One piece of this effort is the newly formed Kazakhstan Agency for International Development (KazAID). According to a foreign diplomat with knowledge of the agency, KazAID is designed with Central Asia in mind—especially the poorer states of Kyrgyzstan and Tajikistan, as well as Afghanistan—and will have a budget of \$10 million to 20 million, not counting cost-sharing with the Kazakh Ministry of Foreign

32. "Astana Probes Video Allegedly Showing Kazakh 'Jihad' Family in Syria," Radio Free Europe/Radio Liberty, October 21, 2013, <http://www.rferl.org/content/kazakh-jihad-video/25143704.html>.

33. Erlan Karin, "Myths and Realities of the Terrorist Threat in Kazakhstan" (presentation at CSIS, Washington, DC, April 8, 2014); Rotar, "Islamic Radicalism in Kazakhstan."

Affairs, with focuses on health, education, and human trafficking issues.³⁴ Another of Kazakhstan's more innovative ideas for regional cooperation is the Green Bridge Partnership Program, aimed at helping countries in the region transition to green economies. Astana sees the program as a way to address regional tensions over water, energy, food, and environmental issues. Kyrgyzstan, Mongolia, and Russia have already signed on to the program, and Tajikistan is expected to follow soon. European states like Germany, Finland, and Montenegro have also joined the program, seeing an opportunity to export their green technology to new markets.

Another form of regional integration that exists in practice is the flow of migrant workers from the poorer southern states of Central Asia to Kazakhstan. Estimates place the number of migrants arriving in Kazakhstan at anywhere between 200,000 and 1 million per year.³⁵ A senior foreign diplomat in Astana states that while the Kazakh government officially acknowledges 350,000, the true number is closer to 800,000, most of whom are Uzbeks, with a significant number of Kyrgyz and a few Tajiks. The government of Kazakhstan has largely accepted this immigration, sometimes revising upward its quotas for legal migration so as to regulate a larger portion of it, although many (perhaps most) migrants remain in the country illegally.

The Central Asian states are also highly interdependent on the issue of water, yet simultaneously very much at odds over it, as their populations grow and supplies stagnate or shrink. As a downstream state, Kazakhstan is largely on the same side as Turkmenistan and Uzbekistan, and at odds with upstream Kyrgyzstan and Tajikistan, in water disputes. Many Kazakhs fear that the Kambarata-1 and Rogun dams, planned by Kyrgyzstan and Tajikistan, respectively, possibly with Russian financial support, would reduce water flow and threaten agriculture and cotton industries in Kazakhstan, Uzbekistan, and Turkmenistan.³⁶ In February 2015, Kazakhstan suggested that Astana was "ready to consider proposals" from the Tajik side regarding the construction of Rogun and the creation of a regional hydroelectric consortium.³⁷

34. Some high-level Kazakh officials, however, took a more reserved view of KazAID, explaining that the organization is currently mired in the country's bureaucracy and the amounts of money available are too small to have a major impact.

35. Anna Di Bartolomeo, Shushanik Makaryan, and Agnieszka Weinart, eds., "Regional Migration Report: Russia and Central Asia," Migration Policy Centre, European University Institute, 2014, http://cadmus.eui.eu/bitstream/handle/1814/31245/RussiaAndCentralAsia_MPC_CarimEastReport.pdf?sequence=1; and "Kazakhstan: Migrant Tobacco Workers Cheated, Exploited," Human Rights Watch, July 14, 2010, <http://www.hrw.org/news/2010/07/14/kazakhstan-migrant-tobacco-workers-cheated-exploited>.

36. A World Bank assessment completed in mid-2014 concluded that Rogun was economically feasible and suggested constructing the dam with the participation of downstream countries. See Fernando Garces de los Fayos, "The World Bank considers feasible the building of the Tajik Rogun dam," European Parliament, Directorate-General for External Policies, Policy Department, September 2014, [http://www.europarl.europa.eu/RegData/etudes/IDAN/2014/536392/EXPO_IDA\(2014\)536392_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2014/536392/EXPO_IDA(2014)536392_EN.pdf). Many analysts, though, are skeptical of the prospects for cooperation between upstream and downstream states. See David Trilling, "Tajikistan: World Bank Gives Dam Green Light; Rights Watchdog Worried," *Eurasianet*, June 26, 2014, <http://www.eurasianet.org/node/68761>. In any case, Western sanctions and Russia's economic difficulties complicate efforts to locate financing.

37. "Kazakhstan 'ready to participate' in the construction of Tajikistan's Roghun HPP," Ferghana Information Agency, February 4, 2014, <http://enews.ferghananews.com/news.php?id=2925>.



Source: Background layer attributed to DEMIS Mapserver, maps created by Shannon1 via Wikimedia Commons, http://en.wikipedia.org/wiki/Syr_Darya#/media/File:Syr_daryamap.png and http://en.wikipedia.org/wiki/Amu_Darya#/media/File:Amudaryamap.jpg.

According to one Kazakh government official, half of intergovernmental correspondence among the Central Asian states is devoted to water issues, and resolving them could remove a major obstacle to intraregional integration. International organization officials based in Kazakhstan largely agreed, with one saying that “very little progress, if any,” has been made on water, but that Kazakhstan, unlike its neighbors, has said publicly that it favors regional cooperation. To be sure, there are a few instances of bilateral cooperation on water issues under way; namely, water-sharing negotiations between Kazakhstan and Uzbekistan and the Chu-Talas Commission established in 2006 by Kazakhstan and Kyrgyzstan. Both these frameworks, however, are bilateral, and broader cooperation in the region remains sparse.

Amu Darya Watersheds



The United States and NATO

Astana recognizes that Washington will never match the influence of Moscow or Beijing in Central Asia, but Kazakh officials acknowledge that the United States possesses its own distinct advantages and would like to see greater U.S. bilateral and regional engagement. Officials and experts in Astana argue that Kazakhstan should matter to the United States because of its geographical position, its moderate and balanced position in geopolitics, and its natural resources. Nevertheless, the general tenor of our conversations indicated a concern that U.S. interest in the region has already begun to decline. Astana fears that the withdrawal of U.S. forces from Afghanistan will lead the United States to permanently downgrade its engagement with Central Asia, especially on economic issues and regional integration initiatives in which Kazakhstan covets U.S. involvement. Kazakh elites

emphasize that the United States possesses competitive advantages in technology, business and legal best practices, institutions, and overall values that, if applied in the region, would be beneficial to its longer-term development.

At the same time, our Kazakh interlocutors expressed frustration at the contradictions and inconsistencies in U.S. policy. Astana believes that in its eagerness to check the expansion of Russian influence, the United States is ignoring Central Asia's need for good relations with Moscow. Officials expressed similar concerns about U.S. policy toward Iran, noting that efforts to isolate Tehran deprived Central Asia of an alternative source of energy and its most direct access to the sea, in effect undermining Washington's stated goal of maximizing Central Asia's sovereignty and independence.

Some experts with whom we spoke also decried the overemphasis on security in Washington's outreach to the region. While this focus was inevitable in the context of the war in Afghanistan, our interlocutors worried that it would continue to be the centerpiece of U.S. policy, including possibly in the implementation of the planned New Silk Road initiative. Kazakhs we spoke with were generally positive on the potential effects of the New Silk Road initiative, which dovetails with Kazakhstan's interest in promoting regional integration, transit, and trade. However, many were skeptical of its coherence or long-term prospects. According to one analyst, it is "a mix of separate but necessary projects."

Since independence, outside economic interest in Kazakhstan has been concentrated in the energy sector, but our interlocutors emphasized that Astana's efforts to diversify its economy create new opportunities for U.S. (and other) business. The government has taken concrete steps to encourage nonenergy investment and would like to see U.S. and other foreign companies take advantage of the resulting opportunities. Of course, the challenge for Kazakhstan is to convince private companies in the United States and elsewhere to invest in the country.

In our conversations, Kazakh officials highlighted several areas in which U.S. investment and expertise are needed, especially supply chain management. They also repeatedly emphasized the importance of projects that entail technology transfer. Additionally, Kazakh officials indicated that they would like to see U.S. companies, including consumer-goods companies, open additional franchises in Kazakhstan. They argue that the success of U.S. goods in the Kazakh market should provide an incentive for U.S. companies outside the energy sector to be more active, though Kazakhstan's relatively small population and logistical challenges limit U.S. companies' interest. Kazakhstan would also like to see the United States provide greater support, including expertise, for initiatives such as the Green Bridge and the planned Expo 2017 in Astana.

In keeping with its multivector approach, Kazakhstan also has the closest relations with NATO of any CSTO member. Like the other four Central Asian states, Kazakhstan is a member of the Partnership for Peace (PfP), but unlike its Central Asian neighbors, it also participates in NATO's Planning and Review Process, which seeks to improve partner militaries' capacity to cooperate with NATO forces. Kazakhstan has also signed an

Individual Partnership Action Plan (IPAP) designed to assist partner countries with the reform of their defense and security institutions. Since joining PfP in 2006, Kazakhstan has also become the only Central Asian country to host NATO exercises, annually conducting “Steppe Eagle” drills within the framework of the PfP.^{38, 39} The main Kazakh contribution to Steppe Eagle is the 38th Air Assault Brigade, or KAZBRIG, a dedicated peacekeeping force consisting of more than 900 personnel⁴⁰ that has received extensive Western training and supplies.⁴¹ The formation is composed of the Airmobile Forces Battalion (KAZBAT) and two others that are not yet fully operational as of 2015.^{42, 43} Steppe Eagle is normally held in Kazakhstan each year at KAZBRIG’s training site in Almaty province⁴⁴ (though it was held in Germany in 2014).⁴⁵ Kazakh forces have also provided direct support for NATO operations, most notably in Iraq, where approximately 290 troops from KAZBAT were deployed between 2003 and 2008, carrying out demining operations and providing medical care to Iraqi citizens.⁴⁶

A particular area of U.S.-Kazakh cooperation has been nuclear security and non-proliferation, dating back to efforts in the 1990s to remove the nuclear weapons Kazakhstan inherited from the Soviet Union. The United States and Kazakhstan have a so-called 123 agreement on civilian nuclear cooperation and continue to be partners in crucial nuclear security projects. In 2006, the U.S. Department of Energy and its National Nuclear Security Administration, in cooperation with Kazakhstan’s Customs Control Committee, set up radiation-detection equipment at various points of exit and entry along Kazakhstan’s borders. The two countries are also actively working on converting highly enriched uranium into low-enriched uranium fuel for civilian nuclear reactors. Kazakhstan has concluded

38. Between 2003 and 2006, Kazakhstan had held exercises with the United States and United Kingdom outside of a NATO framework.

39. Richard Weitz, “Kazakhstan Steppe Eagle Exercise Helps Sustain NATO Ties,” *CACI Analyst*, September 18, 2013, <http://www.cacianalyst.org/publications/analytical-articles/item/12816-kazakhstan-steppe-eagle-exercise-helps-sustain-nato-ties.html>.

40. Roger McDermott, “Kazakhstan Hosts Steppe Eagle 2012,” *Eurasia Daily Monitor* 9, no. 164 (September 11, 2012), http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=39828&no_cache=1#.VOdg1vnF-So; Roger McDermott, “Vigilant Eagle: Kazakhstan’s Assistance to ISAF in Afghanistan,” *Connections: The Quarterly Journal* 10, no. 3 (2011), http://procon.bg/system/files/10.3.05_mcdermott.pdf.

41. Dmitry Gorenburg, “External Support for Central Asian Military and Security Forces,” Stockholm International Peace Research Institute, January 2014, <http://www.sipri.org/research/security/afghanistan/central-asia-security/publications/SIPRI-OSFno1WP.pdf>, 51-52.

42. Joshua Kucera, “Kazakhstan Reportedly Eyeing African UN Peacekeeping,” *Eurasianet*, September 11, 2012, <http://www.eurasianet.org/node/65896>; Zarina A. Zharkimbekova, “The Republic of Kazakhstan to Participate in the UN Peacekeeping Activities: Preparatory Groundwork, Challenges, and Prospects for Cooperation,” Karaganda Economic University, <http://journale.auris-verlag.de/index.php/EESJ/article/download/15/16>.

43. John C. K. Daly, “Steppe Eagle 2015 Exercise Unites CSTO and NATO forces in Kazakhstan,” *Eurasia Daily Monitor* 12, no. 68 (April 13, 2015), http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=43783&tx_ttnews%5BbackPid%5D=27&cHash=a478b906e28c7bcfa0b0362acc33382e#.VWXmvM9Vikq.

44. Weitz, “Kazakhstan Steppe Eagle Exercise Helps Sustain NATO Ties.”

45. The 2014 exercise included forces from the host, Kyrgyzstan, and Tajikistan, in addition to the usual U.S., UK, and Kazakh components; 150 members of KAZBRIG attended. See “KAZBAT participates in Steppe Eagle 2014 exercise in Germany,” *KazInform*, October 8, 2014, <http://www.inform.kz/eng/article/2704233>.

46. Weitz, “Kazakhstan Steppe Eagle Exercise Helps Sustain NATO Ties.” Kazakhstan suffered one casualty among its forces in Iraq.

negotiations with the International Atomic Energy Agency to host an international bank of low-enriched uranium fuel, an idea originally proposed by the former U.S. senator Sam Nunn.

The United States also remains Kazakhstan's second-largest source of FDI, after the EU.

Europe and the European Union

The EU is a crucial economic partner for Kazakhstan. In 2013, 32 percent of Kazakhstan's trade (\$28 billion exports, \$9.8 billion imports) was with the EU, with fuels and mining products accounting for 95.5 percent of EU-bound trade,⁴⁷ while 58 percent (\$69.2 billion) of its FDI stock was from the EU.⁴⁸

The EU is perceived as having substantial economic leverage in Kazakhstan, but little political clout compared to Moscow, Washington, or Beijing. Kazakhstan no longer qualifies for European development aid, as it now ranks as a middle-income country; however, it continues to participate in EU-financed regional projects. Meanwhile, EU assistance to civil society organizations through the European Instrument for Democracy and Human Rights and the Non-State Actors and Local Authorities continues.

In October 2014, President Nazarbayev completed negotiations in Brussels on a new enhanced Partnership and Cooperation Agreement with the EU. Apart from confirming broader cooperation in various fields (although not as far-reaching as the association agreements negotiated with Ukraine, Georgia, and Moldova), it also marks the successful completion of negotiations between Astana and Brussels on Kazakhstan's WTO accession.

The EU has also contributed to Central Asian and Eurasian integration, principally through the TRACECA (Transport Corridor Europe-Caucasus-Asia) project, which provides technical assistance and funding to coordinated transport projects running from southern Europe, across the Black Sea, through the South Caucasus, across the Caspian Sea, and into Central Asia.⁴⁹ While TRACECA has been in place since the 1990s, outside experts with whom we spoke downplayed its accomplishments, noting in particular the lack of investment in new infrastructure.

Like its neighbors, Kazakhstan is also a member of the Organization for Security and Cooperation in Europe (OSCE), and in 2010 became the first Central Asian state to chair the OSCE. The Kazakh chairmanship focused primarily on nonsecurity-related issues, such as the Aral Sea and trade, while using the chairmanship to enhance Kazakh visibility on the global stage. However, it also promoted the concept of an OSCE Border Management and

47. "European Union, Trade in Goods with Kazakhstan," European Commission, Directorate-General for Trade, September 2006, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113406.pdf.

48. This figure includes external funds routed through EU-affiliated tax havens like the British Virgin Islands and Cyprus.

49. Michael Emerson, Jos Boonstra, Nafisa Hasanova, Marlene Laruelle, and Sebastian Peyrouse, "Into Eurasia," EU-Central Asia Monitoring, Centre for European Policy Studies, 2010, 84–87, http://fride.org/download/EUCAM_Final_Report.pdf.

Staff College, which Astana wanted to host. The college, though, ended up in Tajikistan near the Afghan border, and its very existence is now jeopardized by the OSCE's current Russia-induced budgetary deadlock. While Kazakhstan initially criticized the college's curriculum, it now participates to a degree.

The EU's individual members at times pursue varying approaches toward Kazakhstan as well, though most prioritize economic ties. Kazakhstan is the key Central Asian partner for the major EU states because of the economic opportunities it presents. During a November 2014 visit to Astana, Foreign Minister Frank-Walter Steinmeier noted Germany's interest in expanding economic cooperation, particularly in energy and infrastructure development, noting that Kazakhstan was an "anchor of stability" in Central Asia.⁵⁰ French president François Hollande also traveled to Kazakhstan in December 2014, mostly to discuss trade and investment ties. Kazakhstan is the largest supplier of uranium for France's nuclear power industry, while Astana buys weapons and machinery from France, making it Kazakhstan's fifth-largest trade partner.⁵¹

During his December 2014 trip to Astana, Hollande also consulted with Nazarbayev on the crisis in Ukraine. Indeed, as relations between Europe and Russia have cooled, European leaders have at times turned to Kazakhstan as a go-between with the Kremlin. With European support, Astana even prepared to host a summit meeting in January 2015 with Hollande, German chancellor Angela Merkel, Russian president Vladimir Putin, and Ukrainian president Petro Poroshenko to seek a resolution of the conflict in Ukraine.⁵²

Turkey

For Kazakhstan, cooperation with Turkey (and the Turkic world more broadly) represents yet another way of balancing between the various geopolitical poles that surround it. While a common ethnic and religious heritage tie Kazakhstan to Turkey, economic cooperation largely drives the relationship. Nazarbayev has even proposed admitting Turkey into the EEU.⁵³ Turkey maintains a moderate economic presence in Kazakhstan, with trade turnover between the two countries close to \$2.7 billion in 2013, or 2.3 percent of Kazakhstan's total trade. Turkish companies constructed the Kazakh Mazhilis building and Nazarbayev University. On the other hand, Turkish FDI into Kazakhstan is almost nonexistent,

50. Malika Orazgaliyeva, "Kazakh, German Foreign Ministers Discuss Economic Relations in Astana," *Astana Times*, November 11, 2014, <http://www.astanatimes.com/2014/11/kazakh-german-foreign-ministers-discuss-economic-relations-astana/>.

51. "Hollande in uranium-rich Kazakhstan to discuss contracts, relations with Russia," *Radio France Internationale*, December 5, 2014, <http://www.english.rfi.fr/asia-pacific/20141205-hollande-uranium-rich-kazakhstan-discuss-contracts-relations-russia>.

52. "Hollande Holds Talks with Nazarbayev in Astana," *Radio Free Europe/Radio Liberty*, December 5, 2014, <http://www.rferl.org/content/hollande-holds-talks-with-nazarbaev-in-astana/26726497.html>. This planned Astana summit never took place, as diplomats were unable to make progress toward a settlement ahead of the meeting. See "Berlin Peace Talks on Ukraine Fall Flat," *Radio Free Europe/Radio Liberty*, January 12, 2015, <http://www.rferl.org/content/ukraine-crisis-berlin-meeting-/26788249.html>.

53. Alim Bayaliyev, "The Turkic Council: Will the Turks Finally Unite?," *CACI Analyst*, February 19, 2014, <http://www.cacianalyst.org/publications/analytical-articles/item/12916-the-turkic-council-will-the-turks-finally-unite?.html>.

representing only 0.4 percent of the country's total in 2013, according to International Monetary Fund (IMF) data. While Turkish interest in Central Asia has waxed and waned since the Soviet collapse, domestic difficulties and the war in neighboring Syria have reduced Ankara's ability to focus on the region in recent years, leaving its companies to play the leading role in maintaining ties between Central Asia and Turkey.

Besides commerce, Turkish culture also penetrates Central Asia and Kazakhstan through the *Hizmet* (Gülen) movement, which operates one university⁵⁴ and about 30 elite schools and possesses ties with a network of businesses throughout Central Asia.⁵⁵ Along with Azerbaijan and Kyrgyzstan, Turkey and Kazakhstan are also members of the Cooperation Council of Turkic-Speaking States, or Turkic Council, which is headquartered in Istanbul. Like the Eurasian Union, this council was initially suggested by Nazarbayev, though it remains comparatively underdeveloped, its efforts to address the boundary dispute in the Caspian Sea between Azerbaijan and Turkmenistan having made little progress.

Afghanistan and South Asia

Lacking a common border with Afghanistan, Kazakhstan can afford to be comparatively sanguine about the situation there. The Kazakhs we spoke with had mixed assessments of the situation in Afghanistan. One official expressed “cautious optimism,” noting that Afghanistan poses no serious threat to Central Asia, even if Afghanistan itself will remain unstable for some time to come. Ultimately, the main security threat that most Kazakhs see emanating from Afghanistan appears to be crime derived from drug trafficking. As of 2011, Afghanistan provided approximately 75 percent of the world's heroin, about 25 percent of which was sent north to Central Asia, with 80 percent of that amount ultimately arriving in Russia.⁵⁶ Combined with other drugs and the gang activity and human trafficking that often develop alongside their illicit transport, this problem does significant damage to Kazakhstan's prosperity, health, and law and order.

Like its neighbors, Kazakhstan also sees Afghanistan as a promising transit corridor to South Asia, if the security situation can be managed following the withdrawal of international forces. For now, a possible Kazakhstan-Turkmenistan-Afghanistan railway is being examined, and Astana is favorably inclined to the proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline.⁵⁷ Kazakhstan has likewise played a relatively prominent

54. Bayram Balci, “What Future for the Fethullah Gülen Movement in Central Asia and the Caucasus?,” *CACI Analyst*, July 2, 2014, <http://www.cacianalyst.org/publications/analytical-articles/item/13006-what-future-for-the-fethullah-g%C3%BClen-movement-in-central-asia-and-the-caucasus?.html>.

55. Bayram Balci, “The Gülen Movement and Turkish Soft Power,” Carnegie Endowment for International Peace, February 4, 2014, <http://carnegieendowment.org/2014/02/04/g%C3%BClen-movement-and-turkish-soft-power>.

56. Timothy A. Krambs, “Drug Control in Central Asia: An Assessment of Compliance with International Law,” Foreign Military Studies Office, U.S. Army, 5, <http://fmso.leavenworth.army.mil/Collaboration/FAO/Drug-Control-Central-Asia.pdf>.

57. “Declaration of the Istanbul Process on Regional Security and Cooperation for a Secure and Stable Afghanistan,” Istanbul Conference on Afghanistan, November 2, 2011, <http://www.cfr.org/afghanistan/declaration-istanbul-process-regional-security-cooperation-secure-stable-afghanistan/p26434>.

role in providing development assistance. For instance, Kazakhstan has provided \$50 million for the education of Afghan students in Kazakh universities.⁵⁸

Kazakhstan is hopeful that India will become increasingly engaged with Central Asia. It views India as a partner with which it shares many values and a large country whose potential future engagement with Central Asia could reinforce Kazakhstan's multivector foreign policy. Likewise, New Delhi is keen on developing closer ties with Astana in order to gain greater access to Kazakhstan's plentiful hydrocarbon and uranium deposits.⁵⁹

India and Kazakhstan have engaged in limited educational exchange: according to Kazakh officials, in 2011 there were approximately 1,000 Indian students studying in Kazakhstan, the vast majority of them studying medicine. New Delhi has meanwhile sponsored the education of roughly 700 Kazakh professionals and scholars through its Indian Technical and Economic Cooperation Program since the early 1990s. Astana and New Delhi also cooperate on space exploration, and in 2011 both countries adopted a memorandum of understanding committing to expand cooperation in space-related research and development.

Instability in much of the rest of South Asia continues to limit actual cooperation between Kazakhstan and India, despite their sharing a range of common interests. According to one Kazakh official we spoke with, India's focus is elsewhere, in part due to the difficult situation in both Afghanistan and Pakistan, and because India "punches below its weight" internationally, including with regard to trade. While Kazakhstan's trade with India has almost quintupled since 2005, it still represents only 0.6 percent of total Kazakh trade. In any case, India's apparently imminent membership in the Shanghai Cooperation Organization is likely to bolster its visibility in Central Asia.⁶⁰

Iran

Iran, like India, is seen as a possible major trade partner for Kazakhstan in the future, but one that is not living up to its full potential at present. Kazakh officials see Iran's importance largely in the context of a path to the Persian Gulf and thus the wider world. One expert told us that Kazakhstan has "never forgotten" about Iran, despite the sanctions levied upon it, and that a southern route for Kazakh exports is more likely to run through Iran than Afghanistan. While the littoral states' competing territorial claims in

58. Jawed Ludin et al., "The Istanbul Process Ministerial: Results and Prospects for the Future," Carnegie Endowment for International Peace, April 26, 2013, <http://carnegieendowment.org/2013/04/26/istanbul-process-ministerial-results-and-prospects-for-future/g05j>; and "KazAID project signed," United Nations Development Program in Kazakhstan, October 31, 2014, <http://www.undp.kz/en/articles/1/369.jsp>.

59. Mary Carras, "India's Dilemma: Accessing Central Asia's Wealth," *Foreign Policy in Focus*, November 29, 2013, <http://fpif.org/indias-dilemma-accessing-central-asias-wealth/>.

60. Shannon Tiezzi, "The New, Improved Shanghai Cooperation Organization," *Diplomat*, September 13, 2014, <http://thediplomat.com/2014/09/the-new-improved-shanghai-cooperation-organization/>.

the Caspian Sea have not been fully resolved, our Kazakh interlocutors downplayed the importance of these disputes.

Kazakh officials are especially excited about the possibilities offered by the Kazakhstan-Turkmenistan-Iran railway. Turkmenistan completed the last section in August 2014,⁶¹ and soon the route will provide Kazakhstan with its shortest outlet to the sea. Furthermore, an additional major opportunity in this regard is Kazakhstan's recent decision to join the Uzbekistan-Turkmenistan-Iran-Oman transport corridor, which would further connect Central Asia to the Persian Gulf, though the project remains for now in the design phase.⁶² Given Kazakhstan's deep frustration with Iran's current pariah status, it is unsurprising that the country has sought to play a role in ending Iran's isolation. It hosted P5+1 negotiations on Iran's nuclear program in February and April 2013, and President Nazarbayev has encouraged Iran to follow Kazakhstan's lead in giving up nuclear weapons.⁶³ One Kazakh official we spoke with even suggested that, thanks to its good relations with both Washington and Tehran, Kazakhstan may be the only mediator capable of bringing together Iran and the United States.

61. "Turkmenistan has completed construction of its segment of North-South railway," *Chronicles of Turkmenistan*, Turkmen Initiative for Human Rights, August 27, 2014, <http://www.chrono-tm.org/en/2014/08/turkmenistan-has-completed-construction-of-its-segment-of-north-south-railway/>.

62. "Uzbekistan, Turkmenistan, Iran, Oman still intending to create new transport corridor," Interfax, August 6, 2014, <http://www.interfax.com/newsinf.asp?id=526672>.

63. Nursultan Nazarbayev, "What Iran Can learn from Kazakhstan," *New York Times*, March 26, 2013, <http://www.nytimes.com/2012/03/26/opinion/what-iran-can-learn-from-kazakhstan.html>.

3 | Kazakhstan in a Reconnecting Eurasia

For much of the recent past, Kazakhstan's location has been a handicap, as its landlocked position has left it isolated from global trading routes. Today, Kazakhstan's leadership seeks to become a "land-linked" hub for overland transcontinental trade, seizing the opportunity presented by the emergence of new trade and transit corridors between Europe and Asia.¹ Astana consequently seeks to develop new infrastructure to promote transcontinental trade and transit while attracting additional foreign investment both in the well-developed commodities sector as well as in newer manufacturing-based industries.

As part of this process, Kazakhstan seeks to reduce its dependence on crude oil exports, which have been the main staple of Kazakhstan's economy since independence. While Astana has been farsighted in stashing its income from oil sales in a National Welfare Fund (*Samruk-Kazyna*), it recognizes the need to plan for a future beyond oil. The emphasis on trade and transit is thus in part a strategy for turning Kazakhstan's geography into a long-term asset.

As President Nazarbayev has noted, trade and infrastructure links also have a strategic subtext. For now, remoteness from major global trade arteries is viewed as a source of vulnerability. Becoming a crossroad for trade will ensure Kazakhstan's national security, political stability, and economic growth,² as well as reinforce Astana's multivector foreign policy as it seeks to reduce its vulnerability to Russian pressure.

One of the biggest pieces of this strategy is the development of new transit infrastructure linking Kazakhstan to its neighbors east and west, north and south. *Kazakhstan 2050* calls for the "capacity of transit across Kazakhstan" to be doubled by 2020 and increased tenfold by 2050. Kazakhstan's current stage of infrastructure development is being implemented according to the 2010–2014 National Program of Accelerated Industrial and Innovative Development, inaugurated in March 2010, and the *Nurly Jol* economic program. Despite this political support, Kazakhstan captures comparatively little transit trade (around

1. Johannes Linn, "Central Asian Regional Integration and Cooperation: Reality or Mirage?," Eurasian Integration Yearbook of the Eurasian Development Bank, 2012.

2. Nursultan Nazarbayev, "Prosperity, Security, and Ever Growing Welfare of All the Kazakhstanis," Office of the President of Kazakhstan, October 10, 1997, http://www.akorda.kz/en/page/page_address-of-the-president-of-the-republic-of-kazakhstan-nursultan-nazarbayev-to-the-people-of-kazakhstan-october-10-1997_1343986436.

Nurly Jol: A New Economic Course

On November 11, 2014, President Nazarbayev delivered a national address entitled *Nurly Jol* (Bright Path), which marked a departure from previous strategic documents, including *Kazakhstan 2050*. *Nurly Jol* lays out a more practical, domestically focused economic strategy that seeks to boost the competitiveness of local enterprises and increase local demand for goods and services. Under this plan, Kazakhstan envisages spending up to \$2.2 billion from its National Welfare Fund to support local entrepreneurs, the banking system, and infrastructure development. This spending is on top of the 1 trillion tenge (approximately \$5.5 billion) allocated earlier for private-sector loans. An additional outlay of \$3 billion will support the budget annually for the next three years. In addition, Nazarbayev announced that more financing will be sought from international financial institutions, implying that Kazakhstan will undertake economic reforms that incorporate these institutions' advice.

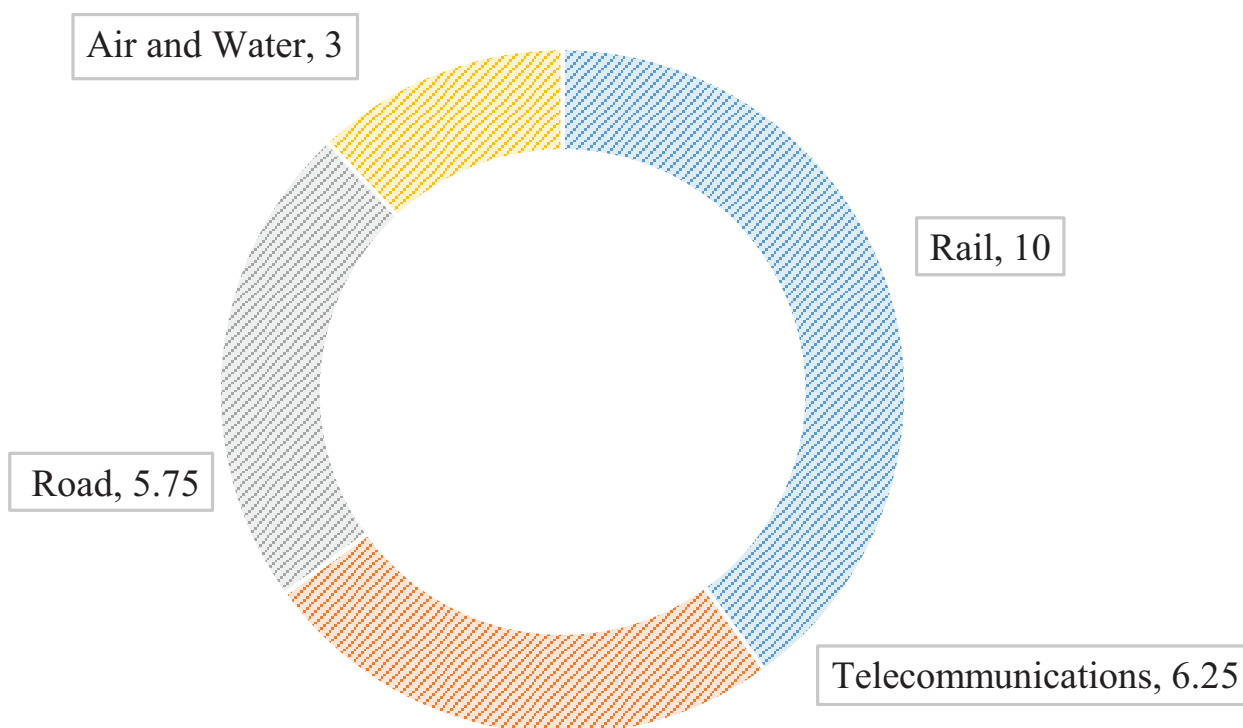
Astana also has stated a desire to improve governance and oversight as part of the *Nurly Jol* program. Although spending from the National Welfare Fund increases the state's role in the economy, the government sees this step as only temporary. A draft amendment to the law on competition, state property, and the National Welfare Fund currently under discussion in parliament seeks to limit the interference of state-owned organizations in the private sector. Under these amendments, Astana will create no more new state organizations unless demanded by national security interests. The amendments help lay the ground for the ongoing privatization of dozens of state properties, although for now the assets being offered for privatization are mostly just derelict buildings.

1 percent of the total overland transit revenue, according to a senior Kazakh researcher we interviewed). Of course, spending plans (see chart) are contingent on the availability of funds, which in turn will depend heavily on oil prices.³

Inadequate infrastructure is an obstacle, but bigger problems lie in the deficit of “soft infrastructure” (i.e., human capital, policies, and regulations) that plagues Central Asia as a whole. According to a prominent figure in the Kazakh business community, a major issue that Kazakhstan faces is a lack of competent supply chain management. While Kazakhstan

3. Kazakhstan Temir Zholy, Kazakhstan's railway operator, has turned to global financial markets to supplement government financing of this development. In 2014, Kazakhstan Temir Zholy had a new bond issue worth \$105.3 million and received a \$157 million loan from the European Bank for Reconstruction and Development. In addition, in 2014 Russia's Sberbank signed a memorandum with Kazakhstan Temir Zholy, committing to provide an additional \$3.6 billion. See <http://www.railway-technology.com/news/newsebrd-loans-121m-to-kazakhstan-temir-zholy-ktz-for-rail-equipment-4391020>; and “Сбербанк заключил меморандум с ‘Қазақстан темір жолы,’” *Forbes.kz*, June 12, 2014, http://forbes.kz/finances/investment/sberbank_zaklyuchil_memorandum_s_azastan_temr_jolyi.

Planned Infrastructure Investment in Kazakhstan Through 2030, USD Billions



Source: http://www.kazembassy.org.uk/transport_and_communications.html.

has relatively high logistics competence, on par with Russia and the European/Central Asian average (though much lower than the United States and China), according to World Bank rankings,⁴ transportation costs still make up roughly twice the proportion of the final price of goods in Kazakhstan as compared to most industrialized countries.⁵ The Organization for Economic Cooperation and Development's (OECD's) *Review of Agricultural Policies: Kazakhstan 2013*⁶ identifies serious inefficiencies at all levels of the supply chain that contribute to the higher cost of transportation. Much of the problem stems from corruption and insufficient infrastructure.

Moreover, despite Astana's rhetorical emphasis on building infrastructure throughout the country, the impact on development remains questionable. One senior international

4. The "competence and quality of logistics services" metric is derived from the responses of logistics professionals working in Kazakhstan who were asked to "evaluate the competence and quality of service delivered" in the country by road, rail, air, and maritime transport service providers, warehousing/transloading and distribution operators, freight forwarders, customs agencies, quality/standards inspection agencies, health agencies, customs brokers, trade and transport-related associations, and consignees or shippers. "Logistics Performance Index—Country Scorecard 2014: Kazakhstan," World Bank, <http://lpi.worldbank.org/international/scorecard/column/254/C/KAZ/2014/C/TKM/2014/C/TJK/2014/C/KGZ/2014/C/UZB/2014/C/USA/2014/C/CHN/2014/C/RUS/2014/R/ECA/2014#chartarea>.

5. "Transport and Communications," Embassy of the Republic of Kazakhstan, 2011, https://web.archive.org/web/20120109025512/http://www.kazembassy.org.uk/transport_and_communications.html.

6. Organization for Economic Cooperation and Development (OECD), *Review of Agricultural Policies: Kazakhstan 2013* (Paris: OECD, 2013), <http://www.oecd.org/tad/agricultural-policies/kazakhstan-review-2013.htm>.

development official told us that the Kazakh government tends to focus infrastructure spending on “big-ticket items” in Astana and Almaty, at the expense of smaller outlying towns and making real improvements in the population’s living standards. That said, Kazakhstan has unquestionably achieved some successes in its infrastructure development.

One of the key drivers for Kazakhstan’s efforts to capture more overland trade as a means of building new political partnerships is the Northern Distribution Network (NDN). While the thousands of containers of supplies into Afghanistan that transited the NDN since 2009⁷ traversed multiple routes, they all crossed through Kazakhstan along the way. Rail lines south from Russia and from the Caspian port of Aktau to the Uzbek border were incorporated into the NDN, along with the Aktau port itself and the airport at Shymkent. Part of the rationale behind NDN was to address the bureaucratic and logistical obstacles (such as corruption in the customs services) that continue to impede trade throughout Central Asia. Astana was an enthusiastic supporter of this concept that, in addition to generating transit revenue, offered the possibility of a more lasting regional economic framework. Astana still views the NDN (now working primarily in reverse to bring material out of Afghanistan) as a platform for enduring regional trade linkages. It also appreciates the role the NDN played in boosting U.S. procurement of Kazakh goods to service the network and provide to Afghanistan, even if the NDN on the whole fell short of U.S. aspirations to become self-sustaining.

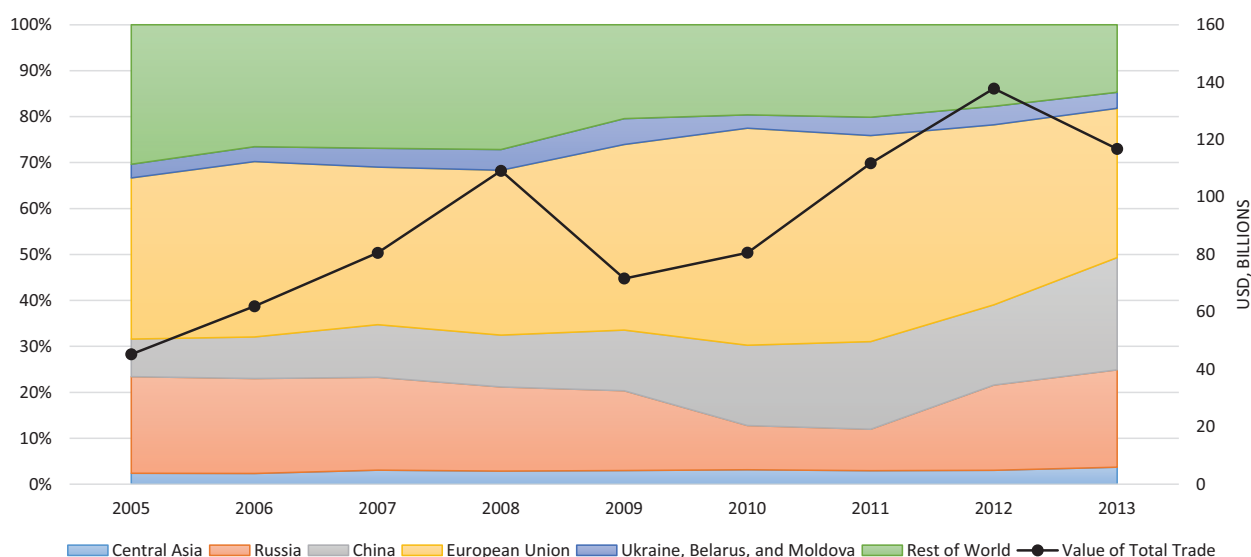
Foreign Trade and Investment

Since independence, the bulk of Kazakhstan’s export revenue has come from oil and, to a lesser degree, gas and other natural resources. The energy sector has also been the primary target for FDI, which Astana has consciously sought to diversify as a means of giving a wide range of partners a stake in its success. Since the early 1990s, international oil companies have taken a leading role in the development of Kazakhstan’s energy. Today, lower oil prices and questions about the commercial viability of Kazakhstan’s giant Kashagan field have tempered foreign investors’ enthusiasm, but Astana remains committed to diversifying both its trading partners and the contents of its exports.

The overall contours of Kazakhstan’s foreign economic relations have, unlike many of its Central Asian neighbors, remained relatively stable over the past decade, even as the country’s overall trade turnover has risen dramatically during that period, from \$45 billion to \$116 billion. Since 2005, Kazakhstan has seen annualized growth of more than 10 percent in its trading relationships with a host of major partners, including the Central Asian states, Russia, China, the EU, Turkey, and the states of South Asia (the United States

7. Andris Spruds and Diana Potjomkina, eds., *Northern Distribution Network: Redefining Partnerships within NATO and Beyond* (Riga: Latvian Institute of International Affairs, 2013), 17, http://liia.lv/site/docs/NDN_redefining_partnerships_within_NATO_and_beyond_LIIA_web_1st_part.pdf.

Breakdown of Kazakhstan's Total Trade



Source: International Monetary Fund Direction of Trade Statistics and author calculations.

Annualized Growth in Kazakhstan's Global Trade Ties, 2005–2013

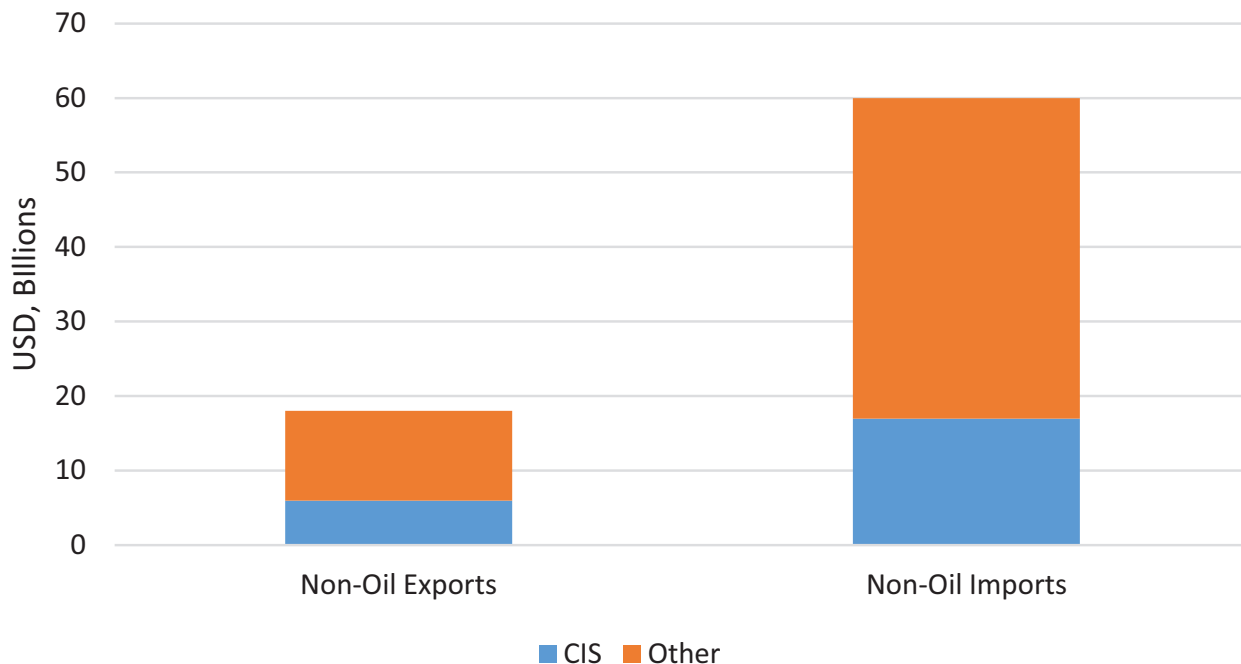
Partner Country/Group	Growth Rate	Value in 2005 (Million USD)	Value in 2013 (Million USD)
World	12.58%	45,246	116,772
Central Asia	18.99%	1,077	4,326
Russia	12.69%	9,518	24,747
China	29.10%	3,697	28,523
European Union	11.51%	15,871	37,944
Ukraine, Belarus, and Moldova	14.81%	1,351	4,077
Turkey	22.06%	557	2,743
United States	3.98%	1,871	2,557
South Asia	17.33%	294	1,057
Iran	-3.60%	901	672
South Caucasus	9.39%	255	523

Source: International Monetary Fund Direction of Trade Statistics and author calculations.

remains a notable exception). Together, trade with the EU, China, and Russia made up over 78 percent of Kazakhstan's total trade with the outside world in 2013, while Central Asia accounts for less than 4 percent.

According to the Kazakh State Statistics Committee, mineral products (largely oil and gas) constituted 80 percent of total exports (50 percent of exports to the CIS) in 2013. Refined petroleum products, which come mainly from Russia, are also significant Kazakh

Kazakhstan's Non-Oil Trade



Source: Committee on Statistics of the Republic of Kazakhstan.

imports. The CIS is the principal market for Kazakhstan's non-oil exports and a major source of its non-oil imports, such as machinery, metals, and foodstuffs.⁸

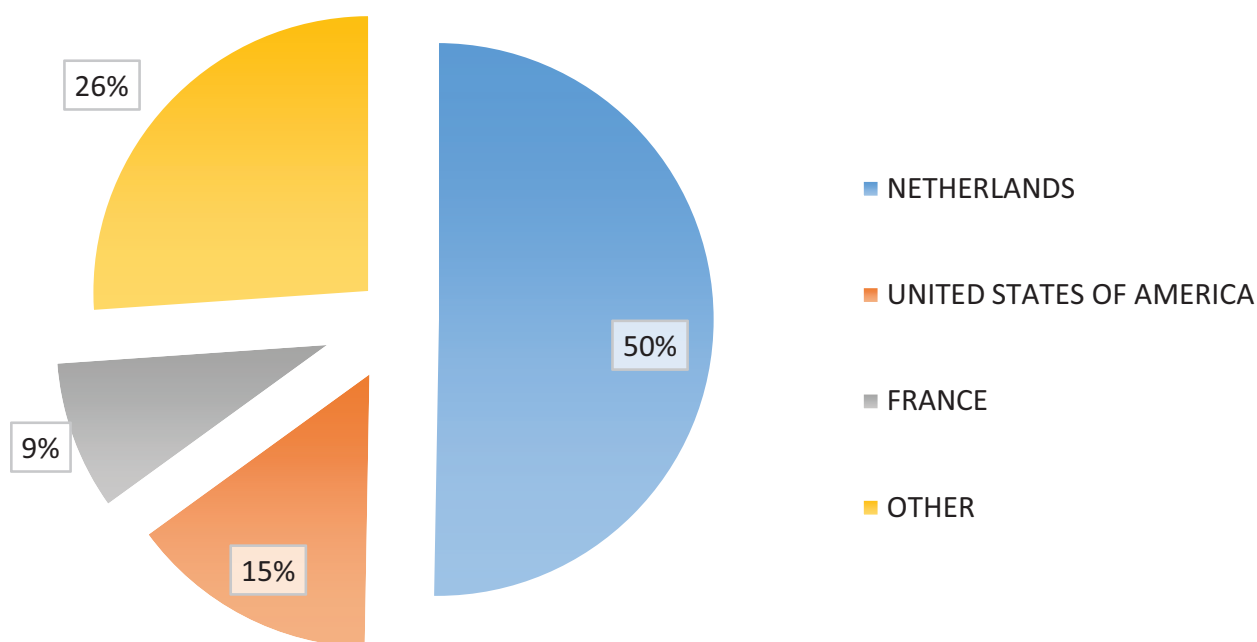
According to the National Bank of Kazakhstan, the Netherlands is by far Kazakhstan's greatest investment partner, with a net position of nearly \$63 billion (50 percent of the total). This figure is misleading, however, as the majority of this investment appears to be offshore capital (largely Chinese) routed through Dutch jurisdictions for tax purposes. Once offshore funds are accounted for, some experts believe that China is the top investor in Kazakhstan.⁹ China's officially counted FDI is growing rapidly, too. Gross direct investment inflows from China grew between \$1.5 billion and \$2.5 billion per year from 2010 to 2013, according to the National Bank (mainly through investment in oil projects in Kazakhstan).

The low share of Russia (2.34 percent, not shown in the chart of Kazakhstan's FDI) reflects its overall low investment activity in Kazakhstan. Although the stock of inward FDI has been steadily rising over the past two decades, the Kazakh government forecasts declining interest in the natural resources sector, with falling world commodity prices and a tightening of the domestic investment regime. The government therefore intends to offset its previously enforced tight regulations on local content and attract more diversified FDI

8. "Kazakhstan," Observatory of Economic Complexity, accessed April 26, 2015, <http://atlas.media.mit.edu/profile/country/kaz/>.

9. Мария Петрова, "Нурлан Ермекбаев: Угроза «демографического нашествия» со стороны КНР явно преувеличена," *Zakon.kz*, July 11, 2014, <http://pravo.zakon.kz/4638560-vzaimotnoshenija-kazakhstana-i-kitaja.html>.

Net Position on Direct Investment in Kazakhstan by Partner Country as of September 2014, USD Millions



Source: National Bank of Kazakhstan.

by instituting a visa-free regime for 10 countries¹⁰ and offering a package of investment incentives effective from January 2015. Astana is urging foreign investors to come to Kazakhstan to access the larger EEU market while taking advantage of Kazakhstan's comparatively benign investment climate.

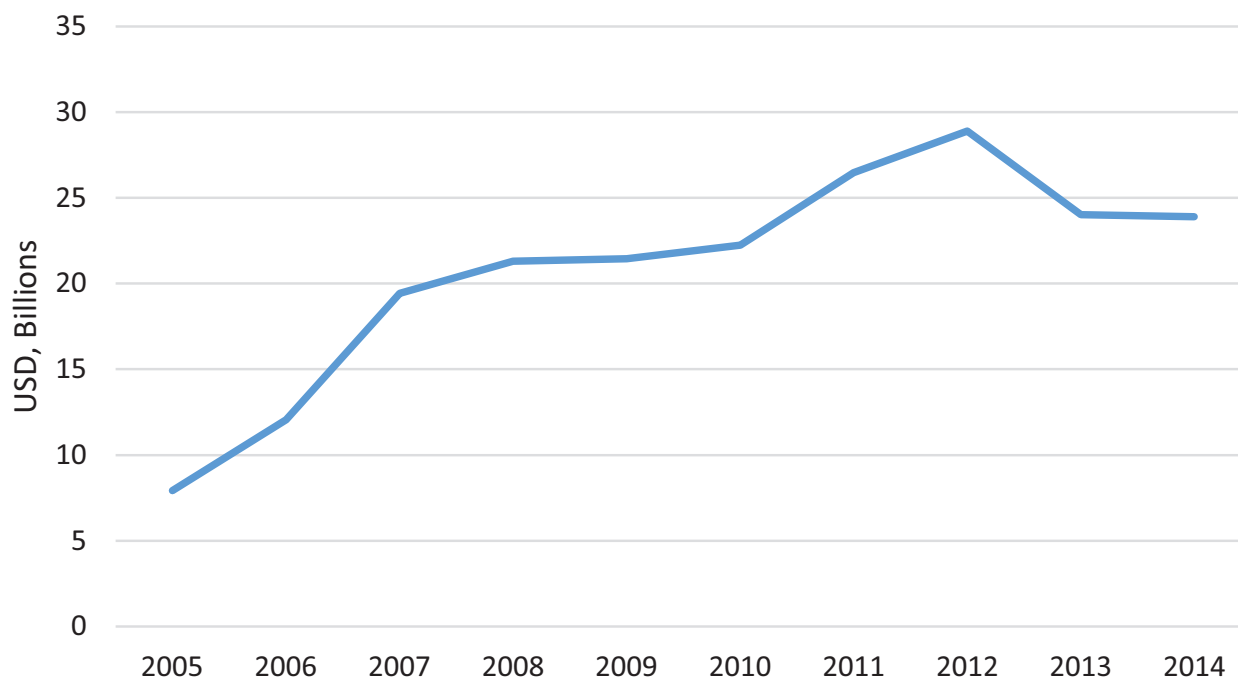
The Kazakh government had made it clear that in the coming years, the overall focus of trade and FDI will be directed at the Eurasian continent. A CIS free-trade zone agreement signed in October 2011 is now being finalized.¹¹ Although it is viewed as part of the wider Eurasian integration process centered on the EEU, for many CIS countries (and even non-member Georgia), this agreement offers the tangible benefits of free trade without the political umbrella of the EEU.

Even ahead of this agreement's implementation, Kazakhstan's trade with Central Asia is increasing, notwithstanding unfavorable trade conditions and restrictive borders. Official figures likely understate the extent of this trade, as many economic linkages remain informal and are not recorded. Particularly notable is that Kazakhstan's trade with Uzbekistan, the largest market in Central Asia, represents as much as half of all trade among the five Central Asian states (which stood at \$2.1 billion as of 2013).

10. These 10 are the United States, United Kingdom, Germany, France, Italy, Netherlands, Malaysia, United Arab Emirates, South Korea, and Japan.

11. "Зона свободной торговли СНГ," CIS, <http://e-cis.info/zst.php>.

Gross FDI Inflows to Kazakhstan



Source: National Bank of Kazakhstan.

Oil and Gas

Energy sales have long represented Kazakhstan's most valuable link to the outside world. When Kazakhstan became independent in 1991, its export pipelines all ran north to Russia. Kazakhstan early on recognized that foreign companies and pipelines to new markets were critical to its efforts at asserting its sovereignty and independence. Western oil companies were granted stakes in Kazakhstan's major oil fields, including Tengiz (where Chevron and ExxonMobil are major investors), Karachaganak (whose main investors include BG, Eni, and Chevron), and Kashagan (whose consortium includes Royal Dutch Shell, Total, and ExxonMobil, along with KazMunayGaz). The resulting production made Kazakhstan into a significant oil player and ensured oil-hungry European and Asian states' interest in Kazakhstan.

Oil revenues bolster Kazakhstan's National Welfare Fund, designed to cushion the economy against shocks and support development. They also give Astana funds to develop new projects, including those that struggle to attract commercial backers but that Astana sees as critical to the country's modernization. However, oil production in Kazakhstan is stagnant, and even fell 1.1 percent from 2013 to 2014. The drop in global oil prices will also affect the value and possibly the output of oil and gas.¹² According to the Extractive Indus-

12. Uzakbay Karabalin, first vice minister of energy, <http://tengrinews.kz/markets/stala-izvestna-srednyaya-sebestoimost-dobyichi-nefti-263827/>.

tries Transparency Initiative, the oil and gas sector accounted for one-quarter of Kazakhstan's GDP, approximately half of all government revenues, and over two-thirds of total exports in 2013.¹³

The biggest and riskiest oil venture in Kazakhstan today is Kashagan, located in the Caspian Sea near Atyrau. Estimated to hold 13 billion barrels of recoverable oil, Kashagan is among the largest fields discovered in recent decades worldwide. Yet difficult geology, technological failures, disputes among consortium members, and rising costs have delayed production and jeopardized the entire project, which was halted indefinitely just weeks after initial production began in September 2013, by which point companies had poured nearly \$50 billion into the project.¹⁴ Production is expected to restart in 2016, after up to \$3.6 billion is spent repairing faulty pipes.¹⁵ Kashagan represents an enormous gamble for Kazakhstan. Not only does Astana need the revenue from Kashagan's production to maintain its infrastructure and social spending, but Kashagan's fate will do much to determine the relationship with the Western oil companies, with implications for the government's efforts to maintain diversified economic and political relationships.

Even with Kashagan in abeyance, Kazakhstan is a significant oil exporter from its existing fields, though Russia remains the principal destination for Kazakh oil exports. The Uzen-Atyrau-Samara pipeline provides access to Russia's Transneft pipeline network and therefore to the Black Sea, Europe, and the world. Upgraded in 2009 to a capacity of 500,000 barrels per day (bbl/d), with 210,00 bbl/d capacity for the Atyrau-Samara section only,¹⁶ the Uzen-Atyrau-Samara pipeline was once practically Kazakhstan's only export pipeline and remains one of its most important. The Caspian Pipeline Consortium (CPC) route from Kazakhstan's Tengiz oil field to the Russian Black Sea port of Novorossiysk, however, has since overtaken it. Unlike much of Kazakhstan's energy infrastructure, CPC is controlled by a consortium of shareholders, including both public and private energy companies: Russia's state-owned pipeline company Transneft (31 percent), KazMunayGaz (19 percent), Chevron (15 percent), and Lukarco, a subsidiary of Lukoil (12.5 percent).¹⁷ CPC's capacity is currently being expanded to 960,000 bbl/d, with an eventual goal of 1.34 million bbl/d.¹⁸ Moscow long blocked efforts to expand CPC, in part because it sought to exert more direct control over the export of Kazakhstan's oil. Some Kazakh officials consequently view the CPC's reliance on transit through Russia as a potential risk.

13. "Kazakhstan: US \$30 billion government revenue per year," Extractive Industries Transparency Initiative, December 5, 2014, <https://eiti.org/news/kazakhstan-us-30-billion-government-revenue-year>.

14. Selina Williams, Géraldine Amiel, and Justin Scheck, "How a Giant Kazakh Oil Project Went Awry," *Wall Street Journal*, March 31, 2014, http://www.wsj.com/news/articles/SB10001424052702303730804579437492040999738?mod=WSJEUROPE_interactive.

15. "UPDATE—New pipelines to cost Kashagan project up to \$3.6 bln," Reuters, October 10, 2014, <http://www.reuters.com/article/2014/10/10/oil-kashagan-idUSL6N0S52P420141010>.

16. David I. Hutchinson, "Central Asian FSU republics set to expand oil export pipeline network," *Oil & Gas Journal*, March 9, 1998, <http://www.ogj.com/articles/print/volume-96/issue-10/in-this-issue/petrochemicals/central-asian-fsu-republics-set-to-expand-oil-export-pipeline-network.html>.

17. Caspian Pipeline Consortium, "Shareholders," <http://www.cpc.ru/EN/about/Pages/shareholders.aspx>.

18. U.S. Energy Information Administration, "Kazakhstan," October 28, 2013, <http://www.eia.gov/countries/cab.cfm?fips=kz>.

China is Kazakhstan's second-largest oil customer, buying 16 percent of its oil exports.¹⁹ Nevertheless, the Kazakhstan-China pipeline that started operations in 2006 and runs from Atyrau to Alashankou, in Xinjiang, has a comparatively small capacity of slightly above 200,000 bbl/d, though this is currently being enlarged to 400,000 bbl/d.²⁰

Besides these pipelines to Russia and China, Kazakhstan also exports some of its oil to Europe, sending it by tanker across the Caspian Sea to Azerbaijan and then either via the Baku-Tbilisi-Ceyhan (BTC) pipeline to Turkey²¹ or by rail to Georgian ports on the Black Sea, most prominently Batumi (where KazMunayGaz controls the export terminal).²² In 2014, Kazakhstan shipped roughly 36 million barrels of oil through BTC, which amounted to around 18 percent of the total BTC flow.^{23, 24} In the previous year, Kazakhstan exported a total of 511 million barrels of oil, 76 percent of which was directed to Europe.²⁵ These routes allow Kazakh oil to reach Europe via the Black Sea and thus reinforce European and U.S. efforts to create non-Russian-controlled routes for Central Asian energy into Europe, as well as ensure Kazakhstan's own independence from Russia.²⁶

Kazakhstan has increased its presence in Europe's energy industry as well: between 2007 and 2009, KazMunayGaz acquired the Romanian Rompetrol Group, which owns downstream assets throughout Europe, including a refinery in the Black Sea port of Constanta, along with fuel retailing and service stations in Romania, Spain, Bulgaria, Moldova, and Georgia.²⁷

Although oil revenues represent an important source of funds for investment and development projects, they also create a strong vulnerability to fluctuating oil prices. The recent decline of oil prices has forced Astana to revise its national budget,²⁸ with the economic growth target for 2015 now cut from 6 percent to 4.3 percent and the budget deficit projected at 2.6 percent of GDP, instead of 2.3 percent.²⁹

19. Ibid.

20. "Kazakhstan-China oil Pipeline," KazMunayGaz, 2014, http://www.kmg.kz/en/manufacturing/oil/kazakhstan_china/.

21. U.S. Energy Information Administration, "Kazakhstan."

22. "Less Kazakh crude, more pipeline exports slash Georgia's Batumi oil loadings," Reuters, December 2, 2014, <http://uk.reuters.com/article/2014/12/02/crude-georgia-batumi-idUKL6N0TM2R820141202>.

23. "Baku-Tbilisi-Ceyhan pipeline," BP, 2015, http://www.bp.com/en_az/caspian/operationsprojects/pipelines/BTC.html.

24. Kazakh shipments to BTC (Baku-Tbilisi-Ceyhan) are at maximum 400,000 tons/month, or 4.8 million tons/year, or 36 million barrels/year, or 96,000 barrels/day. The BTC pipeline's actual throughput as of October 2013, before Kazakhstan resumed exports, was 68,000 barrels/day, and its capacity is 1.2 million barrels/day. "BP Welcomes Chevron Back Into BTC Pipeline," *Energy Intelligence*, October 24, 2013, <http://www3.energyintel.com/WebUploads/gei-moscow/media-files/nc-story-24-10-two.html>.

25. U.S. Energy Information Administration, "Kazakhstan."

26. Vladimir Socor, "Kazakhstan's National Oil Company to Consolidate Bridgehead in Europe," *Eurasia Daily Monitor* 9, no. 151 (August 8, 2012), http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=39740&no_cache=1#.VDMrPildWUR.

27. Ibid.

28. Joanna Lillis, "Kazakhstan: Can Astana Survive and Oil Price Slump?," *Eurasianet*, October 27, 2014, <http://www.eurasianet.org/node/70616>.

29. Ibid.

Though oil plays a far greater role in Kazakhstan's economy, the country exports, or at least transports, a significant amount of natural gas as well. Most of these exports move to Russia from the Karachaganak and Tengiz fields.³⁰ Kazakhstan has four gas export pipelines: the Central Asia Center (from Turkmenistan via Uzbekistan and Kazakhstan to Russia), the Bukhara-Urals (Uzbekistan to Kazakhstan to Russia), the Bukhara-Tashkent-Bishkek-Almaty (Uzbekistan to Kyrgyzstan to Kazakhstan), and Turkmenistan-China. Kazakhstan is thus primarily a transit country for Uzbek and Turkmen gas going to Russian and Chinese markets.³¹ According to a senior Kazakh energy official, Astana has no great hopes of becoming more than that. Though Kazakhstan produced 46.21 billion cubic meters (bcm) of gas in 2012, it exported just 11.38 bcm.³² Astana's gasification projects, the major one being the construction of the Beineu-Bozoi-Shymkent pipeline, aim to provide cheap natural gas throughout the country and have significantly boosted domestic demand, leaving less available for export. The lack of non-Russian export pipelines, meanwhile, limits export capacity as well.

Land Transport

Astana's top priority for new infrastructure is railway development, which the government believes provides the best opportunity to leverage Kazakhstan's geographic location to capture a higher volume of trade between Asia and Europe while also diversifying its economic and political ties in the region. In addition to its inherited Soviet-era rail lines, Kazakhstan is seeking to expand the rail network and plug into emerging transcontinental transit corridors.

Many of Kazakhstan's infrastructure projects are within the framework of the Central Asia Regional Economic Cooperation Program (CAREC).³³ CAREC consists of six road and rail corridors, of which Corridors 1, 2, 3, and 6 run through Kazakhstan. According to a development official we spoke with, CAREC is overly formal and apolitical, but nevertheless fairly successful, having already moved \$22.8 billion in goods over the last 10 years and—according to the official—is likely to transport another \$35 billion in the next decade, despite tensions among some of its members. In line with its desire to turn Almaty into a hub for multilateral diplomacy, Kazakhstan long sought to host the new CAREC Institute, but lost out to China, which will host the Institute in Ürümqi instead—despite the fact that the institute's working languages are English and Russian, but not Chinese.

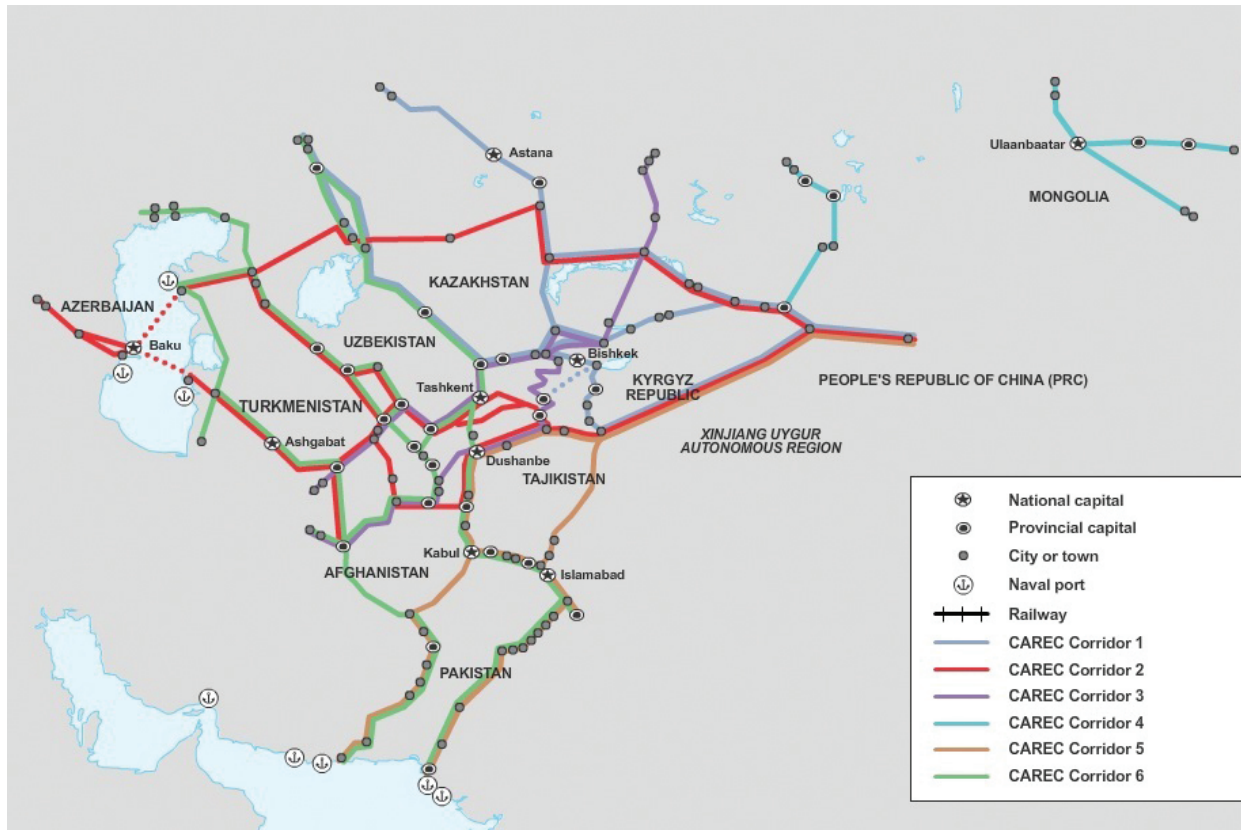
30. U.S. Energy Information Administration, "Kazakhstan."

31. Recent pronouncements from Russia's Gazprom that it will phase out its purchase of Turkmen and Uzbek gas presage a future when Kazakhstan will primarily serve to transit gas only to China.

32. U.S. Energy Information Administration, "Kazakhstan."

33. CAREC is a consortium involving the Asian Development Bank, the European Bank for Reconstruction and Development, the International Monetary Fund, the Islamic Development Bank, the United Nations Development Program, and the World Bank. Its 10 member countries are Afghanistan, Azerbaijan, China, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

The CAREC Corridors



Source: Central Asia Regional Economic Cooperation.

In 2013, Kazakhstan completed a railroad connecting Uzen in the country's east to the Turkmen border.³⁴ This line runs across Turkmenistan to Iran and will eventually allow Kazakhstan to access the Persian Gulf and Middle East.³⁵ The railroad is an important element of the International North-South Transport Corridor,³⁶ and unlike most other routes in Kazakhstan, it runs along a vertical axis, connecting Turkmenistan and Kazakhstan—and through it, Russia—to the Persian Gulf.

In 2009, numerous countries, including the states of the South Caucasus and Central Asia, signed an Intergovernmental Agreement on the Trans-Asian Railway (TAR) Network.³⁷ The TAR connects Kazakhstan to its northern, southern, and eastern neighbors via two routes. The first route, the Northern Corridor, runs from Western Europe through

34. "Presidents open Kazakhstan to Turkmenistan railway link," *Railway Gazette*, May 13, 2013, <http://www.railwaygazette.com/news/infrastructure/single-view/view/presidents-open-kazakhstan-to-turkmenistan-rail-link.html>.

35. Nazarbayev, "Strategy Kazakhstan—2050."

36. Kairat Lama-Sharif, "New Silk Road, from Kazakhstan to UAE," *Astana Times*, December 3, 2014, <http://www.astanatimes.com/2014/12/new-silk-road-kazakhstan-uae/>.

37. "Trans-Asian Railway," United Nations Economic and Social Commission for Asia and the Pacific, <http://www.unescap.org/our-work/transport/trans-Asian-railway/about>.

Russia and Kazakhstan to China. Within Kazakhstan, it runs through Dostyk, Aktogai, Sayak, Mointy, Astana, and Petropavlovsk. As several of these regions are highly industrialized with high export potential, the Northern Corridor is considered by development experts to be one of the most promising of Kazakhstan's rail routes.

The TAR's Southern Corridor, meanwhile, runs from southeastern Europe through Turkey, Iran, southern Central Asia, and Kazakhstan to China and Southeast Asia. Within Kazakhstan, it runs through Dostyk, Aktogai, Almaty, Shu, Arys, and Saryagash. The Southern Corridor is burdened with significant logistical and political complications, including the single-track Iranian section, which is for now at least disrupted by sanctions, as well as the necessity of using a ferry to traverse Lake Van in Turkey.³⁸

Bilaterally, China provides significant resources for the development of Kazakhstan's infrastructure (especially rail), mostly via the China Export-Import Bank.³⁹ Two of China's four main border connections with Central Asia (Dostyk and Khorgos) are located in Kazakhstan. Dostyk was opened in 1992 and was, for a long time, astride the only rail link between Kazakhstan and China. New rail lines under construction as part of the TAR use the same international gauge track employed in China and the EU⁴⁰ with the hope of reducing travel time from China to Europe via Dostyk to 10 days (compared to a current rail average of 21 days, and a sea transit time of 35 days).⁴¹

The second China-Kazakhstan crossing opened in 2004 at Khorgos, where China has invested \$3 billion and Kazakhstan nearly as much.⁴² Because its roads are in far better condition than those traversing Dostyk, Khorgos quickly became the main Sino-Kazakh road transit point. In 2005, China and Kazakhstan agreed to set up the Khorgos International Center of Boundary Cooperation, one of the first free-trade zones in the region, which opened in 2011. It includes a 30-day visa-free regime and duty-free status for goods worth less than €1,500.⁴³

38. "Transport Strategy of the Republic of Kazakhstan," accessed through Central Asia Regional Economic Cooperation Program, Asian Development Bank, <http://www.carecprogram.org/uploads/docs/KAZ-National-Transport-Strategy-en.pdf>; and "International Transport Corridors in Kazakhstan: Study," *Tengri News*, August 21, 2011, <http://en.tengrinews.kz/opinion/75/>.

39. Marlene Laruelle and Sebastien Peyrouse, *The Chinese Question in Central Asia: Domestic Order, Social Change, and The Chinese Factor* (London: Hurston & Company, 2012), 89.

40. *Ibid.*, 57.

41. Keith Bradsher, "Hauling Treasure Along the New Silk Road," *New York Times*, July 20, 2013, http://www.nytimes.com/2013/07/21/business/global/hauling-new-treasure-along-the-silk-road.html?pagewanted=all&_r=0.

42. Clare Nuttall, "Building the New Silk Road," *Business New Europe*, December 2012, <http://www.mcps-khorgos.kz/en/smi-review/building-new-silk-road>; Asset Kalymov, "Visa-Free Trade Fair Draws Thousands to Khorgos," *Astana Times*, November 2013, <http://www.astanatimes.com/2013/11/visa-free-trade-fair-draws-thousands-khorgos/>.

43. Nuttall, "Building the New Silk Road"; Kalymov, "Visa-Free Trade Fair Draws Thousands to Khorgos." However, the fate of this arrangement is unclear, given Khorgos's dubious regulatory record and Kazakhstan's membership in the Eurasian Economic Union, whose statutes limit members' ability to negotiate bilateral trade agreements (although many analysts expect China to pursue an agreement with the EEU as a whole to facilitate trade).

By the end of 2013, two “Chang’an” (Lasting Peace) trains had started operating between Xi’an, the capital of China’s central Shaanxi province, and Kazakhstan. These two east-west rail corridors, which bypass Russia, connect China with major destinations in Central Asia, western Asia, and Europe, strategically traversing regions where natural resources are being extracted with Chinese investment. Plans exist to open two more railway routes that may involve Russia: one from Xi’an to Rotterdam and the other from Xi’an to Moscow.⁴⁴ Astana is also building a Khorgos-Zhetygen railway, establishing a second rail connection to China and opening the country’s “eastern gate,” and the Zhezkazgan-Beineu railway, connecting the country’s center to the Caspian Sea.

The Silk Wind project, agreed upon in 2012 by Turkey, Georgia, Azerbaijan, and Kazakhstan, is a planned high-speed multimodal freight line along the existing TRACECA route that will boost Kazakhstan’s connectivity to Europe. In Kazakhstan, Silk Wind encompasses a block train between Dostyk and Aktau and a ferry from there to Alyat, Azerbaijan. From Azerbaijan, Silk Wind will then connect to the new Baku-Tbilisi-Kars railway, and then onto the Turkish rail network.

The EEU is also active in infrastructure development, as coordination of member states’ transport systems is crucial to Eurasian integration. These Eurasian institutions seek to harmonize national transport legislation, develop Eurasian transport corridors, and remove nonphysical barriers to Eurasian trade. In 2010 to 2011, the EEU’s predecessor, EurAsEC, and the Eurasian Development Bank (EDB) drafted a Plan to Develop Road and Railway Infrastructure to 2020. The plan is expected to cost \$68 billion, including funds provided by international financial and development institutions, and will finance projects in all six of the EDB’s member countries (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan) that are intended to dovetail with preexisting infrastructure projects like CAREC.⁴⁵ If implemented, this 10-year, \$68 billion plan would exceed the \$58 billion spent by CAREC since 2001. Part of the EDB’s development program will provide funding for the construction of international logistics centers, contributing to Kazakhstan’s goal of having a logistics center in every oblast.

Though acknowledging that the CU has improved transit between member states, CAREC’s 2013 annual report voices concern that the CU is causing problems for many of CAREC’s corridors by producing more “stringent” checks at the Union’s borders that are “giving rise to long queues of trucks.”⁴⁶ With the elimination of checks at the Kazakh-Russian border, Russia is anxious to ensure that Kazakhstan levies tariffs on Chinese

44. Alexander Kim, “China and the Silk Road: Marching Westward,” *Eurasia Daily Monitor* 11, no. 40 (March 3, 2014), http://www.jamestown.org/regions/centralasia/single/?tx_ttnews%5Bpointer%5D=6&tx_ttnews%5Btt_news%5D=42035&tx_ttnews%5BbackPid%5D=53&cHash=964f970def8d35c7cbf07c2cfe2ee1e7#.VLQd5ivF_To.

45. “EurAsEC Discussed in Almaty the Comprehensive Plan to Develop Road and Rail Infrastructure in the Community Member States,” Eurasian Development Bank, June 22, 2011, http://www.eabr.org/e/press_center/press-releases/index.php?id_4=7341&id_17=6783&from_4=32.

46. “CAREC Corridor Performance Measurement and Monitoring: Annual Report 2013,” CAREC, 21–22, 36.

exports, while Moscow reportedly vetoed Astana's request to reinstitute controls on the Russo-Kazakh border.⁴⁷

Sea and Air Transport

Despite its landlocked status, sea transport across the Caspian is important for Kazakhstan. With Iran sanctioned, the maritime connection to Azerbaijan across the Caspian is the only surface route from Europe to East Asia that avoids Russia. Several of the CAREC corridors, as well as the EU's TRACECA project, use this trans-Caspian route. A high-ranking Kazakh official said that his country would like to boost trans-Caspian transit, in part by expanding Aktau port.⁴⁸

Kazakhstan has also dramatically increased the volume of air cargo it handles. In recent years, it has nearly equaled Uzbekistan in the volume of freight moved, and far surpassed it in passengers carried, despite its airlines being sanctioned by the EU for failing to meet international safety standards.⁴⁹ According to a high-ranking Kazakh transportation official, an indirect result of the EU sanctions was that Kazakh airlines were forced to focus on expanding in Asian markets, specifically India, Southeast Asia, and Hong Kong. Meanwhile, Kazakhstan has been proceeding with a program of airport modernization, recognizing that the poor state of its airports represents a constraint on its ambitions to become a regional hub. This program includes the expansion of the Astana terminal in preparation for the international Expo 2017, by which time, as one official suggested, there could be direct flights from Astana to the United States.

47. Richard Weitz, "Sino-Kazakh ties on a roll," *Asia Times*, January 24, 2013, http://atimes.com/atimes/Central_Asia/OA24Ag01.html.

48. "Kazakhstan Temir Zholy and DP World to develop Aktau port and Khorgos-Eastern Gates," *Tengri News*, April 19, 2013, http://en.tengrinews.kz/politics_sub/Kazakhstan-Temir-Zholy-and-DP-World-to-develop-Aktau-port-and-Khorgos-Eastern-18699/. Aktau has been placed under the management of Kazakhstan Temir Zholy, the national railway corporation, which has in turn contracted with Dubai Ports World, the largest ports operator, to jointly manage Aktau port as well as the Khorgos economic zone on the Chinese border.

49. Most Kazakh airlines were placed on the European Union's "black list," preventing them from operating in Europe, following a 2009 audit by the International Civil Aviation Organization that found them deficient in multiple dimensions of air safety. Air Astana, the only Kazakh carrier to avoid a ban, was nevertheless placed on the EU's "grey list," which restricted its ability to operate on EU territory. In April 2014, Air Astana was removed from the grey list, as it had proved the adequacy of its safety standards. See Clement Huang, "Air Astana Cleared by EU to Expand European Services," *Business Traveller Asia-Pacific*, April 11, 2014, <http://www.businesstraveller.asia/asia-pacific/news/air-astana-cleared-by-eu-to-expand-european-ser>.

4 | Conclusion

While maintaining deep economic and political ties with Russia and China, Kazakhstan continues to pursue close relations with the United States, among a range of other partners, as part of its multivector foreign policy, which aims to bolster Kazakhstan's international opportunities and sovereignty as a subject rather than an object in the geopolitics of Eurasia. Astana would thus like for U.S. policy toward Central Asia to remain compatible with its own efforts to cultivate partners in multiple directions. That means to some extent more emphasis on the economic part of the relationship while continuing to enhance security cooperation. It also means encouraging the United States to seek mutually beneficial outcomes in its relationships with the other major powers in the region.

Kazakh elites are acutely aware of being on the front lines of their larger neighbors' ambitions, and would like greater U.S. engagement in part to ensure that Kazakhstan continues to have multiple options. At the same time, they recognize that while the United States has a range of perhaps limited interests at stake in Central Asia, it has little chance of succeeding in a geopolitical competition with Russia or China and should avoid steps that force Astana (and its neighbors) to choose between its various international partners. Kazakh officials and analysts also emphasized that the United States would be more effective in Central Asia if it could repair its tense relations with Moscow, Beijing, and Tehran. Our interlocutors also suggested that Washington could do more to encourage its Asia-Pacific allies, including Japan, South Korea, Australia, and others, to be more engaged with Central Asia.

Similarly, our Kazakh interlocutors emphasized the importance of turning U.S. rhetoric about “win-win” outcomes into a reality on the ground. One way for the United States to achieve more win-win outcomes would be to more highly prioritize the economic dimension of its relationship with Kazakhstan as well as other Central Asian states, a theme repeated by a number of our interlocutors. As one high official noted, the current U.S. approach can be best described as transactional and lacking a coherent vision for Kazakhstan or the greater Central Asia region.

In order to create real win-win outcomes, U.S. policy must include functioning relations with the region's strategic partners and its immediate geographic neighbors. This holds especially true for U.S. relations with Russia. The deep freeze in U.S.-Russia relations resulting from the conflict in Ukraine created serious challenges for Kazakhstan and its multivector foreign policy. Several Kazakh officials emphasized that the major mistake the

West and Russia made with Ukraine was forcing it to choose between closer economic ties with Europe or Russia, a choice Kazakhstan is determined never to be forced into taking.

Kazakhstan recognizes that its own security depends on the stability and success of its neighbors. For that reason, Astana would like to see the United States do more as well to prevent the failure of neighboring states, in particular Kyrgyzstan, which has been the recipient of significant U.S. assistance in the context of the war in Afghanistan and whose economy is closely tied to that of Kazakhstan. Our Kazakh interlocutors generally supported continued U.S. security assistance to Kyrgyzstan following the closure of the Manas Transit Center. Of course, more capable states in Central Asia are more conducive to regional stability, but at the same time, as one senior analyst noted, are also more confident and open to regional cooperation, and more capable of standing up for their own sovereignty as well.

Like its neighbors, Kazakhstan appreciates the value of a more engaged United States. Its two worries are that with the drawdown of U.S. forces from Afghanistan, Washington will turn its attention away from Central Asia, and that a more confrontational relationship between the United States and Russia will place Kazakhstan in a difficult position, forcing it to make choices it would prefer to avoid. With its energy resources, strategic location, comparatively high standard of living, and generally effective government, Kazakhstan's leaders argue it has much to offer the United States as a partner. And for that partnership to fully blossom, the United States should not see its policy toward Kazakhstan, or Central Asia more broadly, as derivative of its relations with Russia, China, or any other regional power. Kazakhs are well aware that Washington has struggled to promote greater cooperation and integration among Central Asian states. Astana will nonetheless continue advocating regional cooperation and integration, and would like to have the United States as one partner in this enterprise, with Washington simultaneously pursuing more cooperative relations not only with Kazakhstan, but with other leading powers in Eurasia as well.

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