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China, Russia and the Tussle for Influence in Kazakhstan

The two powers are pursuing competing interests in Central Asia.

By Arthur Guschin
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Until recently, Central Asia played only a modest role in world politics, a reflection of its economic weakness, domestic problems, and distrust of integration. Russia's presence in the region as the primary political mediator and economic partner was incontestable. In the last few years, though, China's growing economic interest in Central Asia has come to be seen in Moscow as a threat to its influence. Russia is watching closely the Silk Road Economic Belt initiative, which would give Beijing the dominant role and could supplant the Eurasian Economic Union. With Kazakhstan the core state in any integration project in the region, it looks set to become the frontlines of the tussle between China and Russia for regional influence.

Russian Interests

Driving Russian policy in Kazakhstan are the activities of four major Russian energy companies: Gazprom, Lukoil, Transneft and Rosneft. These companies allow Moscow to keep Astana within the sphere of Russian interests and help prevent Beijing from dominating Kazakhstan's economy. Their participation in local energy projects gives Russia access to oil and gas reserves, while binding the two countries in the energy, transport, space and agriculture sectors.

The basis of the partnership rests on agreements covering petroleum contracts and energy supplies transiting through Kazakhstani and Russian territory to European or Chinese markets. Currently, the leading Russian investor in Kazakhstan is Lukoil, which operates seven projects and has a stake in the cross-country pipeline Caspian Pipeline Consortium (CPC). In 2013, 32.7 million tons of oil was pumped through the pipeline, 28.7 million tons of it exported from Kazakhstan.

Since January 1, 2014, Rosneft has been able to transport 7 million tons of oil each year via the Priirtyshsk-Atasu-Alashankou route under an intergovernmental agreement on sending Russian oil to China via Kazakhstan, which was inked at a meeting of the Supreme Eurasian Economic Council on December 24, 2013. Russian authorities have stated that the transported amount can be increased to 10 million tons. This will allow Moscow to expand long-term economic cooperation with Astana and guarantee the latter additional budget revenues of 54.6 million dollars as a transit charge. Moreover, the agreement extended the Atasu-Alashankou pipeline capacity from 12 to 20 million tons of oil per year.

The third important pipeline of Russia and Kazakhstan is the Atyrau-Samara route, which transfers Kazakh oil to Russia and then on to Europe. In 2013, 15.4 million tons of oil was transported via this route.

Finally, Russian and Kazakhstan use a maritime route in the Caspian Sea between Aktau and Makhachkala to deliver 2.7 million tons of oil.

This stable energy partnership is also evident in the gas sector. Two crucial gas pipelines – Central Asia-Center and Bukhara-Ural – that run through Kazakhstan territory let Gazprom expand its resource portfolio and guarantee an uninterrupted gas supply abroad. Gazprom's ambitions also encompass field development and joint ventures. Thus, KazMunayGaz and Gazprom established LLP KazRosGas with a 50/50 stake in 2002 to consolidate efforts across a number of new projects.

As a result of Russian investment over the last fifteen years, Moscow has developed a robust position in Kazakhstan fuel and energy, and guaranteed a consistent transit of energy resources. The participation of Russian companies in strategic energy sectors force Astana to consider Moscow's interests and policies. Cooperation between Russia and Kazakhstan in promising fields and the potential construction of the Pre-Caspian gas pipeline form a future cooperation vector that means new investment for Kazakhstan while allowing Russia to keep Chinese influence at bay.

Apart from oil and gas, Russia is also competitive in the nuclear industry, and here as well Moscow is seeking to expand its footprint in Kazakhstan. Currently, there are five joint uranium mining ventures, with Russia represented by the company Uranium One. In 2013, the joint output totaled 4,545 tons, with plans to increase that to 6,000 tons. In addition, Moscow and Astana launched a joint Russian-Kazakh commercial center for uranium enrichment on the base of the OJSC Ural Electrochemical plant (the world's largest). Kazatomprom also has a 10 percent share in The International Uranium Enrichment Center in Angarsk.

The Kazakh uranium market is competitive, with France, China, and Japan also involved. With that in mind, last year Russian President Vladimir Putin signed agreements with his Kazakhstani counterpart Nursultan Nazarbayev under which Moscow will build a nuclear power plant in Kazakhstan with a capacity range 300-1200 MW and deliver nuclear fuel to it. Russia is ready to offer operating and maintenance services and staff training. In addition, the two countries agreed to a road map for the development of potentially productive uranium mines under a joint venture. Russia will benefit from these initiatives: It is economical for both parties, Russia gains access to potential sources of uranium, Kazakhstan is bound tightly to Russia, and Uranium One has the opportunity to exchange assets with other uranium mining companies.

Russia is also investing in the development of Kazakhstan's traditional power economy, starting with a reconstruction project involving Ekibastuz-2 coal regional power station, which will add two energy units and increase the overall output to 4.6 billion kWh per year. Kazakhstan will benefit with enhanced export capacity and the ability to respond to local demand. As a 50 percent stakeholder, Russia can meanwhile import power primarily to the Omskaya oblast and benefit from Ekibastuz-2's high margins. In 2013, Russia almost doubled its electrical energy import from Kazakhstan, from 1.97 billion kWh in 2012 to 3.9 billion kWh. This reflected the relative competitiveness of Kazakhstani enterprises together with Soviet era compatibilities.

Russia is also a strong partner for Kazakhstan in military and space sectors. One high-profile defense deal that illustrates the strategic relations between the two states is Russia's supply of five S-300PS surface-to-air missile systems to Kazakhstan on a grant basis. The long-term lease of the space-launch complex Baikonur ensures space ties to 2050. Moreover, The Russian Federal Space Agency Roscosmos has an agreement to continue cooperation with KazCosmos, its Kazakhstani equivalent, until 2030.

In the meantime, 76 of the 83 constituent Russian entities have economic ties with Kazakhstan. The Tatarstan, Sverdlovskaya, Chelyabinskaya, and Orenburgskaya regions have trade with Kazakhstan exceeding 1 billion dollars. There are more than 200 interregional agreements and 5,000 joint ventures.

Finally, this year Russia, Kazakhstan and Belarus launched the Eurasian Economic Union. If the bloc functions as intended, it could cement Moscow's relations with Astana and lay the foundation for future.

Chinese Interests

Two core issues define Chinese policy towards Kazakhstan: First, the development of the Xinjiang Uygur Autonomous Region through interregional cooperation, roads, and railway construction; and second, obtaining access to Kazakhstan's resources (oil, gas and uranium) and the reliable transit of Turkmen gas to China. In addition, Beijing seeks to expand the presence of Chinese goods in Kazakhstan's markets, bind Astana economically with financial aid and credits, deepen cultural ties, and influence the new elite generation with soft power activities.

At this stage, economic collaboration between China and Kazakhstan is backed by Beijing's efforts in oil and gas field development, as well as in constructing or renovating the pipeline

network to meet China's demand for resources. China clearly hopes to be a permanent actor in rich pre-Caspian oil projects and to boost its stake in the Kazakhstan oil and gas industry from the current 22-24 percent. The volume of Kazakhstan oil being pumped through the Kazakhstan-China pipeline is meanwhile on the rise.

China's national strategy of replacing coal with gas is driving it to diversify its gas supply routes. As a consequence, Turkmen gas is being transported through Kazakhstan on its way to China, which will benefit from less air pollution and a reduced burden on its transportation networks. (Currently, coal haulage occupies 50 percent of China's railway capacity.)

However, China is not focusing on oil-gas negotiations alone; it has its eyes on other sectors of the Kazakhstani economy. For instance, China is an important end market for uranium. This has prompted talks between Kazatomprom, CNNC and CGNPC, which have agreed to export 24.2 tons of uranium to China by 2020 from mining joint ventures. Kazakh officials have also agreed to sell China fuel pellets produced by Ulba metallurgical plant. This has given China the resources it needs for its national program of nuclear power development from 2005-2020, which aims to increase the installed nuclear capacity to 42 GW. Moreover, as part of China's conception of 2011-2015 energy security plan, CNNC was scheduled to invest more than 500 billion yuan (\$78 billion) in constructing nuclear plants, taking nuclear power to 5 percent of Chinese energy demand. This efforts have made the Chinese nuclear sector the most dynamic in the world, and a vast market for uranium.

China's "Go Out" strategy ensures robust investment in its neighbor Kazakhstan. According to the National Bank of Kazakhstan, the gross inflow of foreign direct investment (FDI) totaled \$24.1 billion in 2013, with China accounting for 9 percent and Russia 5.4 percent. Going forward, China is clearly set to dominate in the realm of investment.

China has also extended substantial loans to Kazakhstan, with Astana currently owing Beijing 15.8 billion dollars, almost four times the amount it owes Moscow. Although Chinese funds are helping to create joint ventures, rebuild vital infrastructure (in particular, the Kazakh stretch of the road to Western Europe), there is rising concern in Kazakhstan about the "China threat." This has the potential to trigger the kind of unrest seen in Kirgizia, Uzbekistan or Vietnam. To counter this, Beijing is pursuing a soft power strategy to improve its image. There are more than 20 scientific centers dedicated to Central Asian study in China. Beijing opened four Confucius institutes (Almaty, Astana, Aktobe, Karaganda) and offered places at Chinese universities to more than 10,000 Kazakhstani students. Moreover, the China Bridge foundation organizes advanced training courses for Kazakhstani employees of the Confucius Institute.

Cooperation between China and Kazakhstan will grow, with both states eager to develop ties in the logistics, communications, and aviation sectors. China's program for the development of the Xinjiang Uygur Autonomous Region, known as "China Western Development," runs to in 2050. Until then, Beijing will certainly import resources, form transit corridors, and provide assistance to Chinese business.

Strengths and Weaknesses

The advantage of Russia policy in Kazakhstan lies in the shared heritage in the form of the Soviet Union. As a result of economic interdependence during that period, Russia retained its position in Kazakhstan's economy and was able to deepen integration between the countries. Moreover, the current elites received their education in the USSR, in the process building strong ties that have in turn facilitated good and functional relations. Putin and Nazarbaev enjoy cordial relations, and a shared fear of disintegration and internal instability. There were 3.7 million ethnic Russians in Kazakhstan in 2013, representing nearly 22 percent of the total population. Nazarbaev understands that peaceful coexistence with this minority is essential for stable domestic development, and that is why he supports bilingualism in order to avoid Crimea's fate.

The weakness in Russian policy towards Kazakhstan applies to its Central Asian policy in general: Moscow's quest for influence in the former Soviet lands comes up against Central Asian states' insistence on their sovereignty and their unwillingness to accept satellite status. In this case, Russian aid and investment are seen very much as tools of hard power, and Moscow struggles to craft an image as a reliable partner or donor.

Only in recent years has Russia begun to pay attention to soft power, and develop the tools (Rossotrudnichestvo, Russkii Mir, Russia Today, Russia Beyond the Headlines, Voice of Russia) that might help convey a positive Russian image abroad. In the meantime, China and the United States have developed their own presence in the region, and the Kremlin has seen a decline in Russian language use in the region. Young people in Central Asia today are more interested in studying in China, the growth miracle, and this has reduced the opportunity for Moscow to develop a new generation of Russophiles.

China's policy strengths in Kazakhstan are based on three components. First, it benefits from a multifaceted, long-term approach that is less susceptible to political vicissitudes, since its Central Asia strategy is coupled with the development of its troubled Xinjiang Uygur Autonomous Region. Beijing is focused on achieving stability. Second, China possesses vast financial resources, and this will drive deeper investment and credit relations with Astana. Third, Beijing influences political decisions through economic relations and is able to avoid the more overbearing approach associated with Russia.

A major problem with the Chinese strategy are a soft power mechanism that is ineffective at offsetting the "China threat" stereotype. Kazakhstan is wary of any dependence on Chinese imports and the decline of domestic industries such as textiles and footwear. The fierce competition between Chinese and Kazakh sellers is evident in local markets, where half of the turnover might be controlled by Chinese interests. Other concerns includes product safety and the environment.

Managed Rivalry

The most pressing problem in the Kazakhstan-China-Russia triangle is competition for uranium resources. China is rapidly developing its nuclear energy industry but lacks substantial domestic fields (extraction does not exceed 1,500 tons per year). Last year China imported 18,968 tons, the bulk of which was transferred to a state reserve. The State Council of the PRC is demanding that the strategic uranium volume be increased to 100,000 tons. Although Beijing does buy

uranium from five countries (Kazakhstan, Uzbekistan, Namibia, Australia and Canada), in 2013 the bulk of its imports, 14,981 tons came from Kazakhstan (up from 9,613 tons in 2012).

Russia possesses uranium resources of 541,000 tons, but fast-growing consumption is forcing Moscow to find new deposits. Growing demand appears very likely to trigger competition for the resource between Moscow and Beijing, encouraging them to lock in supplies early.

The second significant moment in the China-Russia rivalry in Kazakhstan is the question of the next stage of SCO development, in particular, its economic component. Here too, Moscow and Beijing cannot reach agreement on the creation of an SCO Development Bank and further economic integration of the organization. Moscow and Beijing have tended to prevent each other from achieving economic domination in the SCO, which might strengthen their grip on state-members.

Beijing has lobbied for the launch of the SCO Development Bank at the last three summits and is ready to kick in 10 billion dollars. However, Moscow's fear of relinquishing its leadership position and its inability to allocate substantial funding has driven it to block the Chinese initiative. Russia initially wanted to create an SCO Development Fund that would subsidize project feasibility studies. The money for the fund would come from the SCO interbank association, national banks, or the Russian-dominated Eurasian Development Bank. Clearly, Russia and China will need to make concessions if they are to fulfill the SCO's potential and meet Central Asian demands for investment. Similarly, Moscow will need to respond to Beijing's efforts to create an SCO free trade zone, a potential competitor to the Customs Union and a threat to national markets given the low price of Chinese goods.

A Difficult Path

Kazakhstan has a difficult path to walk. On the one side, Russian and Kazakhstani leaders historically have strong ties, which the Eurasian Economic Union seeks to enhance. On the other, Astana is keen to attract Chinese money. Expect, then, Kazakhstan to tack between China and Russia in the future, trying hard not to particularly favor either power. Both China and Russia have appeal for Kazakhstan, guaranteeing development and helping to block terrorism and separatism.