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BETWEEN EAST AND WEST: KAZAKHSTAN'S DEVELOPMENT ALONG CHINA'S NEW SILK ROAD

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The paper discusses Kazakhstan's long-term development vision and its ambitious objectives. After presenting the history of the country's infrastructural projects during Tsarist and Soviet times, it expounds Kazakh President Nazarbayev's plan up to 2050 to convert the country into a logistics hub between East and West. It then proceeds to set Nazarbayev's vision against Kazakhstan's political economic reality, specifically how the leadership's multi-vector foreign policy is faring between Russia's regional integration projects and China's westward push to develop Xinjiang province along the new Silk Road. Finally, the article identifies multiple challenges that may compromise the plan in the future: from the country's looming political transition, lack of political freedoms and endemic corruption, to China's Uighur question and Russia's standoff with the West in Ukraine.

1. Introduction

When Kazakhstan declared independence on December 16, 1991, the last of the Soviet republics to do so, it inherited a transportation and energy system that had been set up to respond to the planning needs of the Soviet – rather than its national – economy. As was the case with the other Central Asian republics, Kazakhstan was highly integrated into the all-union economy and the collapse of the Soviet Union opened up both challenges and opportunities for the newly sovereign state (Eronen, 2001).

Within this context, President Nursultan Nazarbayev has carefully chartered the uncertain waters of Central Asia's political and economic transformation, trying to balance the interests of Russia, Kazakhstan's big brother to the North, and China, the rising economic star in the East and, by some accounts, the world's largest economy. Out of this balancing act was born the country's multi-vector foreign policy that strives to diversify Kazakhstan's political and economic partners in order to avoid over-reliance on any one of them.

In line with this, President Nazarbayev's vision of Kazakhstan as a logistics hub between East and West posits a country that uses its strategic geographic location in the Eurasian landmass between China and the European Union (EU) to trade with multiple countries, while simultaneously being part of regional trade agreements, such as the Customs Union (CU) with Russia and Belarus.

After briefly tracing the country's infrastructural development during Tsarist and Soviet times, the paper presents Nazarbayev's vision and assesses it in light of Kazakhstan's political and economic reality, in particular its relations with Russia and China. It then proceeds to broach the main problems in the plan's implementation to date, namely the failure to diversify the oil and gas dependent economy and redistribute the significant wealth accruing from it, as well as to fight widespread corruption. Against the backdrop of the country's general lack of political freedoms and poor human rights record, along with its impending political succession, the domestic challenges to the current development project may prove significant in the short to medium term. Likewise, China's unsolved Uighur question and Russia's current escalating standoff with the West over Ukraine may yet adversely affect Kazakhstan's ambitious development goals.

2. A short history of Kazakhstan's infrastructure development

During the nineteen century, it was from the perspective of the Great Game between Tsarist Russia and Great Britain that the territory of modern day Kazakhstan acquired some degree of strategic importance in the eyes of the elites in Saint Petersburg (Fromkin, 1980). As a result, some infrastructural projects were undertaken, most notably the Orenburg-Tashkent Railway, which traversed Kazakh territory for roughly 1660 km (KTZ). If the route had little economic significance, it held enormous strategic relevance as it could tilt the balance of power in the region in favour of the Tsar: 'the position will be very much changed by the opening of this new railway,' as Tashkent 'will become the storehouse and advance base of the Russians in Asia,' reported the New York Times at the time (NYT, 1904).

No major improvements were made thereafter: by the Bolshevik revolution in 1917, Kazakhstan could count on '2,365 km of railway line, i.e. the line through Samara-Orenburg-Kazalinsk-Tashkent' (Tverskoi, 1925: 155). That was to change dramatically in the following decades, however, as the exploitation of the country's vast natural resources became integral to the fast-paced industrialisation of the Soviet planned economy. For Kazakhstan's coal, oil and cotton to reach the Soviet industries in the Urals to the west and Siberia to the east, a massive transport network had to be put in place: 'the operational length of railway lines in Kazakhstan increased from 8,212 km in 1945 to 11,470 km in 1960 and up to 13,669 km in 1970' (VIHE, 2013).

The Ural-Kuznetsk Combine envisaged in the first Five Year Plan (1928-32) provided the initial impetus for the further development of the Kazakh railway network. Soviet planners conceived the mines in the iron ore rich Urals and the Siberian Kuznetsk coal basin, along with their respective heavy metallurgical industries, as one single unit of production (Tverskoi, 1925: 140). This entailed high transport costs to cover the 2,000 km between the two regions on the trans-Siberian railway. As the Karaganda coal basin in northern Kazakhstan lay half that distance to Magnitogorsk iron-works in the Urals,

> *gradually a new main line branched off the Siberian track. It began to grow to the south through Kazakhstan. In 1927 a part of this line, 264 km long, had been built between Petropavlovsk and Borovoe and in 1931 it was prolonged 452 km further to the south through Akmolinsk [modern day Astana] as far as Karaganda. A new main line 716 km long came into existence (Tverskoi, 1925: 156).*

As a result, Karaganda coal production soared from 0.7 million tons in 1932 to approximately 16 million tons in 1950 (Holzman, 1957: 386). In the 1930s, the railway was extended an extra 500 km to reach Balkash, the site of copper mines and industries on the northern shores of the homonymous lake (KTZ). The creation of the Astana-Kartaly rail line between 1939 and 1943, as laid out in the second Five Year Plan (1933-37), shortened even further the distance between the Karaganda coal and the Urals industrial base (Tverskoi, 1925: 51; KTZ).

Communication between Kazakhstan and Siberia took a massive leap forward with the completion of the 1,444 km long Turkestan-Siberia (Turksib) main line (KTZ) in 1931. While Siberian grain, timber, cattle and metals would flow to Central Asia, the latter's cotton would reach the new big textile combines in Novosibirsk and Barnoul (Tverskoi, 1925: 161-3). In the 1950s, the Turksib contributed to the exponential grow of the Ekibastuz coal fields, located along the line between Astana and Pavlodar, which came into regular operation in 1953 (VIHE, 2013).

Most of Kazakhstan oil reserves are concentrated in the Emba basin and the Mangyshlak peninsula, running north to south along the Caspian Sea coast. The Gurev (modern day Atyrau)-Kandagach-Orsh railway, built between 1936 and 1944, ensured steady supplies from the Emba oilfields to the growing industrial base in the Urals (KTZ). When oil and gas were discovered in the southern Mangyshlak at Uzen and Zhetybai in 1961, a major 1,750 km pipeline project was developed to connect these fields first to Shevchenko (modern day Aktau), then to Atyrau (1969) and on to Kuibyshev (1971) (OGSM). There, the oil was processed in the massive Soviet refineries of Kuibyshev and Volgograd (VIHE, 2013).

The transportation system in Kazakhstan has been historically oriented toward Russia and former Soviet republics in Central Asia. The railroad network has eleven connecting points with Russia, two with Uzbekistan and one with Kyrgyzstan and China' (ICG, 2011: 34). The same may be said for the energy system. Independence brought with it the opportunity to diversify the country's economy via access to new markets. However, the Soviet legacy weighed heavily on any future plans to wean Kazakhstan off Russia's political and economy influence. The Kazakh elites had to tread cautiously in devising a new strategic approach that would balance their big brother to the North with other actors on the world market. One of the main challenges would be to redirect the country's infrastructure to serve the needs of a Kazakh economy integrating in the world market. This has been at the core of the Kazakh leadership's planning since independence.

3. Kazakhstan's road map to a sustainable logistics industry?

In a 1997 address, President Nazarbayev (1997) unveiled a strategic road map for the country's future economic development which has become commonly known as 'Kazakhstan 2030.'

> *The first opportunity stems from our geographical position on the very crossroads in the Eurasian region. [A]ll along the legendary Silk Route [our forefathers] set up a broad channel of trade between European and Asian countries. Today we initiate its restoration. [It] goes without saying that in [the] future the system of trade, financial flows and migration of people between Europe and Asia would be on the rise. [S] ingle-handed, Kazakhstan, as any other contiguous country, is unable to realise its profitable transit potential. It must be done jointly, in close and mutually advantageous cooperation.*

The speech sets forth the President's ambition to promote the country as the Eurasian conduit for goods between the markets of Asia and Europe. It thus outlines seven long-term interlinked priorities, including the promotion of infrastructure, in particular transport and communication (Priority 6).

In a 2006 document entitled 'On the Transport Strategy of the Republic of Kazakhstan until the year 2015,' the President reiterates its vision of how the 'location of the Republic of Kazakhstan in the centre of the Eurasian continent predetermines its geopolitical role as a transit bridge between Europe and Asia, as well as between Russia and China' (Nazarbayev, 2006). He then expands (ibid.) by pointing out four main international transport corridors through Kazakhstan:

The transport strategy directly links Kazakhstan's development to China's so-called 'Go West' policy, which has since evolved into the new Silk Road Economic Belt (Zhiping, 2014) and, as of 2013, has already injected $ 1.4 trillion in infrastructure investments into China's Western regions in order to reduce the development gap between the country's east and west (GT, 2013).

While riding on the wave of China's push westward, the Kazakh leadership simultaneously indicates the need for economic diversification, whose political counterpart is the multi-vector foreign policy that the country has pursued since independence. Thus, the political economy of Kazakhstan under Nazarbayev can be summarised as an attempt to avoid over-reliance on any one ally and/or trading partner (MFA, 2014; Weitz, 2013b). In the words of one expert, 'Kazakhstan seeks to branch out not least because Moscow and Beijing frequently do not take its interests into account, or dismiss them in their own foreign policy. So an increasingly global foreign policy, even one that occasionally contradicts Moscow and Beijing, is becoming ever more important' (Blank, 2007). Thus, for instance, while being part of the Russia-led Eurasian Economic Union (EEU), Kazakhstan has actively pursued membership in various supranational bodies, including within US- and EU-led initiatives on regional security.1 This trend has been reinforced in response to the standoff between the West and Russia over Ukraine.

To date, the strategy has had mixed results. The World Bank (2013: XX) believes that Kazakhstan's 'greater emphasis on intra-regional trade arrangements,' such as the CU and EEU, 'for political or historical reasons, [has limited] its exposure to the rest of the world. As the country aspires to reach new markets, it will need to adopt a more multilateral trade policy stance.'2 Another report (2014: 84) indicates that despite the CU's aims and commitments between member states, the trade bloc's 'transit regime is still much more complex and less friendly' than the one in place in the EU.

President Nazarbayev appears keenly aware of these shortcomings. In 2012, he unveiled the latest stage of his country's road to development in the 'Strategy Kazakhstan – 2050,' which builds on the previous roadmap to 2030 and whose ambitious aim is to have Kazakhstan join the group of 30 most developed states by the year 2050 (Nazarbayev, 2012a). He elaborates on it in a January 2014 speech entitled 'Kazakhstan's way – 2050': while pointing out past and present achievements, the Kazakh leader addresses issues that may hamper the efficient use of the country's new infrastructures, from the CU's under-performance to the need to simplify import-export regulations and reduce clearance time at the borders for the smooth flow of goods through Kazakh territory. In his words,

> *[f]irst of all, it is a question of the maximum use of the Customs Union territory for transportation of our goods. The construction works of the Western Europe-Western China corridor are coming to an end. We have built a new railway to Turkmenistan and Iran with an access to the Persian Gulf. [It] is necessary to reduce the customs clearance time for goods, increase the capacity of border checkpoints, strengthen the efficiency of the Aktau seaport, and simplify exporting and importing procedures. [This] will enable us, through the Caspian Sea and the Caucasus, to reach Europe and, in the East, the Lianyungang seaport bordering the Pacific Ocean, upon which there is an agreement with the People's Republic of China (Nazarbayev, 2014).*

Once again, China features largely in Nazarbayev's vision. The paper now turns to set thids vision vis-à-vis the country's political economic reality.

4. Kazakhstan's vision vis-à-vis reality

a. Kazakhstan-Russia trade

Historically, Russia has been the dominating political and economic force in Central Asia, including Kazakhstan. In November 2013, the Kremlin and the Kazakh leadership renewed their political and economic ties by signing a 'Treaty of good neighbourliness and alliance in the 21st century,' which would build 'on mutual trust, strategic partnership and comprehensive cooperation' (Voloshin, 2013). Over the past two decades, Kazakhstan has aligned itself with Russia-led regional initiatives, such as the EEU trading bloc which has come into force on January 1, 2015.

Russia remains a key partner if Kazakhstan is to reach its ambitious long-term goals. In this context, however, there is no ignoring the fact that

> *Moscow can't live up to China's largesse, nor can it do much about the fact that China's energy-hungry economy is a better trade match for resource-rich Kazakhstan and Turkmenistan. China has already matched or surpassed Russia in the region in terms of bilateral investment and trade flows. The value of bilateral goods trade between Kazakhstan and China stood at $22.6 billion in 2013, just shy of the country's $23.5 billion trade with Russia, according to the United Nations Commodity Trade Statistics Database. [C] hina-Kazakhstan trade is on track to soar past $40 billion by 2015, according to Yao Jian, a representative at the Chinese Ministry of Commerce (MGO, 2014).*

There is no overstating the significance of this development, especially if one considers that the Kazakh Ministry of Transportation and Communication (2013: 19) had indicated that, in 2012, 43,8% of Kazakhstan's total imports had originated from Russia while 52% of the country's total exports had gone there. Likewise, Russia's share of goods transiting through Kazakhstan was estimated at 50% for the same year.

As a result, Kazakh Minister of Foreign Affairs Erlan Idrissov quipped that the country's efforts to develop the Silk Road Economic Belt project would ultimately transform the region into 'land-linked, rather than land-locked' (Embassy, 2014). Although some experts (Kassenova, 2012) have voiced sceptical assessments concerning the repercussions on Kazakhstan's developing transport industry due to the CU, the Russian government has recently expressed its desire to improve investment opportunities for Kazakh and Chinese enterprises in Russia's domestic market. Negotiations are ongoing with the Russian authorities over possible joint investments in the modernization of the Europe-Western China transport corridor, which 'would increase by at least 15% the Eurasian transit of goods through the Russian Federation' (Chichkin, 2014).

However, Russia's efforts to upgrade its aging infrastructure and to build new logistics facilities along China's new Silk Road have run into financial difficulties due to Western sanctions as a consequence of the crisis in Ukraine. In one specific instance, the Kremlin has had to delay construction at the Black Sea port of Taman which was meant to attract Kazakhstan investment firms (Pismennaya & Tanas, 2014).

Thus far, the Kazakh leadership has managed to strike a careful balance between the country's interests and those of Moscow's. Yet Russia's annexation of Crimea and the ongoing confrontation in Eastern Ukraine have sent shock-waves across Central Asia, spurring intense political debate in Kazakhstan about the possibility of the Kremlin's applying the same tactics in the country's northern territories bordering Siberia (Satke & Galdini, 2014). For now, as an Almaty-based banking sector specialist put it, the same scenario seems unlikely to occur in Kazakhstan, 'as Russia simply cannot overlook China's growing presence in the country.'[3]

While the Kazakh government has observed caution over the possible blowback from Russia's confrontation with the West over Ukraine, some analysts have suggested that the current situation makes 'an economic union with Russia [look] like a serious political and economic liability' (Lillis, 2014). With members harboring 'many doubts about its benefits' (Michel, 2014), the future viability of the whole EEU enterprise may be in jeopardy.

b. Kazakhstan-China trade

In the last decade, China's rising status as a regional and global economic powerhouse has translated into growing bilateral cooperation between Astana and Beijing. Kazakh President Nazarbayev has successfully managed relations with China for over two decades, during which two generations of Chinese statesmen and policymakers have alternated at the country's helm. China's Silk Road Economic Belt, which envisages 'stronger economic relations with Central Asia with a special focus on trade' (Szczudlik-Tatar, 2013: 2), overlaps with Kazakhstan's own long term strategy to develop infrastructure, transport and communication.

Richard Weitz (2013a), at the US-based Hudson Institute, points out that expanding Kazakhstan's transit capacity serves Beijing's strategic objective to create a land-link between its economy and the vast European market. Thus,

> *China has been anchoring the new 11,870-km Eurasian Land Bridge that extends from [the eastern Chinese port city of Lianyungang] to Rotterdam, a major West European port. Beijing has been using its leading role in the Shanghai Cooperation Organization and other multinational institutions to mobilise multinational support behind these Eurasian transportation and other infrastructure projects as it tries to move up the value-added chain.*

Primarily, China's ambition to revive the Silk Road along its western frontier region stems from several of Beijing's long term objectives, namely 1. preserving and maintaining social peace and stability via the economic development of Xinjiang province; 2. connecting the latter with Kazakhstan and greater Eurasia via railroads, highways and pipelines; and 3. securing China's strategic energy supply lines from oil and gas rich states of Central Asia, including Kazakhstan (see ICG, 2013b). At the regional level, China is bankrolling massive pipeline projects, such as the D pipeline from Turkmenistan via Uzbekistan, Tajikistan and Kyrgyzstan with an estimated annual capacity of 30 billion cubic meters (bcm) of gas. This indicates that 'China is effectively working to integrate the region through its own energy projects' (Jarosiewicz, 2013).

Over the last decade, China has become one of Kazakhstan's top trading partners. The two countries have set the goal of $40 billion in bilateral trade by 2015 (China Daily, 2013). The main part of it revolves around cooperation in the energy sector, the centrepiece of Beijing's strategy in Central Asia. However, the sheer scale of Chinese oil and gas projects in Kazakhstan has laid the groundwork for the development of other sectors of the Kazakh economy, most notably in the transportation industry.

A high official at the Kazakh Foreign Ministry thus describes how bilateral Chinese-Kazakh energy cooperation can provide a stimulus for growth to Kazakhstan's domestic industries and an incentive for investments in the two countries:

> *[c]oncomitant with their pursuance of the large-scale oil and gas projects, both sides intend to intensify efforts towards implementing important projects in the field of non-raw materials, improving the investment environment and actively supporting companies of the other side in investing in the respective domestic markets. Also welcome will be companies in the fields of oil and gas machinery and equipment manufacturing, food, the textile industry, transportation, logistic services, metallurgy, building materials and tourism. Moreover, both sides will strive to increase the rail cargo-shipping volume and to explore the possibility of constructing a new railway between Kazakhstan and China. They have further agreed to in-depth exploitation of the potential of transit transport and to promote the establishment of an international transit passage that will guarantee goods transportation in the Euro-Asian region and within the borders of Kazakhstan and China (Suleimen, 2014).*

The deepening in cooperation between the two countries was recently showcased with the launch of the joint venture Kazakhstan-China International Logistics Company of port Lianyungang, which grants Kazakhstan access to China's eastern seaboard (Weitz, 2014). The Kazakhstan Temir Zholy (KTZ), the state-owned national railway company, plans to invest $100 million in the construction of a logistics hub at the port in Lianyungang. Though an agreement on shared cargo traffic at this Chinese seaport was signed in 1995, it took close to two decades to finalise the deal, a further proof of Beijing's current push for its planned new Silk Road and the Kazakh leadership's ambition to diversify the country's energy oriented economy.

In the short term, at least, China appears to have gained the most from the showdown between Russia and the West over Ukraine. At present, Moscow has fewer options to counter China's economic expansion in Kazakhstan and, more generally, in Central Asia. This opens a window of opportunity for Kazakhstan to promote its growing economy on the international stage via China's new Silk Road, and diversify from the Russia-led EEU trade bloc. However, several challenges to the project remain, as broached in the following paragraphs.

5. Challenges to the Silk Road

a. The view from Kazakhstan

- **Nazarbayev's legacy**

Section 3 above calls attention to one key ingredient of Kazakhstan's economic planning until 2050: this is President Nazarbayev's vision. While one has to concede that the country's economic development has been impressive since the collapse of the Soviet Union, the benefits have accrued to a small cliché of cronies surrounding the President and his family. The Kazakh Statistics Agency has stated that 'the majority of the Republic's population have low income and risks entering the category of poor' (ICG, 2013a: 16). Crucially, the gap in wealth and services between the country's two main cities, Astana and Almaty, and its vast rural expanses has soared to disturbing levels: the same Agency calls rural poverty 'significant' and estimates that it is 'three times higher than the level of urban poverty' (ibid.). The creation in 2013 of a Ministry of Regional Development by presidential decree has to be understood in this perspective (Keene, 2013).

Kazakhstan's political system, too, revolves around the father-figure of President Nazarbayev, who has amassed enormous power in his hands. Elections are little more than public displays devoid of any potential for real democratic change, as indicated in virtually all reports by OSCE/ODIHR election observation missions (2011 & 2012).4 Parliament is a rubber stamp for the President and the executive 'has no power' (ICG, 2013a: 6). In essence, Kazakhstan has adopted the Chinese model of development: open for business, closed to (political) reform.[5]

Kazakhstan's human rights record is also poor. Amnesty International (2014: 2) voices concerns

> *about the restrictions on the right to freedom of assembly, and arbitrary detention and excessive use of force against peaceful protestors. The government has also continued its crackdown on the free media and imposed legislative restrictions on the internet. Torture and other ill-treatment in detention facilities remain widespread, and the authorities have failed to bring the perpetrators to justice.*

Ominously, discontent surfaced in 2011 and culminated in the killing of at least 12 striking oil workers and the injuring of dozens of others in the western city of Zhanaozen on Kazakhstan's independence day (HRW, 2012: 3 & 63). This shattered the country's self-promoted image of friendly investment climate and exposed the deep contradictions plaguing it. Especially significant was the fact that it had been workers from the key oil sector who mobilised.

With President Nazarbayev in his mid-70s and no clear succession strategy in place, Kazakhstan's socio-economic inequality holds a real potential for instability which – if it materialises – would represent a serious setback for the President's vision to turn the country into a logistics hub on the new Silk Road. To this, one may add the fact that efforts to diversify the Kazakh economy have so far failed to wean it off its dependence on oil, making it susceptible to 'export concentration and terms of trade volatility, which can bring about domestic macroeconomic volatility' (WB, 2013: XIV). If anything, the 'share of the oil sector in the structure of the economy' has been rising, as it is 'manifest in the form of a significant share of oil revenues in the government's budget [and] an increasing concentration of exports around oil products' (ibid.: 13). President Nazarbayev (2012a) himself admits to this much.

Moreover, 'the larger contribution to export growth is accounted for by exports of old products to old markets; that is, there has not been much diversification of products and partners' (ibid.: XIV). As pointed out above, the main new trading partner for Kazakhstan is China, whose expanding economy needs to secure the steady supply of oil and gas to fuel growth. As recently as September 2013, Kazakhstan and China signed 22 large scale deals worth a total of $30 billion. While they included loans of around $8 billion to 'promot[e] innovation and industrial projects,' the bulk of the agreements were designed to boost 'cooperation in the oil and gas sector' (Reuters, 2013).[6]

In the medium- and long-term, China's rise may represent a double edged sword for Kazakhstan: on the one side, the possibility of leveraging its expanding bilateral trade with Beijing in its relation with Moscow; yet on the other side, the continuous over-reliance on a raw materials export economy, despite the Kazakh leadership's efforts to diversify. The ultimate risk, obviously, would be to substitute one hegemonic power (Russia) with another (China), or, as the late Alexandros Petersen (2011: 4) put it, 'move from over-dependence on Russia to over-dependence on China.'

- **Corruption**

Kazakhstan has yet to address the challenge of domestic corruption, which remains a major obstacle for the country's ability to exploit its full development potential as it acts as a powerful deterrent on possible investors. The Business Anti-Corruption portal (2014) reports that

> *[g]rand corruption is endemic at all levels of government in Kazakhstan. [T]he country's anti-corruption agency is unable to investigate and prosecute high-level public officials for corruption as a result of a high degree of dependency on the executive. [The] corrupt judicial system and weak law implementation result in public officials frequently engaging in corrupt practices with impunity. [Businesses] rank corruption as the greatest constraint on business operations in Kazakhstan and consider the occurrence of irregular payments and bribes to be fairly common. [They] have few means for effective recourse, as state and local elite interests are given de facto precedence in courts.*

President Nazarbayev appears to be keenly aware of this issue and, once again,7 addressed it at the joint session of Parliament in September 2014: '[a] number of reforms aimed at the effective struggle against corruption have been conducted in the legal field. But this is not enough. Before the end of the current year it is necessary to adopt the Anti-Corruption Strategy of Kazakhstan until 2025' (PMK, 2014). Yet, he had already stressed the importance of 'creat[ing] and implement[ing] the new anti-corruption strategy' in his 'Kazakhstan's way – 2050' speech the previous January, and all by July 1, 2014 (Nazarbayev, 2014). The deadline now seems to have been moved forward.

This is no anomaly and reveals how the 'fight against corruption', which the 2050 strategy features in the 'second stage of the administrative reform' (Nazarbayev, 2012a) is both a sensitive subject and one whose effective solution musters little support among the country's leadership. In fact, the President had already instructed the government 'to prepare and submit a Comprehensive Anti-Corruption Programme within three months' (Nazarbayev, 2012b).

That was in January 2012. As analyst Dossym Satpayev (2014: 1) indicates, the result is that

> *modernisation is hindered by corruption, which has already become one of the important mechanisms for the redistribution of existing resources among the elite in Kazakhstan. Protectionism, 'kryshevanie' or business protection, and corruption a priori lower the rate of development of market competition in the country. The bureaucracy is not interested in the development of a competitive environment, instead being interested in the preservation of the monopoly that allows the bureaucracy to sell its services to those wishing to eliminate existing and potential competitors.*

It comes as no surprise that Kazakhstan was ranked 140 out of 177 countries in Transparency International's Corruption Perceptions Index (2013), which is based on how corrupt a country's public sector is perceived to be. The public procurement system is a case in point. Kazakh MP Aigul Solovyeva's 2012 investigation into the state procurement institutions revealed that close to 20% of businesses involved in bidding processes paid bribes to public officials (Tusupbekova, 2012). Corruption is having a negative impact on diversification, too: '[t]he economy has not diversified beyond a handful of heavy industries and is unlikely to do so while the cost of entrepreneurship is said by the business community to be measured in backhanders to mid-ranking officials' (ICG, 2013a: 10)

Finally, official statistics calculate that in 2013 Kazakhstan's shadow economy was equivalent to 28.6% of the country's GDP (AKIpress, 2014).8 To date, analysts see little real commitment to tackle this issue on the government's and President's side, despite the recent start of a tax amnesty campaign – the third since independence – to legalise capital and property acquired outside the legal economy (Getz, 2014).

b. China and the Uighur question

Beijing's economic links to Kazakhstan go beyond trade. China's western province of Xinjiang has seen dynamic economic growth in the last decade, although tension between the Han and Uighur populations remains a concern for Beijing. For years local Uighurs have been resentful of the central government's policy to resettle millions of Chinese Han workers in the province (Bhattacharji, 2012). At times, discontent has triggered outbursts of protest and violence.

The Chinese leadership is following the usual formula of 'going capitalist and staying autocratic' to address the challenges posed by the restive region (The Economist, 2010). Xinjiang's economic development has thus become the centrepiece of President Xi Jinping's strategy. On a tour through the province in May 2014, the Chinese President emphasised that 'development is the key to addressing all issues in Xinjiang,' adding that

> *[p]romoting employment of minorities is vital to people's livelihood and stability. Xinjiang has long been known for its abundant natural resources, such as oil, coal, and natural gas. [A]s long as locals have businesses or jobs to do, they can make a living and have a promising future, instead of going down the wrong path of terrorism (Xinhuanet, 2014).*

Beijing's efforts to preserve stability and promote social-economic progress in Xinjiang are tied to China's broader regional strategy in Kazakhstan and Central Asia. Pan Zhiping, Head of the Central Asia research institute at Xinjiang Academy of Social Sciences believes that 'transportation is key to Xinjiang's development. A major corridor, with Xinjiang straddling Central Asia and Chinese inland regions, can do a lot to protect China's energy security' (GT, 2014).

Kazakhstan shares a 1,782-km long border with Xinjiang and historic ties with Turkic minority groups in the province. Likewise, the Kazakh city of Almaty is home to the largest Uighur community outside the People's Republic of China (PRC). It is no coincidence that Beijing's grand plans to turn Xinjiang into a regional production centre rely on Kazakhstan's growing economy and good diplomatic record over the last twenty years. In

2011, the Kazakh Chamber of Commerce mission in the US stated that

> *China's government has set high targets to develop its western Xinjiang region into an industrial hub, including $100 billion of investment in 23 new infrastructure projects. Kazakhstan will be a key supplier for this huge scheme. The country's share of foreign trade in the Xinjiang region in 2008 reached 40 percent (KhazCham, 2011).*

Still, to date the local population has seen little of this economic bonanza, which instead 'has enriched large enterprises and entrepreneurs rather than the local area and its people,' as President Xi himself reportedly admitted (Xinhuanet, 2014). As a result, while boasting some of the largest natural gas and oil reserves, Xinjiang remains one of China's poorest provinces (Nylander, 2014; HRW, 2012: 20). The recent life sentence slapped on one of the most prominent Uighur human rights activists on separatism charges serves as a stark reminder that the structural problems affecting the region are far from being solved (AJE, 2014), casting doubts over the future success of China's westward drive.

c. Russia and the Ukraine crisis

The extent to which the ongoing regional crisis over Ukraine will impact Kazakhstan's ambitions to modernise its domestic infrastructure and industries and become Central Asia's logistics hub remains unclear. For now, however, the escalation of the conflict in Eastern Ukraine appears to have already produced a ripple effect on the Kazakh economy, 'with GDP growth slowing to 3.9 percent in the first half of the year from 6 percent last year, while trade with Russia has fallen by a fifth' (Farchy, 2014; Forbes, 2014).

The Kazakh energy industry is facing the prospect of a painful adjustment to Western sanctions, given its primary dependence on Russian state-owned oil companies: close to 30% of Kazakhstan's crude oil exports are pumped through Russian pipelines (TAT, 2014). Regional tensions were quoted as one of the reason behind ratings agency Standard & Poor's downgrading of Kazakhstan's outlook in international markets from stable to negative in mid-2014 (Lovasz, 2014).

This has forced the government to take concrete measures to ease the adverse consequences of the crisis. In February 2014, the National Bank of Kazakhstan devalued the tenge by 19% in order to keep a competitive edge for its exports.9 By June, however, the advantage had already eroded by nine percent against a falling rouble (Reuters, 2014). The Kazakh Ministry of Economy and Budget Planning has announced an additional relief package designed to minimise the effects of Russia's possible economic recession due to Western sanctions (Bisenov, 2014), including plans 'to tap the international bond market for the first time in more than a decade' (Cox, 2014).

President Nazarbayev raised the subject of sanctions at the summit of the CU states in Minsk in August 2014, specifically referring to the possibility of a domino effect that may trigger a regional financial crisis: 'Europe and Asia will be among the first to be hit. [T]herefore, we are calling to get back to constructive interaction and to start lifting the sanctions gradually' (Tengri News, 2014a).

As mentioned above, Russia's annexation of Crimea and the war in Eastern Ukraine have heightened fears of separatism in Kazakhstan, where ethnic Russians make up 23.7% of the total population and are mostly concentrated in the north along the 6,846-km border with Russia. In response, Kazakhstan has adopted tough legislation that criminalises 'calls for illegitimate, unconstitutional changes to the territorial integrity' of the country, with prison terms of up to 10 years (Tengri News, 2014d). On the other hand, President Nazarbayev has adopted a conciliatory tone on the country's linguistic policy, linking multilingualism to economic development and cautioning the political elites that 'if we introduce limitations on the use of other languages [read: Russian], we will be another Ukraine' (Tengri News, 2014c).

Despite the close partnership with Russia, in the current circumstances President Nazarbayev has repeatedly reminded Moscow of his country's sovereign rights within the EEU: 'if the rules set forth in the agreement are not followed, Kazakhstan has a right to withdraw from the Eurasian Economic Union. I have said this before and I am saying this again. Kazakhstan will not be part of organizations that pose a threat to our independence' (Tengri News, 2014b). Some observers have even suggested that Russia's policy shift may force Kazakhstan to disengage from Moscow's regional integration efforts (Khimshiashvili, 2014).

6. Conclusion

Under President Nazarbayev's stewardship, Kazakhstan has experienced two decades of relatively steady economic development. The country's leadership has devised a long-term strategy to overcome the Soviet legacy of dependence on Russia – as reflected in the region's Russia-oriented energy and transportation system – and chart an independent political economic policy. Kazakhstan's multi-vector foreign policy endeavours to diversify the country's trading partners in order to avoid over-reliance on any one player in the global economy.

Nowhere is this more evident than in relation to Kazakhstan's powerful neighbours, namely Russia and China; yet, to date, the policy's record is mixed: on the one hand, it has allowed Kazakhstan to pursue Russia-led regional integration projects, such as the CU and EEU, while at the same time developing ties with China's economic powerhouse to the apparent benefit of all countries. On the other hand, however, the sheer size of the Chinese economy and its hunger for raw materials risks substituting Moscow with Beijing as the regional hegemon, as well as frustrating Kazakhstan's attempts at converting from an oil and gas dependent to a more diversified economy.

Furthermore, Nazarbayev's vision may come up against a number of serious internal and external challenges in the future, which have the potential of derailing the country's ambitious objective to join the 30 most developed states in the world by 2050. Domestically, the political system revolves around the figure of the President, while the economic bonanza has benefitted a close circle of cronies around him and his family, with pockets of wealth in Astana and Almaty surrounded by poverty, particularly in the rural areas. This makes for an explosive mixture, especially given that opposition to Nazarbayev is virtually non-existent unless officially sanctioned and Parliament is a rubberstamp for the executive. The looming presidential transition may complicate matters even further, while rampant corruption risks undermining the country's efforts to realise its full economic potential.

China's push westward is an important component in Kazakhstan's long term strategy. Despite huge investments in the past decade, development has so far failed to pacify the Chinese western region of Xinjiang, where poverty remains widespread and whose Uighur population resents the central government's population transfer policies and domination. Last but not least, Western sanctions on Russia due to the situation in Ukraine are having a crippling impact on the country's economy which, in turns, has a ripple effect on the EEU members. While the government of Kazakhstan is taking measures to weather the storm, the full blowback from Ukraine on Kazakhstan's economy has yet to materialise and may dramatically undercut the Kremlin's efforts to advance Russia-led integration projects in Eurasia. As of now, China appears to be the player best positioned to capitalise on an emerging regional political economy with Russia on the defensive.

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[1] Kazakhstan is part – *inter alia* – of NATO's Individual Partnership Action Plan (IPAP), Partnership for Peace (PfP) and Euro-Atlantic Partnership Council (EAPC), which allow non-member states to cooperate with the alliance on regional security programs (Embassy, undated). Although beyond the scope of this paper, the success of Kazakhstan's multi-vector foreign policy and its correlated economic diversification will also naturally depend on the United States' stance vis-à-vis China's expanding influence in Central Asia. For an overview of opportunities and challenges for the US, see Cooley, 2015.

[2] The Customs Union (CU) of Belarus, Kazakhstan and Russia is a trade bloc that was established on January 1, 2010. Along with Armenia, the three CU member states entered into the Eurasian Economic Union (EEU) on January 1, 2015, with Kyrgyzstan set to join in May this year.

[3] Author's interview, banking sector expert, September 2014. The interviewee asked to remain anonymous.

[4] In its final report, for example, the OSCE/ODIHR mission for the January 15, 2012 early parliamentary elections states: 'the necessary conditions for the conduct of genuinely pluralistic elections, which are a prerequisite for functioning democratic institutions, were not provided for by the authorities' (OSCE/ODIHR, 2012: 1). No-one expects any surprises in the early presidential elections to be held on April 26, 2015.

[5] The expression is the ICG's (2013a).

[6] Feiler & Lim (2014: 14) write: 'China's economic momentum and voracious thirst for energy resources mean that oil and gas cut to the very heart of bilateral relations.'

[7] In 2008, for instance, he declared: 'Corruption threatens the development of our state, its economic growth and political stability. And we are going to conduct the most rigorous and decisive fight against it' (ICG, 2013a: 7).

[8] Some estimates put it up to 50% of the country's total GDP (Liter, 2013).

[9] The tenge is Kazakhstan's national currency. It now trades at around 180 tenge to $1, down from the previous rate of 150 tenge to $1 (Gizitdinov et al., 2014).

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