

KAZAKHSTAN: CONTINUOUS IMPROVEMENT OR STALEMATE IN ITS RELATIONS WITH CHINA?

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SECURITY COOPERATION

Security is a top priority in China's Central Asian strategy. During his meeting with Nazarbayev in summer 2011, President Jintao stressed the importance of security. He particularly outlined what he considers the three main 'evils' in Central Asia: separatism, extremism and terrorism.³⁸ The list is not surprising, as it reflects Beijing's preoccupation with the destabilising activities in Xinjiang, a turbulent Chinese autonomous region, which has experienced sporadic outbursts of social violence. The Muslim and Turkic Uyghur, who constitute the majority of the population, claim that their region is a victim of Chinese discrimination, colonialism and oppression.³⁹ The July 2011 explosion of violence cast a shadow of pessimism over long-lasting stability in Xinjiang.⁴⁰ Xinjiang is a strategic region for China, as all Central Asian oil and gas pipelines linking the eastern part of China to Central Asia run across that territory. The eruption of violence in this strategic territory could adversely impinge on Chinese oil imports and put at risk Beijing's energy security.

It is no wonder then that the Chinese leadership is manifestly fearful of instability and religiously motivated terrorism, as evidenced by China's

vigorous pleas to enhance the role of the SCO to ensure regional stability.⁴¹ In this respect, security is more and more a determining factor in the relations between China and Kazakhstan, and in the short term it will have an increasingly important part to play within the SCO.⁴² Some Kazakhstani observers, however, believe that Kazakhstan–China cooperation is actually much more a showcase of Beijing's diplomatic skills than a *bona fide* desire to establish friendly relations, while respecting Kazakhstan's sovereignty. They argue that true cooperation within the SCO will be difficult to achieve because Russia is unlikely to let the Central Asian states, with which it has strong and historical ties, drift away towards China without resistance.⁴³

For Beijing, the best way to promote security may actually be through deeper economic cooperation with Astana. China's policies towards the five republics of Central Asia seek quite unequivocally to integrate Xinjiang's economy with those of Central Asian states.⁴⁴ The Chinese often emphasise that the westernmost Chinese region shares deep cultural roots with Kazakhstan and that a trade partnership can only benefit the two, and the regions beyond. Bangguo, for instance, called the Khorgos centre a powerful opportunity to improve trade between Kazakhstan and China's western regions and increase cooperation at the regional level.⁴⁵ Beijing is currently implementing an ambitious plan to improve economic conditions in Xinjiang, reduce instances of social unrest and alleviate the frustration of the local Uyghur population. Kazakhstan's further economic integration into the Chinese north-west region has the potential to strengthen security through economic prosperity for an unpredictable and strategically pivotal region.

RISKY DIVERSIFICATION

A lack of diversification and a dependence on oil and gas exports are the two main problems of the Kazakhstani economy. China's investments in the secondary and tertiary economic sectors may prove the correct means to overcome these obstacles and gear the Kazakhstani economy towards the

production of value-added manufactured goods.

It could permit Kazakhstan to avoid what the economist Barry Eichengreen calls the 'middle-income trap', which can occur in countries with a small population, like Kazakhstan, and abundant oil and gas. This situation usually leads to high incomes with not much effort in terms of industrial innovation and economic efficiency.⁴⁶ Eichengreen found that when a country's per capita GDP rises to somewhere between \$1,000 and \$12,000 per person measured in 2010 dollars, its economy suddenly stalls and annual growth falls by at least two percentage points a year. It gets stuck in the lowest end of the middle. Countries in that situation hit the wall because easy gains out of low-productivity sectors (oil and gas) and in higher-productivity sectors, as well as from technology transfers, have reached the exhaustion point. This is exactly where Kazakhstan is perched. A country with a limited number of comparative advantages will be caught in the middle income and the constant policymaking uncertainty resulting from hydrocarbon price fluctuation.

Escaping the middle-income trap, as a country like South Korea has done, requires the creation of a functioning, competitive large-scale internal economy. Astana at least has a sense of the importance of this goal since the 2011 presidential election. Nazarbayev's election programme was known as 'Kazakhstan 2030', with the slogan 'Let's Build the Future Together'.⁴⁷ Whether the Kazakhstani elite can pull it off is a matter for debate.

Developing closer trade relations with China entails risks for Kazakhstan. There is an ongoing debate as to the ability of the Chinese economy to maintain during the next five to 10 years growth rates as high as those experienced during the first decade of the 21st century. For Kazakhstan, beneficial economic cooperation with China will ultimately depend on its neighbour's prosperity. For many years, economic analysts, in both China and the West, have been warning policymakers about the pitfalls of an overheating Chinese economy.⁴⁸

Ambrose Evans-Pritchard, an economic analyst for *The Telegraph*, keeps repeating, often in a quite pessimistic way, that China may face the problems of household over-expenditure in the not-too-distant future.⁴⁹ *Forbes* analyst Shaun Rein, on his part, has for years been warning about a looming dot-com bubble in China,⁵⁰ a dangerously increasing inflation rate, real estate problems and US-China trade tensions.⁵¹ The 2010 World Economic Forum and *Bloomberg's* analysts have also identified worrying signals of economic overheating.⁵² Even though the odds are low for a 'hard landing', this scenario cannot

be ruled out completely.⁵³

The Kazakhstani economy is expected to become more and more dependent on China's investments, manufactured goods and energy imports. It runs the risk of being exposed to a dependence on one all-powerful partner, as well as this partner's economic fortunes or misfortunes. All in all, this would mean substituting a dependency on hydrocarbon exports for a dependency on a single trading partner. Oddly enough, this hazard may be averted because authoritarian regimes are notoriously wary of a too strong bilateral and multilateral cooperation. In effect, Astana is, to some extent, cautious about China's plans for the region, and consequently prefers to adopt a gradualist approach in Kazakhstan-China bilateral relations rather than to let Beijing move in on Kazakhstan's assets in one big swoop.⁵⁴

Astana under Nazarbayev has put in a lot of effort to enhance the Kazakhstani economic presence in the West and the former Soviet republics. In fact, one of the main features of Kazakhstan's foreign policy is the so-called 'multi-vector' approach, which seeks to advance Kazakhstan's national interests by balancing those of the West, Russia and China, and 'integration and openness to the entire world'.⁵⁵ It follows that Kazakhstani embassies and delegations abroad are actively committed to attracting investment from all corners of the world. Such activism is remarkable in many respects, especially as it is achieving concrete results. However, when Kazakhstan's geographic location is factored in, any optimism about the country's long-term prospects for development and prosperity is somewhat dampened. Despite its size (it is the world's ninth largest country), Kazakhstan is landlocked and abuts two colossal economic partners, Russia and China. Other Central Asian states are in no way capable of offering comparably promising opportunities for economic cooperation. This largely explains why Astana has embarked on a journey to elevate Kazakhstan to the status of 'great power' in the Eurasia region, while keeping windows open in the direction of the West.

Chinese migration

If Chinese investments and low-price goods are generally greatly welcomed by both Central Asian governments and their citizens, the same cannot be said about Chinese immigration, temporary or permanent. Complaints about incoming Chinese workers are being heard more and more throughout Central Asia. Sometimes Central Asians' criticism is even directed at Chinese immigrant workers who

build strategic infrastructures, which would never see the light of day without China's financial and logistic input. Such negative sentiments are particularly strong in Kazakhstan, whose low population size and density pale in comparison with those of prosperous China. An increasing number of Kazakhstanis are fearful of a Chinese demographic expansion in their country. Many also accuse Beijing of conspiring to colonise Central Asian countries.⁵⁶ Chinese attempts to lease a vast swath of Kazakhstani land in 2010 were not well received by the local population, and this led to fierce and unusually large-scale protests.⁵⁷ Kazakhstanis are afraid that what awaits them is a demographic situation resembling that of the Uyghurs in the Xinjiang autonomous region, which lies just across the border, where the majority status of Uyghurs in the total population has been progressively reduced as a result of a massive influx of ethnic Han, who are set to become the majority in the not-so-distant future.⁵⁸ Astana cannot afford to ignore the possibility of such a scenario unfolding in Kazakhstan as well, as it could prove a powerful impediment to economic integration between the two countries.

A double dilemma for Kazakhstan

Kazakhstani political authorities may have to face a harrowing policy dilemma. They will have to either fully open up the country to China's economic projects and become more and more dependent on the economic performance of a neighbour that will soon have a GDP approximately 100 times larger than that of Kazakhstan, or put up legal and economic ramparts against Beijing's foreign policy manoeuvres and limit itself to pocketing only a fraction of the potential benefits that could be brought about by closer bilateral relations. The Kazakhstanis' growing feelings of hostility towards Chinese penetration undoubtedly make it harder for Astana to solve this dilemma. Niklas Swanstrom, director of the Stockholm-based Institute for Security and Development Policy, is one analyst who believes that China–Kazakhstan relations will not develop much further than their current level, precisely because Nazarbayev and his entourage seem uninterested in setting in motion closer cooperation.⁵⁹

CONCLUSION

Overall, China–Kazakhstan political and economic cooperation has achieved impressive successes. The two countries are developing ties

primarily in the energy sphere, while China seems to be encouraging Kazakhstan's economic diversification. However, to diversify the Kazakhstani economy, Chinese investment alone may not be sufficient. Astana has to demonstrate a strong political will to successfully alter the economic structure, even though this may deprive the 'oligarchs' of their control over whole business sectors. Kazakhstan's cooperation with China on security-related matters has economic dimensions, which may ultimately prove to be more crucial than pure mutual military assistance. In fact, Kazakhstan could become an indispensable ally in Beijing's efforts to quell social unrest in Xinjiang. The Kazakhstan–China economic integration will rub off on both countries to Xinjiang's benefit. In this regard, the promotion of trade in border areas is particularly important.

There are drawbacks associated with further cooperation, however. Depending too much on China may be dangerous for Kazakhstan. A serious economic downturn experienced by China would spill over to Kazakhstan, much in the same way that an economic recession in the United States always has deep consequences for Canadian markets and exporters. Moreover, the two countries might be close to reaching the limits of their cooperation. The wariness of Kazakhstani officials over China's growing power and the local population's fear of the Chinese demographic expansion may prove to be insurmountable obstacles to future cooperation between the two countries. In any event, Kazakhstan's national economic problems are unlikely to be solved in the near future.

NOTES

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