

# **The Foreign Policy of Kazakhstan**

*An analysis of Kazakhstan`s multi-vector  
policy*

**Yusuf Nebi Bastas**



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# Abstract

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The role of Kazakhstan as a significant actor in international relations has steadily expanded since the collapse of the Soviet Union. The course of Kazakhstan`s foreign policy and what accounts for it, are therefore of great importance. Kazakhstan has since independence pursued a multi-vector foreign policy and there is little indication that it intends to move away from it. This thesis examines Kazakhstan`s multi-vector foreign policy by conducting a case study based on situational logic. It argues that Kazakhstan`s multi-vector foreign policy must be understood by its foreign policy objectives, and, its unique physical environment and social environment.

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# 1. Introduction

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The role of Kazakhstan as a significant actor in international relations has steadily expanded since the collapse of the Soviet Union. The course of Kazakhstan's foreign policy and what accounts for it, are therefore of great importance. Kazakhstan has since independence pursued a multi-vector foreign policy and there is little indication that it intends to move away from it. In this thesis I will operate with the following definition of what a multi-vector foreign policy is, as described by Kazakhstan's first and only president, Nazarbayev:

Our balanced foreign policy means we are developing friendly and predictable relations with all states and playing a significant role in the global agenda that represents the interests of all Kazakhstan.<sup>1</sup>

The term 'multi-vector' refers to a policy that cultivates foreign relations through a framework based on a pragmatic, non-ideological foundation (Hanks 2009:259). Multi-vector foreign policy then principally is motivated merely by the perceived interests of the state in achieving its policy objectives (Hanks 2009:259). The multi-vector strategy then seems to conform to a realist rational model of state behavior (Hanks 2009:259). In this thesis, I make the assumption that Kazakhstan is a rational actor; its foreign policy is based on achieving the greatest possible benefit for itself at the lowest cost. This leads to my research question in this thesis:

**What makes a multi-vector foreign policy rational for Kazakhstan?**

## 1.1 Literature review

The literature contains a large number of studies on Kazakhstan's foreign policy. They are both descriptive and explanatory in nature.

Ipek (2007) examines the influence oil and gas resources has in the making of Kazakhstan's foreign policy. She concentrates mainly on the export of oil and gas but she also examines

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<sup>1</sup> [http://www.akorda.kz/en/page/page\\_address-by-the-president-of-the-republic-of-kazakhstan-leader-of-the-nation-n-nazarbayev-%E2%80%9Cstrategy-kazakhstan-2050%E2%80%9D-new-political-course-of-the-established-state%E2%80%9D\\_1356091973](http://www.akorda.kz/en/page/page_address-by-the-president-of-the-republic-of-kazakhstan-leader-of-the-nation-n-nazarbayev-%E2%80%9Cstrategy-kazakhstan-2050%E2%80%9D-new-political-course-of-the-established-state%E2%80%9D_1356091973)

how internal politics, national identity, and leadership has affected Kazakhstan`s foreign policy.

Canas (2005), a general rapporteur of NATO, examines Kazakhstan`s relations with the United States, China, Russia and the EU in relations to its multi-vector foreign policy. Canas focuses mainly on the security aspect of Kazakhstan`s foreign policy.

Idan and Shaffer (2011) analyze how Kazakhstan`s foreign policy is shaped by its geographically landlocked position. They place most emphasis on how the lack of sea access affects Kazakhstan`s foreign policy.

Yesdauletova (2009) studies the development of Kazakhstan`s energy policy, focusing on the country`s relations with Russia, China, the United States, and the EU, and how these relations help shape Kazakhstan`s foreign policy.

Vinokurov (2010) focuses on the official Kazakhstani position towards Russia and its development from 1991 to 2000. Peyrouse (2008) considers the economic relationship between Kazakhstan and China and the imbalance of power between them.

Vielmini (2013) analyses Kazakhstan`s regional economic integration with Russia and Belarus and the strategic considerations behind the integration. Hanks (2009) conducts a detailed analysis on the evolution of Kazakhstan`s foreign policy since the mid-1990s.

My analysis differs from the previous literature. The multi-vector approach is commonly acknowledged in the literature on Kazakhstan`s foreign policy. My focus will be on Kazakhstan`s objectives within its oil policy, security policy and trade policy. I will take a look at these three dimensions and analyze their complexity and interconnectedness in order to understand how they shape the foreign policy of Kazakhstan.

## **1.2 Research design**

### **Theoretical framework**

The theoretical framework of this thesis is based on rational choice theory. Rational choice theory was originally developed within economics and was later transmitted from market behavior to political action. It is based on certain assumptions about actors' motives and

choices. The theory is based on methodological individualism and the assumption of rationality (Østerud 2007:20).

Methodological individualism tells us that all social phenomena should be explained as consequences of individual behavior and individual characteristics. In other words, social and political phenomena are consequences of individual attitudes, decisions and actions (Østerud 2007:20). The assumption of rationality implies that actors seek to achieve the greatest possible benefit at the lowest cost (Østerud 2007:20). What the benefit is, is decided by the actors` desires and goals.

Actions have a central place in rational choice theory. To explain an action, one must first verify that it stands in an optimizing relationship to the desire and beliefs of the actor (Elster 1989:4). The action should be the best way of satisfying the actor`s desires, given his beliefs, and, one must demand that these desires and beliefs be themselves rational (Elster 1989:4). A classic example by Harsanyi will clarify what rational choice is:

We may say that it is “rational” to treat pneumonia with modern antibiotics, because these have been found to be highly effective in achieving the desired medical goal; it is “irrational” to use various traditional folk remedies, because these do not seem to produce the desired result (Harsanyi 1977:8).

Similarly, the aim of this thesis is to show why it is rational for Kazakhstan to pursue a multi-vector foreign policy.

## **Methodology**

I conduct a case study based on situational logic. In a case study is you study intensively one or very few cases, but collect data on a number of aspects of this case (Hellevik 2002:97). Case study research can be based on a single or multiple case studies (Yin 2003:5). In my research I only have one case; Kazakhstan`s foreign policy.

Furthermore, whether single or multiple, a case study can be descriptive, exploratory or explanatory (Yin 2003:5). I conduct an explanatory case study. An explanatory case study presents data bearing on cause-effect relationships, explaining how events happened (Yin 2003:5). I will explain why it is rational for Kazakhstan to pursue a multi-vector foreign policy.

An upside of conducting a case study is that one obtains detailed information by studying many variables. This gives the researcher the chance to see the case in a holistic perspective (Hellevik 2002:98). The downside is that a case study is inadequate to test general hypotheses and draw general conclusions (Hellevik 2002:98). These weaknesses will not affect my research since my primary goals are not to test a hypothesis or draw general conclusions.

Situational logic analysis is a concept first advanced by Karl Popper in his book "The Poverty of Historicism" from 1957. Situational logic understands an actor's actions as a product of conscious deliberation, this means that a decision-maker's actions are believed to be executed for the purpose of achieving a specific goal (Hovi and Rasch 1996:73).

A situational analysis aims to explain the actions performed by an actor in a specific situation. The analysis contains two main components (Popper 1976:102-103). The first component is the situation-model and consists of a detailed description of three different aspects of the actor's decision-making situation; the physical environment, the social environment and the problem situation (Hovi and Rasch 1996:74).

The physical environment includes conditions that are either natural or created by past human activity. Kazakhstan's physical environment is characterized by its geographical location in the heart of Central-Asia, with Russia to the North and China to the East. Inside its boundaries, it possesses large endowments of natural resources, such as oil and gas.

The social environment includes other strategic actors that are relevant in the context, the social relations between the actors, and any relevant institutions. Kazakhstan's social environment consists of competing big powers in Kazakhstan and in the rest of the region, plus relevant military alliances (e.g. NATO and the Shanghai Cooperation Organization) and trade organizations (e.g. the EU and the customs union of Belarus, Kazakhstan and Russia).

The problem situation is the choice the actor is facing, and that virtually defines the actor's problem. Kazakhstan's problem situation is how to achieve the greatest possible benefit at the lowest cost regarding its foreign policy objectives and goals. To understand the problem situation, it is necessary to map the decision-maker's options, preferences, and beliefs (Hovi and Rasch 1996:74).

The assumption that Kazakhstan is a rational actor is not distinctive, as states tend to behave rationally. Moreover, several aspects of Kazakhstan's problem situation is similar to that faced by other states. For example, Kazakhstan, like every other state, desires to be independent, to be safe and to achieve economic growth. However, it is Kazakhstan's physical and social environment that are peculiar for Kazakhstan. These are the two factors I will be focusing on.

The second component of a situational logic analysis is the rationality principle. According to this principle, I can claim to have explained and understood a foreign political action taken by Kazakhstan if I have showed that this action was appropriate for the situation as Kazakhstan's foreign policy decision-makers understood it at the time, i.e. if I have showed that Kazakhstan acted rationally (Hovi and Rasch 1996:75).

The most common criticism of using situational logic analysis has to do with the rationality assumption (Hovi and Rasch 1996:80). Real life decision makers have a limited ability to collect all relevant information and identify what rational behavior means, in complicated decision making situations. I do not dismiss the fact that not all decision-makers have all the relevant and perfect information all the time and act fully rationally all the time, but it would be wrong to dismiss the fact that very often individuals do act rationally and that those who do not act rationally are more the exception than the rule. Furthermore, in the study of state's foreign policy, it is common to assume at least a minimum of rationality.

### **1.3 Plan**

The remainder of this thesis is organized as follows. Chapter 2 provides some historical background and lets the reader get better acquainted with Kazakhstan's physical environment. Chapter 3 covers Kazakhstan's early independence days and the emergence of the multi-vector foreign policy. This is necessary to better understand Kazakhstan's social environment and today's multi-vector foreign policy. Chapters 4 through 6 consider why and to what extent Kazakhstan's physical and social environment makes a multi-vector policy rational in three main branches of the country's foreign policy; oil (chapter 4), security (chapter 5) and trade (chapter 6). In chapter 7 I discuss my main findings and in chapter 8 I make my concluding remarks.

## 2. Historical Background

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### 2.1 Pre-Soviet period of Kazakhstan

Kazakhstan is a country with a rich historical and cultural past. Its geographical and geopolitical situation has been an important factor in the development of Kazakhstan. Because of its geographical location Kazakhstan has long been at the intersection of ancient world civilizations and at the crossroads of major transport arteries.<sup>2</sup> Kazakhstan has been home to many nations with distinctive cultural histories which have, in turn, been absorbed into modern Kazakhstan. Today Kazakhstan is the ninth largest country in the world by land area with a population more than 16.5 million people.<sup>3</sup>



In the second half on the 15th century the process of consolidation among the nomadic peoples living on the territory of modern Kazakhstan was under way.<sup>4</sup> This process was a result of their style of life and world-view. The first Kazakh states were established, and by

<sup>2</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>3</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>4</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

the beginning of the 16th century a united Kazakh nation had appeared.<sup>5</sup> The Kazakh nomad`s dependency on nature and being located geopolitically between the two largest nations of Eurasia, China and Russia, made them often victims of invasion by their more powerful neighbors. In the first half of the 19th century more and more Kazakhs turned to a settled way of life and left pastoral nomadism for agriculture. Many of them had no choice, since large areas of fertile pasture had been seized from the Kazakh people and given to Russian peasants.<sup>6</sup> Little by little, the economy of Kazakhstan became integrated into the economic scheme of Russia.

## **2.2 Kazakhstan and the Soviet Period**

After the Bolshevik revolution of 1917 Soviet power was gradually settling in Kazakhstan. Kazakhstan was heading for a tremendous disaster. World War 1 and the Civil War almost totally ruined the economy and during the winter of 1920-1921, almost half of the live-stock of Kazakhstan perished.<sup>7</sup> As a result of this disaster, the population faced a food shortage and starvation during the summer of 1921. The economy of Kazakhstan had to wait until the end of the 1920s to start recovering.<sup>8</sup>

In 1920 Kazakhstan became an Autonomous Soviet Republic (ASSR) and sixteen years later they became a Union Republic of the USSR. Autonomous Soviet Socialist Republics of the Soviet Union were administrative units created for certain nations.

With regard to the economic background of the region, the USSR government made plans for the economic development of Kazakhstan. The volume of industrial production increased 8 fold in 1913 to 1941.<sup>9</sup> Kazakhstan had been entirely transformed by the 1930s from a wide grassland area for nomadic live-stock breeders to a region with a large-scale and diverse industrial complex, a developed agriculture and livestock-breeding system, as well as a high level of culture.<sup>10</sup> This transformation was largely thanks to the Soviet planned economy and its ability to concentrate resources on the fulfillment of large-scale economic objectives.

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<sup>5</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>6</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>7</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>8</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>9</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>10</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

Tens of thousands of kilometers of roads and railways were built and thousands of big industrial plants were established. Kazakhstan produced large amounts of non-ferrous and ferrous metals, oil, coal, grain and livestock-derived products. 70% of USSR's production of zinc, titanium, tin, magnesium and lead, 90% of its phosphorus and chrome, and over 60% of its silver and molybdenum was produced in Kazakhstan.<sup>11</sup>

But the consequences of these positive developments would be tragic for the people of Kazakhstan. The method used by the Soviet Union for industrial development led to subsequent famine on a colossal scale. As a result of the "social industrialization" and the campaign of collectivization, many Kazakh people took their livestock and fled to China or other neighboring countries. Between 1931 and 1934, over 1.5 million Kazakhs died as a result of starvation and diseases and at that time, 1.5 million Kazakhs accounted for more than 40% of the total Kazakh population.<sup>12</sup>

Kazakhstan found itself in a unique state as the only Soviet republic where the natives were a minority. This was partly a result of the tragic loss of 1.5 million Kazakhs and partly a result of an enormous inflow of people from other areas of the USSR.<sup>13</sup> The people who came from other areas of the USSR were seen as enemies of the USSR and many were put in concentration camps.

The crisis in the USSR economy and the social and political unrest experienced during the late 1970s early 1980s also affected Kazakhstan. Kazakhstan's social and economic development suffered and was constrained by the inflexible system of planned economy. The Soviet authorities' brutal crackdown on a protest in Almaty, by young Kazakhs led many people in Kazakhstan to lose faith in the USSR.<sup>14</sup>

### **2.3 Kazakhstan after the Soviet Union**

The political and social system of Kazakhstan went through major changes in the early 1990s. A law declaring a presidential form of government in the Kazakh SSR was passed on

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<sup>11</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>12</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>13</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>14</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

24 April 1990. Nursultan Nazarbayev was elected as the first president. The Supreme Soviet of the Kazakh SSR approved the declaration on state sovereignty on 25 October 1990.

The country's name was officially set in 1991 and on 16 December 1991 Kazakhstan declared its independence. The newly independent country's political system and constitutional legislation of the Republic were designed between 1991 and 1995. On January 1993 Kazakhstan adopted its first constitution. The constitution was a middle ground between the old and the new political systems.<sup>15</sup> The constitution introduced a western democratic model. As a result of a referendum in 1995 a new constitution was adopted. The new constitution removed the shortcomings of the previous constitution. A presidential republic was established, and the issue of divided responsibilities between the different branches of power was reasonably resolved, while presenting changes to the market system.<sup>16</sup>

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<sup>15</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

<sup>16</sup> [http://www.heritagenet.unesco.kz/kz/hn-english/history\\_en.htm#today](http://www.heritagenet.unesco.kz/kz/hn-english/history_en.htm#today)

# 3. The Emergence of the Multi-Vector Foreign Policy

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This chapter gives a background information about Kazakhstan`s early independent years and the emergence of the multi-vector foreign policy. I will focus on two factors that characterized Kazakhstan`s early independent years. The fresh Kazakh government had to deal with key challenges to the economy and its foreign policy, and, it had to develop its oil sector.

## 3.1 Key challenges to the economy and foreign policy

Kazakhstan`s independence resulted in several serious challenges to the economy. The first years after the independence were characterized by economic instability and decline, with the most severe decline occurring in 1994, when GDP fell by 12.6% (Hindley 2008:6). In the face of economic crisis, confederation with Russia was seriously considered as a way out of the systemic crisis and maintaining social stability in the country (Vinokurov 2010:2).

Economic and foreign policy was partly driven by President Nazarbayev`s attempts to maintain close economic and political ties with Russia (Pomfret 2005:859). Even though Kazakhstan was now an independent state and tried to pursue a multi-vector foreign policy from the beginning, Russia was an important strategic ally and its influence over Kazakhstan was great.

These severe difficulties made president Nazarbayev look to the West for assistance. He emphasized the importance of economic assistance to Kazakhstan by the United States and multilateral agencies such as the IMF and World Bank:

It was very important for us to establish political and economic relations, and to enlist the support of the USA at a difficult time. Moreover, I was grateful because the USA actively supported us, so that the donor states should help Kazakhstan with advantageous credits for supporting our currency and our reforms. I think we managed to achieve a high level of mutual understanding and trust in this, both with President Clinton and with Vice-President Gore (Ipek 2007:1185).

Thus, Nazarbayev pursued a balanced multi-vector approach in seeking to safeguard economic stability via the economic support of multilateral agencies backed by the United States support and by cultivating a strategic partnership with Russia. The multi-vector foreign policy started to take shape.

Furthermore, in the mid-1990s the challenges to the economy pressured the Kazakh government to really make some big economic reforms. This resulted in the “Kazakhstan 2030, Prosperity, security and improvement of welfare of the citizens of Kazakhstan” strategy. According to this strategy, seven national economy priorities were identified:

- Privatization of state-owned corporations
- updating of foreign investment laws and an increase in foreign participation
- lifting of restrictions on trade and foreign exchange transactions
- modernization of financial systems
- updating of laws on labor practices
- corporate governance and transparency
- upgrading of tax and customs administration (Hindley 2008:6).

Political reforms got significantly less attention than economic measures, in part due to the lack of prior experience in developing such programs, and due to the international community’s greater capacity to engage in macroeconomic policy and technical assistance.

The Kazakh government also made coordinated efforts to link security and economic development (Gleason 2001:171). Kazakhstan signed the Helsinki Accord, the Strategic Arms Reduction Treaty and the Lisbon Protocol in May 1992, signed the Conventional Armed Forces in Europe Treaty in June 1992, ratified the nuclear Non-Proliferation Treaty in December 1993, the ‘Democratic Partnership Charter’ in Washington in February 1994 and ratified the NATO ‘Partnership for Peace’ agreement of December 1994.

During the first years of independence, abandoning communist ideology and moving towards privatization and a market economy dominated Kazakhstan’s politics. Important progress toward creating a policy environment conducive to globalization and integration in

world markets was made by the Kazakh government already in the early years of independence.

Kazakhstan took important steps to participate in the international community by joining the United Nations in March 1992. Kazakhstan also joined the World Bank, the International Monetary Fund, the Asian Development Bank and the European Bank for Reconstruction and Development.

In 1993, the Kazakh government adopted a tradable currency, liberalized prices, and started privatization of major sectors of the economy, including industry, telecommunications and energy. Kazakhstan abolished nearly all subsidies on consumer goods in 1994, phased out many industrial subsidies before the end of the year and began the process of balancing the public and private sectors with a series of major reductions in force of public employees and privatization of state-owned public service facilities (Gleason 2001:172).

During the first years of independence, Kazakhstan hastily established a realistically stable legal and regulatory structure for commerce and civil rights and implemented a progressive Civil Code, establishing the framework for commercial transactions and property rights (Gleason 2001:172). The government implemented a modern banking system, a securities exchange system, bankruptcy legislation and a system for public utilities management.

Towards the end of 1993 the government experimented with offering shares in large enterprises to foreign purchasers; Philip Morris purchased a 49% share in the Almaty Tobacco Factory for \$313 million, RJR Nabisco purchased 90% of the Shymkent Confectionery Factory for \$70 million, Unilever purchased 90% of the Almaty and Karaganda Margarine Plants for \$60 million (Pomfret 2005:864) . In 1994 and 1995 the State Property Committee earmarked several large enterprises for sale, but the process of privatization by sale really took hold only after September 1995 (Pomfret 2005:864).

Kazakhstan also established a framework for a new system of government fiscal management, with a modern system for managing public external debt, a new tax code and a new system of tax administration. Nazarbayev held firm to the reform programs, pledging: *“to continue the promising advances toward an independent, open and free market economy”* (Gleason 2001:172).

The Kazakh government's banking reforms have been successful (Hindley 2008:6). From 1996, the government started introducing Western banking laws, modern payment systems and tightening prudential regulations, as well as privatizing the management of pension contributions.

The adoption of an aggressive strategy of liberalization seemed to pay off for the Kazakh government. The biggest payoff from the adaptation and implementation of a more Western market-friendly economic policy was the large inflows of foreign direct investment from the West that it was able to attract. Kazakhstan's openness to the West to attract investments from big Western companies was a part of Kazakhstan's pursuit of a balanced multi-vector approach in seeking to safeguard economic stability. Developing its oil sector would be crucial to achieve economic stability.

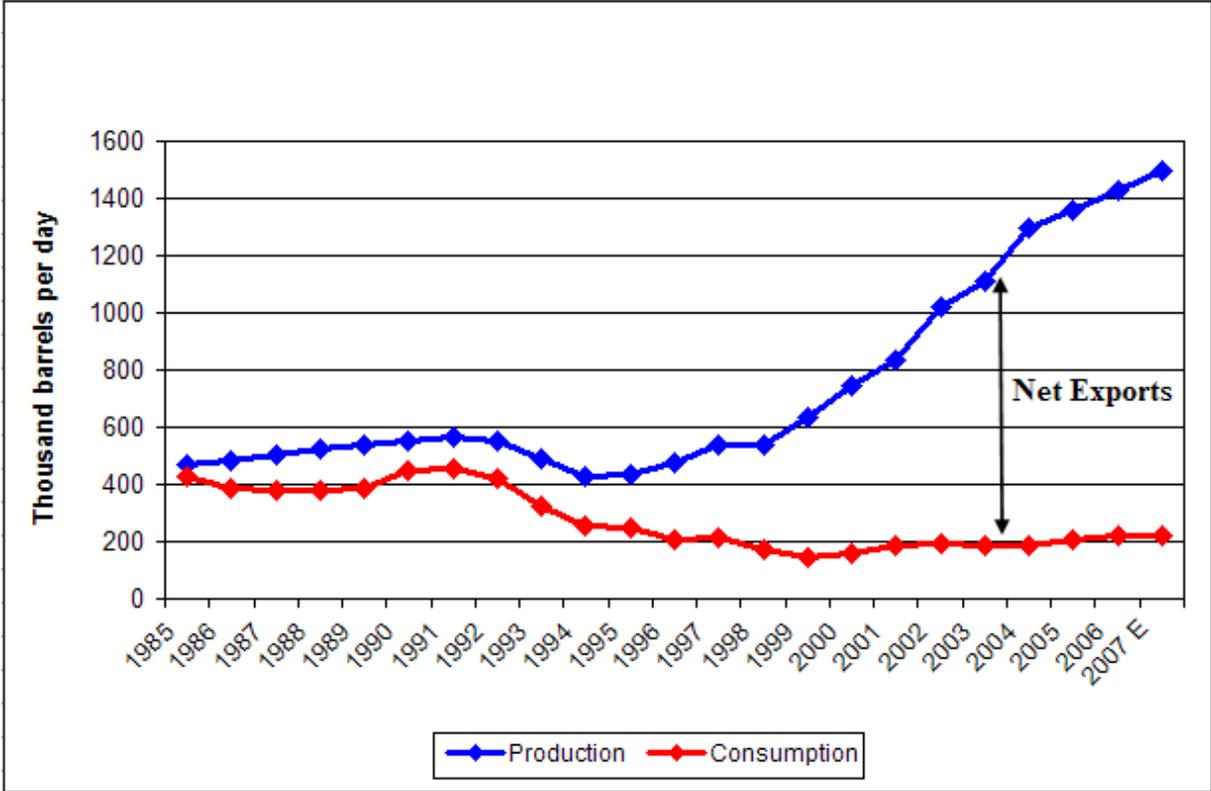
### **3.2 Development of the oil industry**

Kazakhstan has produced oil since 1911 and today, Kazakhstan is a big producer of oil and has a total liquids production estimated at 1.6 million barrels per day (bbl/d) in 2012.<sup>17</sup> The country has the second largest oil reserves and the second largest oil production among the former Soviet republics behind Russia. But as the graph below illustrates, it did not become a notable oil producer and exporter until after the oil industry was developed. Therefore, the development of the oil sector was a key priority for the Kazakh government to increase state revenues. It started to become a notable oil net exporter after 2000, and has only increased since then.

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<sup>17</sup> U.S Energy Information Administration report on Kazakhstan

Figure 3.1 Net exports of oil



Source: Cohen 2008:115

The development of the oil industry in Kazakhstan has been characterized by a need for foreign investment from multiple investors. Nazarbayev understood early on that Kazakhstan had to be open for investments from anyone who wanted to invest in Kazakhstan so that the economy could grow. Nazarbayev stated:

The investment potential of Kazakhstan is so large that it would require resources which are not available even to the highly developed countries. Thus, the requirement for a diversified set of investors that represents dozens of countries from Europe and Asia in addition to the US is an imperative in Kazakhstan's policy (Ipek 2007:1184).

In the early stages of its independence, Kazakhstan had to look both to Russia and to the West to develop their oil industry. Kazakhstan`s oil enterprises were heavily integrated into the Soviet economic system and Kazakhstan was dependent on oil supplies from Russia. In 1994, energy imports accounted for 32% of the total import of Kazakhstan (Ipek 2007:1181).

Furthermore, the oil and gas extracted in Kazakhstan had generally been sent for processing to Russia. But the main factor for the dependency Kazakhstan had towards Russia was that it had to export its oil through Russia by Russian controlled oil pipelines. Kazakhstan could and would not exclude Russia. But at the same time, they had to look to the West if they wanted to build up their oil industry, attract foreign investments, generate oil revenues and reduce some of the massive dependency on Russia. The dependence on Russia on the one hand, and the need to attract large foreign direct investments into the oil and gas sectors on the other hand, required a flexible foreign policy where no strategic important country could be excluded.

Already in 1992, Kazakhstan signed a deal with Italian Agip and British Gas on oil and gas condensate field Karachaganak and founded the Caspian Pipeline Consortium with Russia and Oman as partners.<sup>18</sup> One year later, the government signed a giant deal with Chevron (US) and the oil company Tengizchevroil was founded, making Chevron the first major western oil company operating in Kazakhstan.<sup>19</sup> The result was a 40 year long deal called “the contract of the century”.<sup>20</sup>

Shortly afterwards, other international actors also invested heavily in Kazakhstan`s oil industry. In the same year as Chevron entered Kazakhstan, an agreement on the creation of an international consortium (consisting of Agip, British Petroleum, Statoil, British Gas, Mobil, Total, Shell and KazakhstanCaspianShelf) to conduct geological exploration projects on Kazakhstan`s shelf of the Caspian Sea was signed.<sup>21</sup>

Later that year Germany and the Kazakh government created the enterprise KazGerMunay. In 1994, the Program of development of oil and gas complex of Kazakhstan, was adopted by the government. Priorities included the strengthening of refining capacities, full coverage of domestic needs for oil products, and growth of oil export.<sup>22</sup>

In 1995, a production-sharing agreement in the Karachaganak field was signed between Kazakhstan, represented by Kazakhgas, and Ajip (Italy), British Gas, Gazprom (Russia), and

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<sup>18</sup> <http://zp.kz/en/25/28.html>

<sup>19</sup> <http://www.chevron.com/documents/pdf/kazakhstanfactsheet.pdf>

<sup>20</sup> <http://www.kmg.kz/en/about/history/chronology/>

<sup>21</sup> <http://www.kmg.kz/en/about/history/chronology/>

<sup>22</sup> <http://www.kmg.kz/en/about/history/chronology/>

the “On Oil” having force of law was adopted.<sup>23</sup> The main purpose of the law was securing growth in foreign investments into development of the oil and gas industry. One year later, the construction of the CPC oil pipeline was agreed between member states of the Caspian Pipeline Consortium and a consortium of foreign oil companies.<sup>24</sup>

A couple of months later, the government received some very good news; the topographical survey of the Kazakhstan oil field at the Caspian shelf was completed. The results showed that the estimates ranged from 26 to 60 billion barrels of oil.<sup>25</sup>

In 1997, the privatization of the oil and gas industry began to attract more investments and continued the growth of the oil industry. Shares of the Aktobemunaygas JSC were first to the Chinese National Petroleum Company (CNPC) and China had now officially entered the Kazakh oil industry.<sup>26</sup>

The National oil and gas company Kazakhoil was established and had special privileges such as all rights for participation in the biggest oil projects and in the enterprises of the industry.<sup>27</sup> Furthermore, the final Production Sharing Agreement in oil and gas condensate of the Karachaganak field was signed and Karachaganak Petroleum Operating (KIO) was created, composed of Ajip, British Gas, Texaco (US) and Lukoil (Russia).<sup>28</sup> Towards the end of the year, a production-sharing agreement in the Northern Caspian Sea was signed among Ajip, British Gas, British Petroleum and Statoil (Norway), Mobil (US), Shell (Anglo-Dutch), Total (French) and KazakhstanCaspianShelf.<sup>29</sup>

The big happening of the year 2000 was the discovery of the large oil field at the Northern Caspian Sea, also known as Kashagan. The National Fund was established later that year. The main purposes of the fund is to accumulate financial resources for the benefit of future generations and reduce the Kazakh economy`s dependency on external factors.<sup>30</sup>

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<sup>23</sup> <http://www.kmg.kz/en/about/history/chronology/>

<sup>24</sup> <http://www.kmg.kz/en/about/history/chronology/>

<sup>25</sup> <http://www.kmg.kz/en/about/history/chronology/>

<sup>26</sup> <http://www.kmg.kz/en/about/history/chronology/>

<sup>27</sup> <http://www.kmg.kz/en/about/history/chronology/>

<sup>28</sup> <http://www.kmg.kz/en/about/history/chronology/>

<sup>29</sup> <http://www.kmg.kz/en/about/history/chronology/>

<sup>30</sup> <http://www.kmg.kz/en/about/history/chronology/>

The multi-vector foreign policy became clear as Kazakhstan pursued a balanced approach, with suitable consideration for the interests of all the big powers involved in Kazakhstan, by opening up its oil sector to the international oil companies. This was mainly due to the lack of capital and technology that would enable Kazakhstan to extract the oil itself.

Furthermore, Kazakhstan`s multi-vector foreign policy must be understood by its concern to remain independent, with a high degree of autonomy. Dependence means being determined or significantly affected by external factors (Keohane and Nye 2011:7). Foreign policy expert Stephen Blank says the following about Nazarbayev`s view autonomy:

Appears to view great-power neo-colonialism as a threat equally dangerous to his administration as international terrorism and the democracy-from-below phenomenon. Nazarbayev clearly feels that Russia, China, and the United States each wish to dominate Central-Asia, and he is determined to preserve his administration`s autonomy in the face of this and other threats (Cited in Gumpfenberg 2007:36).

Kazakhstan`s social environment is characterized by Kazakhstan fighting to keep its autonomy in a tough neighborhood surrounded by the big powers Russia and China, while the United States and the EU is eager to get more influence over Central-Asia. The great powers and regional actors are playing a “New Great Game” in Central-Asia. In this new geopolitical reality, Kazakhstan is drawing increasing attention from the big powers and is becoming the subject of international power struggles.

### **3.2 Summary**

The emergence of multi-vector as Kazakhstan`s foreign policy was a rational move by Kazakhstan as it was the best thing to do in the current situation that Kazakhstan found itself in. This was because of the economy was in bad shape and the oil sector needed to be developed as quickly as possible since revenues from natural resources is the Kazakh government`s main income. This could be done by opening up for support and investments from the West and by promoting a strategic relationship with Russia.

## 4. Oil Policy

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Oil played a crucial role in stabilizing the economy and eventually achieving growth in Kazakhstan's early independence days. Today oil is still crucial, and it will continue to play a significant role in the Kazakh economy in the future. In 2010, oil exports stood for almost 57 percent of the total exports of goods and services.<sup>31</sup> On January 28 2013, Kazakhstan's Oil and Gas Ministry announced that Kazakhstan had exported 68.62 million tons of crude oil and condensed natural gas in 2012, a 3.3 percent rise over the 2011 figure.<sup>32</sup> Oil is the main reason Kazakhstan is getting attention from other countries.

The exploitation and transportation of Kazakhstan's hydrocarbon resources are the Kazakh government's top priorities in foreign policy (Gumppenberg 2007:37). Kazakhstan has two main goals concerning its oil policy, representing its problem situation. First, it wants to reduce its dependence on the Russian pipeline system, thus routes diversification has since independence been a top priority for the government, as stated by the former Kazakh foreign minister, Kasymzhomart Tokayev, in 2003: *"As far as pipelines are concerned, our policy is clear and simple, have as many export routes as possible"* (Hanks 2009:264). Second, as a crucial ingredient of staying independent, another top priority for the Kazakh government is remaining in control over its oil sector and not letting any foreign actor become too powerful.

This chapter starts by describing Kazakhstan's export routes and analyzing how and to what degree the multi-vector foreign policy has been successful in achieving the Kazakh government's objective of diversifying its oil export routes. I then describe the ownership of its biggest international oil consortiums, before analyzing how and to what degree the multi-vector foreign policy has been successful in accomplishing the goal of controlling the oil sector. The chapter ends with a short summary.

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<sup>31</sup> IMF <http://www.imf.org/external/pubs/ft/scr/2011/cr11151.pdf>

<sup>32</sup> [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=40410&tx\\_ttnews%5BbackPid%5D=7&cHash=a7c13b5be7217380c1ba1ace6309f68a](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=40410&tx_ttnews%5BbackPid%5D=7&cHash=a7c13b5be7217380c1ba1ace6309f68a)

## 4.1 Export routes and the multi-vector foreign policy

Today, KazTransOil is operating the pipeline system, which is approximately 5,300 kilometers long. Kazakhstan exports oil mainly through the Caspian-Pipeline-Consortium, the Kazakhstan – China pipeline, the Atyrau-Samara pipeline, and the Baku-Tblisi-Ceyhan pipeline.

The Caspian-Pipeline-Consortium runs from the Tengiz oil field to the oil terminal South Ozereevka in Russia. Since the pipeline first started to operate in 2001, approximately 300 million tons have been transported, including more than 240 million tons of Kazakh oil.<sup>33</sup> The Atyrau-Samara pipeline runs from Atyrau to the Russian city Samara, and from there it links to Russia`s Transneft distribution system. The pipeline was upgraded in 2009 and transported 15.4 million tons in 2011.<sup>34</sup>

The Kazakhstan – China oil pipeline runs from Karaganda in east Kazakhstan to the final destination Alashankou in China. The pipeline is a joint venture between the Kazakh KazMunaiGaz (KMG) and China National Petroleum Corporation (CNPC), and is currently being expanded to increase the amount of oil being exported to China.<sup>35</sup>

The Baku-Tblisi-Ceyhan pipeline has a capacity of 1 million bbl/d and starts from neighboring Azerbaijan and runs to Europe.<sup>36</sup> The pipeline started operating in 2006 and Kazakhstan has a contract with Azerbaijan and the BTC Pipeline Company to supply 500,000 bbl/d of oil through the BTC oil pipeline.<sup>37</sup> The oil is delivered by tankers across the Caspian Sea to Baku and in 2008 the first Kazakh oil was loaded into the BTC pipeline.

Kazakhstan`s landlocked position characterize its physical environment. It does not have full control over the utilization of its natural resources, as it is forced to ship its oil and gas via pipelines that run through other countries to reach the global market.

A struggle for control of these pipelines is now being waged between many countries, including Russia, China and the United States. Kazakhstan, to maximize its own utility, has

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<sup>33</sup> <http://www.kmg.kz/en/manufacturing/oil/ktk/>

<sup>34</sup> [http://www.kmg.kz/en/manufacturing/oil/atyrau\\_samara/](http://www.kmg.kz/en/manufacturing/oil/atyrau_samara/)

<sup>35</sup> EIA <http://www.eia.gov/countries/analysisbriefs/Kazakhstan/kazakhstan.pdf>

<sup>36</sup> EIA <http://www.eia.gov/countries/analysisbriefs/Kazakhstan/kazakhstan.pdf>

<sup>37</sup> EIA <http://www.eia.gov/countries/analysisbriefs/Kazakhstan/kazakhstan.pdf>

cooperated with each of these big powers and has at the same time balanced the influence they have over Kazakhstan's oil sector. After achieving much needed economic recovery, new pipelines bypassing Russia to secure economic independence became the long-term strategic goal of Kazakhstan's oil policy. Thus, a multi-vector approach was used to realize this goal.

The Atyrau-Samara and the Caspian-Pipeline-Consortium export pipelines are beneficial for both Russia and Kazakhstan, but increase Kazakhstan's dependence on Russia. Problems with the export of Kazakh oil started when Russia began to complain about the presence of mercaptans and sulphur compounds, found in Kazakh oil from the Tengiz field (Ipek 2007:1186). Russian authorities limited Kazakh oil access to the Atyrau-Samara pipeline until the situation improved. This was a tactical move by the Russian side: They were upset over the growing presence of U.S. companies in Kazakhstan. Chevron, having invested heavily in the Tengiz field, almost cancelled the entire project.

Furthermore, Kazakhstan fears that Russia might someday dramatically raise transit fees or even shut down the pipelines as a tool of diplomatic negotiations, like it did in the incident with Ukraine in 2006. Most of the oil pipeline system was built in the Soviet Union period and its main purpose was to maximize oil gains for Russia. To ensure energy security and growth, and to reduce its dependence on Russia, Kazakhstan had to diversify its oil export routes.

As a consequence of Kazakhstan's dependency on Russia's pipeline system, Kazakh oil exports were determined by oil trade with Russia on a mutual compensation basis and oil export to other countries was determined by Russian quotas for pipeline transport.

Developing a multitude of oil export routes connecting Kazakhstan's oil resources to the world market has always been one of the driving forces behind Kazakhstan's oil policy. By 1996, the government suggested several routes that bypassed Russia, indicating the aim to reduce the dependence on Russian transport infrastructure (Hanks 2009:264).

As part of Kazakhstan's strategic goal to diversify its oil export routes, building a pipeline to China was of great importance. Kazakhstan's oil policy aims at maximum diversification of export channels. With this in mind, China's greater insistence on pursuing oil reserves

enabled Kazakhstan to balance the interests of other global powers represented in the region. The state-owned KMG had this to say about the Kazakhstan-China oil pipeline and the diversification of their oil export routes:

The first project for construction of the Kazakhstan-China oil pipeline is aimed at diversifying oil transportation directions within the framework of pursuing the policy of creation of a multi-vector system for transportation of hydrocarbons of independent Kazakhstan.<sup>38</sup>

The benefits of the pipeline to China are many. First of all, the pipeline delivers a direct transport route. Transit fees do not need to be paid, and Kazakhstan does not risk that a transit country holds its oil hostage by arbitrarily raising fees or closing the pipeline. Second, China's growth will not stop in the near future and this almost guarantees Kazakhstan a stable purchaser. Third, the pipeline constitutes a tool for improving Kazakhstan's relationship with its big neighbor. Finally, the pipeline increases the diversification of its export routes, which in turn reduces its dependence on a single foreign actor. The Kazakhstan-China oil pipeline counterbalances the export routes through Russia.

In addition, an export route to the West was a top priority to fully diversify Kazakhstan's oil export routes and counterbalance the Russian and Chinese influence. The Baku-Tblisi-Ceyhan pipeline makes it possible for Kazakhstan to export its oil to the West, without interference by Russia. For Kazakhstan, participation in the Baku-Tblisi-Ceyhan pipeline has a clear advantage. With oil from Kazakhstan, the pipeline will maintain enough flow to become profitable and will validate the US and EU led efforts to build a Caspian pipeline bypassing Russia. Furthermore, participation empowers Kazakhstan as a sovereign oil producing country by decreasing its dependence on the Russian pipeline system.

Although the Kazakh government has had some success in diversifying its oil routes, the multi-vector approach has not always been successful. Kazakhstan has for decades wanted to build an underwater oil pipeline from Kazakhstan to Azerbaijan, to have greater access to Europe. The proposed project has been supported by the United States, the EU, and other countries, such as Turkey and Azerbaijan. But Russia has opposed the project and has even

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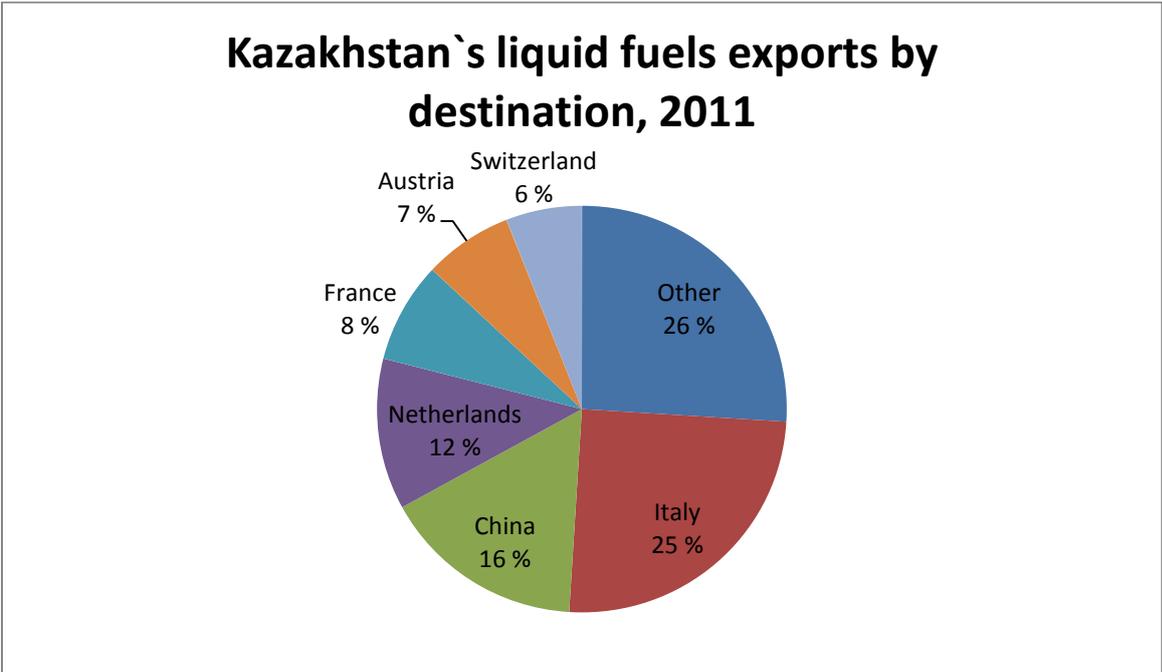
<sup>38</sup> [http://www.kmg.kz/en/manufacturing/oil/kazakhstan\\_china/](http://www.kmg.kz/en/manufacturing/oil/kazakhstan_china/)

hinted that Russia might use military force to stop it because it considers it a threat to Russia`s national security.<sup>39</sup>

As the Trans-Caspian-Pipeline project illustrates, Russia`s influence over Kazakhstan`s oil industry may have weakened, but it is still strong. A route through Iran is also off the table for Kazakhstan, because of its desire to keep a good relationship with the United States. Considering the United States` close attention to the Kazakh-Iranian relationship, Kazakhstan has taken a wait-and-see position on the development of any large-scale energy projects with Iran (Cohen 2008:120). The United States is too important strategically for Kazakhstan to damage US – Kazakh relations.

However, even with the failure of building the Trans-Caspian-Pipeline, the Kazakh government has been successful in diversifying its oil export routes. The Kazakh government managed to establish two new export routes, one to the east and one to the west, while balancing the interests of the big powers present in the region. Kazakhstan`s liquid fuels export by destination is a good indication of the Kazakh government`s achievement of diversification of its oil export routes. Kazakh oil is now running both to the east and to the west.

Figure 4.1 Kazakhstan`s liquid fuels exports by destination



Source: Kazakhstan`s Customs Control Committee of the Ministry of Finance, EIA, Eurostat

<sup>39</sup> [http://www.atimes.com/atimes/Central\\_Asia/ML02Ag01.html](http://www.atimes.com/atimes/Central_Asia/ML02Ag01.html)

How the multi-vector approach functions becomes very clear when looking at the country's pursuit of diversification in oil export routes out of the landlocked country. New pipelines bypassing Russia became the strategic goal to secure economic independence and one could observe a careful balancing act between Russia, China and the United States in Kazakhstan's foreign policy (Ipek 2007:1188). It was only rational to balance the big powers interests because of the social environment of Kazakhstan. In this way, Kazakhstan could pursue its goal of multiple pipelines without shutting the door on any of the big powers.

## **4.2 Ownership in major international oil consortiums and the multi-vector foreign policy**

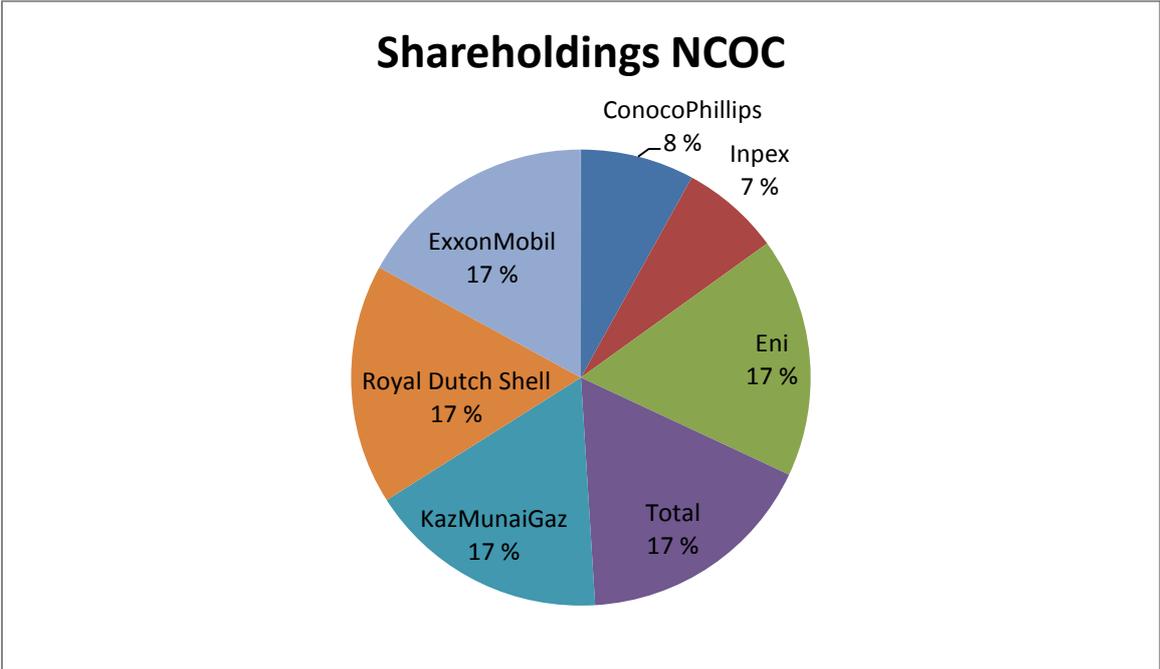
A second main element of Kazakhstan's multi-vector policy concerns ownership in major oil consortia. The shareholdings in the major international oil consortiums in Kazakhstan further illustrate the policy to cooperate with and diversify its international actors and avoid getting in to an asymmetric relationship. The need for foreign investment in the oil sector caused the government to open up its economy and welcome foreign actors, but the Kazakh government made sure that it would have enough shares in every major international oil consortium to remain in control and not become too dependent on external actors.

In October 2008, the Kazakh government reached an agreement with seven companies to form a new joint operating company named the North Caspian Operating Company B.V (NCOC). NCOC is operating mainly on the Kashagan field, one of the largest petroleum developments in the world. The shareholders in NCOC are KazMunaiGaz (Kazakhstan), ENI (Italy), Royal Dutch Shell (Anglo/Dutch), Total (France), ExxonMobile (US), ConocoPhillips (US) and Inpex (Japan).<sup>40</sup>

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<sup>40</sup> <http://www.ncoc.kz/en/ncoc/co-venturers.aspx>

Figure 4.2 Shareholdings NCOC

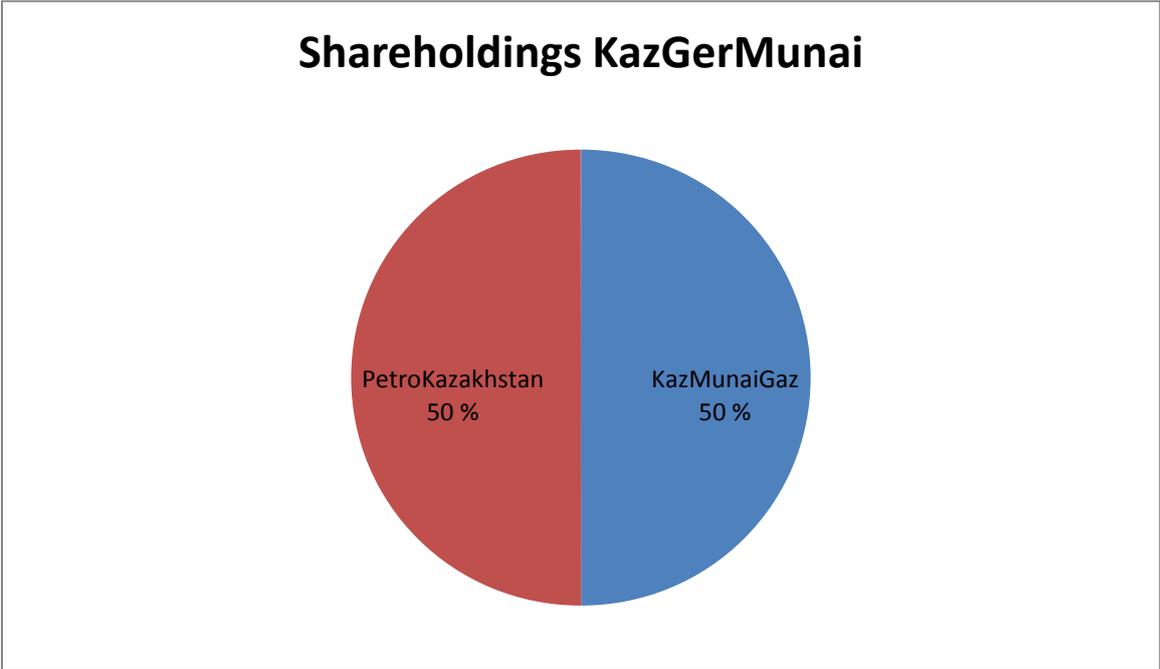


Source: www.ncoc.kz

Kazgermunai is one of the biggest companies in Kazakhstan`s oil producing sector. The company`s activities include exploration, development, production and sales of hydrocarbons in Akshabulak, Nuraly and Aksai oilfields in South Turgai basin, Kyzylorda oblast. The shareholders in Kazgermunai are KazMunaiGaz (Kazakhstan) and PetroKazakhstan (China and Kazakhstan).<sup>41</sup>

<sup>41</sup> <http://www.kazgermunay.kz/eng>

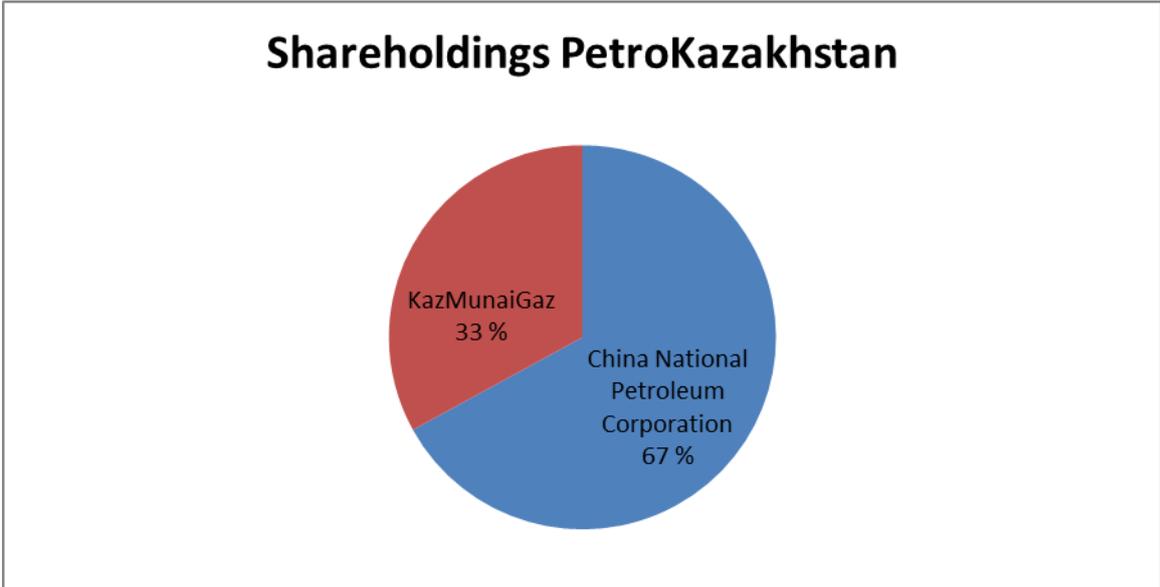
Figure 4.3 Shareholdings KazGerMunai



Source: www.kazgermunay.kz

PetroKazakhstan is a vertically integrated oil and gas company with two owners, China National Petroleum Corporation and National Company KazMunaiGaz.<sup>42</sup> PetroKazakhstan's activities include exploration, field development, oil and gas production, purchasing of fields, processing and selling crude oil and refined products.

Figure 4.4 Shareholdings PetroKazakhstan

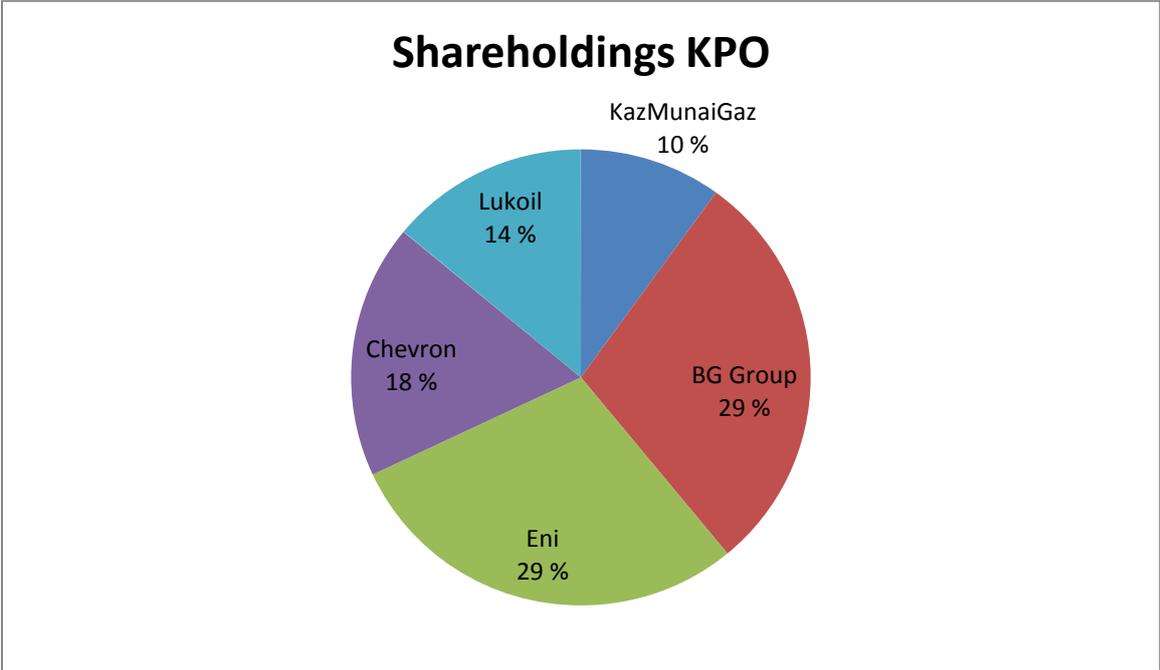


Source: Carlson 2009:47

<sup>42</sup> [http://www.petrokazakhstan.kz/eng/pages/about\\_company.html](http://www.petrokazakhstan.kz/eng/pages/about_company.html)

The Karachaganak field, discovered in 1979, is one of the world’s biggest gas and condensate fields. Located in north-west Kazakhstan and stretching over an area of more than 280 square kilometers, it holds projected hydrocarbons primarily in place of 9 billion barrels of condensate and 48 trillion cubic feet of gas, with estimated gross reserves of over 2.4 billion barrels of condensate and 16 trillion cubic feet of gas.<sup>43</sup> The shareholders of Karachaganak Petroleum Operating (KPO) are BG Group (UK), ENi (Italy), Chevron (US), Lukoil (Russia) and KazMunaiGaz (Kazakhstan).<sup>44</sup>

Figure 4.5 Shareholdings KPO



Source: www.kpo.kz

Turgai-Petroleum’s main activities are oil exploration and production, transportation, refining and sale of crude oil and oil products.<sup>45</sup> Turgai-Petroleum is also developing the Kumkol North field and has a license for development of the part of contractual part of the East Kumkol oilfield. The shareholders are Lukoil (Russia) and PetroKazakhstan (China/Kazakhstan).<sup>46</sup> Turgai-Petroleum is operating at the Kumkol North field and has a license for development of the part of contractual area of the East Kumkol oilfield.

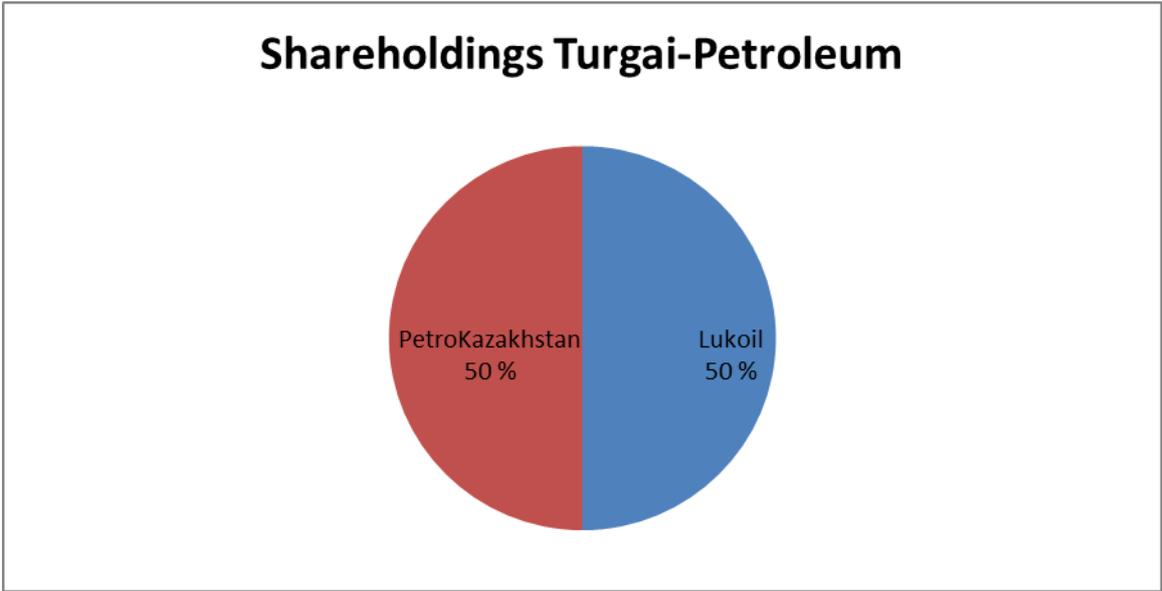
<sup>43</sup> <http://www.kpo.kz/about-kpo.html?&L=0>

<sup>44</sup> <http://www.kpo.kz/about-kpo.html?&L=0>

<sup>45</sup> [http://www.petrokazakhstan.kz/eng/pages/joint\\_ventures.html](http://www.petrokazakhstan.kz/eng/pages/joint_ventures.html)

<sup>46</sup> [http://www.petrokazakhstan.kz/eng/pages/joint\\_ventures.html](http://www.petrokazakhstan.kz/eng/pages/joint_ventures.html)

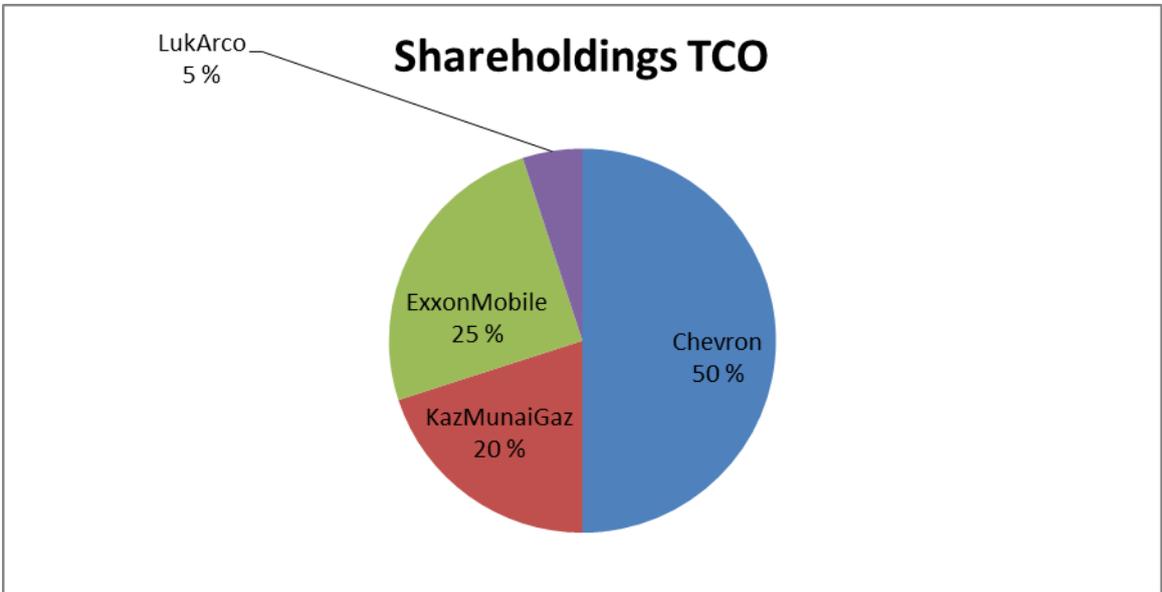
Figure 4.6 Shareholdings Turgai-Petroleum



Source: [www.petrokazakhstan.kz](http://www.petrokazakhstan.kz)

Tengizchevroil is a partnership between Kazakhstan and international oil companies that explores, develops, produces and markets crude oil, gas and sulfur. Current partners are Chevron (US), KazMunaiGaz (Kazakhstan), ExxonMobile (US) and LukArco (Russia/US).<sup>47</sup>

Figure 4.7 Shareholdings TCO



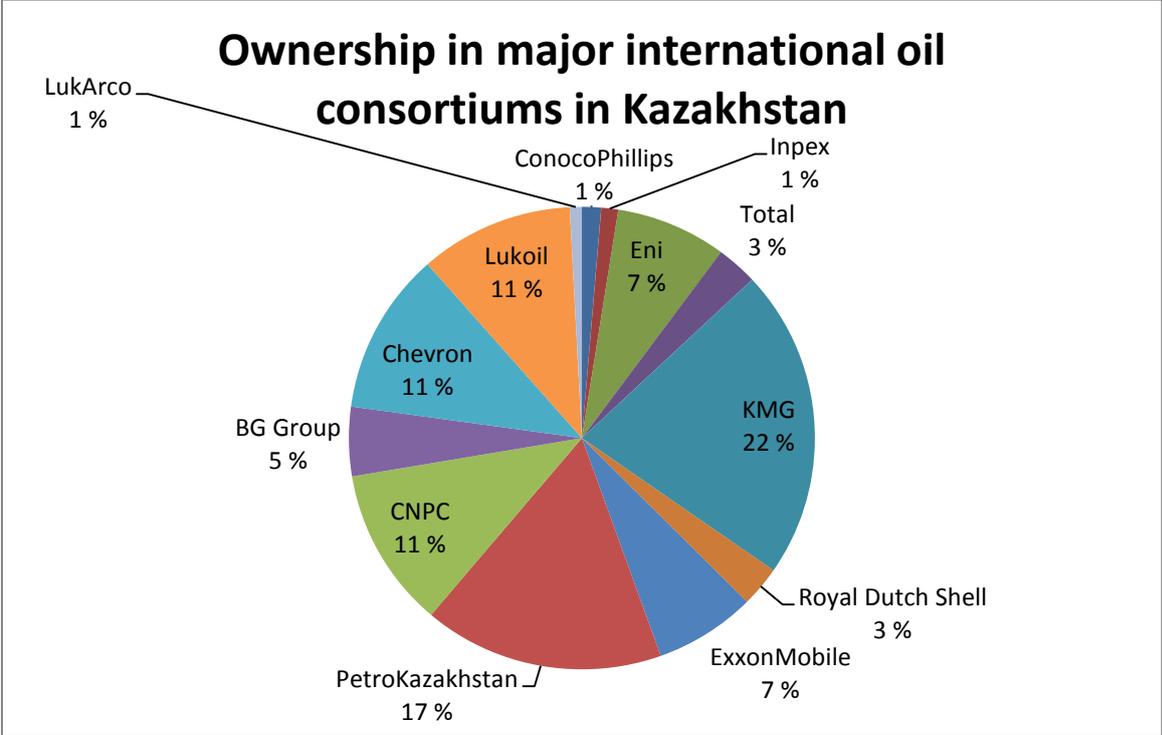
Source: [www.tengizchevroil.com](http://www.tengizchevroil.com)

Several of the biggest international oil companies are present in Kazakhstan`s oil sector. Its oil sector contains international oil companies from the United States, the EU, Russia, China

<sup>47</sup><http://www.tengizchevroil.com/en/about/>

and Japan. The Kazakh government is directly involved through the national oil company KMG and PetroKazakhstan.

Figure 4.8 Ownership in international oil consortiums



The ownership in major international oil consortiums in Kazakhstan makes it clear that the Kazakh government’s policy of not letting any foreign actor have too much control of its oil sector has been successful. The major international oil consortiums consist of companies from all the big powers; Russia, China, the United States and the EU. The Kazakh government has set up a system whereby they balance oil contracts among all the big powers that are strategically important to Kazakhstan, while still retaining control through KMG and PetroKazakhstan.

Cooperation with international western oil companies such as Chevron, Total, ExxonMobil, and Eni was not just to balance Russian and later on Chinese companies, it also brought modern technology and knowledge to Kazakhstan, and this enhanced the efficiency of the hydrocarbon reserves usage.

This carefully planned balance and the increasing role of KMG can be seen as an attempt to prevent dependence on any single foreign actor (Kennedy 2011:2). No foreign company has singlehandedly more than 11% ownership in total. PetroKazakhstan has 17% ownership but

since it is both Chinese and Kazakh, the Kazakh government still remains in control with KMG having a 22% ownership in total. This is not a coincidence, but a strategic and carefully planned policy not to let any foreign actor have too much influence over the Kazakh oil sector.

As the ownership in the major international oil consortiums illustrates, the Kazakh government has prevented foreign actors from getting too much influence over its oil sector. But in recent years the Kazakh government has also used other methods to remain in control. There has been an important shift in Kazakhstan's oil policy that could be understood as reflecting the Kazakh government's fear of losing autonomy and independence. The Kazakh government is now apparently closing its oil sector and strengthening its control over it (Sarsenbayev 2011:370).

Kazakhstan's officials deny this and claim that Kazakhstan continues to be a country with favorable conditions for any foreign investor (Sarsenbayev 2011:372). Nevertheless, recent trends and changes in Kazakh oil policy indicate that Kazakhstan is closing its oil sector compared to how it was in the 90s. The Kazakh government is rebalancing its interests towards the host government through increasing its control over the oil sector and maximizing revenues from it. Modifications made to the Kazakh legislation make this evident (Sarsenbayev 2011:372).

The new tax code from 2009 took the tax burden away from small and medium enterprises, to companies operating in the extractive industry (including oil producers), and Kazakhstan uses an additional levy from 2008, called an 'oil export duty', aimed at boosting tax revenues from exports of crude oil (Sarsenbayev 2011:372). Furthermore, in 2010, a new subsoil-use-law was introduced. This new law established greater state control over activities carried out by subsoil users in Kazakhstan, and because of recent developments in the legislation, this explicitly demonstrates that the Kazakh government is actively pursuing a soft resource nationalism policy (Sarsenbayev 2011:374).

In 2007, thanks to the adjustments in the subsoil use legislation that gave the Kazakh government the power to modify, change and cancel any contract that was thought to pose a threat to the economic interests of Kazakhstan, the government started renegotiations of

the giant Kashagan field. The results were more revenues and control to the Kazakh government:

- National Oil Company KMG increased its share from 8.33% to 16.81%, whereby KMG became one of the largest participants of the project
- Sole operatorship of Eni was replaced by North Caspian Operating Company (NCOC), a group of five participants led by Shell, where the role of KMG was boosted
- For delays Kazakhstan will receive additional compensation amounting to USD 5 billion (Sarsenbayev 2011:376).

Attracting investments from the West, remaining independent, and at the same time balancing the strategically important partnership with Russia required a special type of oil policy, often referred to as a multi-vector oil policy. Kazakhstan's persistent policy not to favor any big power at the expense of others and its desire to secure multiple pipelines going both east and west were realized by using a multi-vector approach to its oil policy. The Kazakh government is aware that, because of its unique social environment and physical environment, respecting the interests of all the important players in the region will ensure the stability of the oil sector in Kazakhstan. This approach will facilitate a balance of power in the oil sector of Kazakhstan, keeping the big players in check.

### **4.3 Summary**

The exploitation and export of Kazakhstan's oil resources are among the Kazakh government's main concerns in foreign policy. The objective to develop multiple export routes to increase its revenues from oil exploitation and reduce its dependence on the Russian pipeline system was realized by the Kazakh government by building a new route directly to China and by signing an agreement with Azerbaijan to deliver oil to the BTC pipeline. Additionally, the Kazakh government has managed to remain in control over its oil sector. Each of the big powers that are strategically important to Kazakhstan is included in the Kazakh oil sector but they balance each other out, so that no foreign actor has too much power over the Kazakh oil sector. I now move on to a second element in Kazakhstan's multi-vector foreign policy, its security policy (Hanks 2009:260).

# 5. Security Policy

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When it comes to security, Kazakhstan`s problem situation is similar to every other state, to in that it wants to retain a high level of security and autonomy. However, its physical and social environment stands out: Kazakhstan is located between the two big military powers Russia and China. Furthermore, its geographical location in the heart of Central-Asia makes Kazakhstan interesting to the United States and NATO.

This chapter starts by describing Kazakhstan`s security relationships with Russia, China, the United States, and NATO. I then analyze how and to what degree the multi-vector foreign policy helps Kazakhstan reach its security policy goals; security and autonomy. The chapter ends with a brief summary.

## **Russia**

Kazakhstan`s security has always been to a degree dependent on Russia. Just the fact that they share a very long border makes their security link up. The military cooperation between Kazakhstan and Russia centers on two fronts; they work together within the Collective Security Treaty Organization (CSTO) and through many bilateral agreements that regulate defense and military cooperation.

CSTO was established in 2002 and the member states are Russia, Kazakhstan, Armenia, Belarus, Kyrgyzstan and Tajikistan.<sup>48</sup> CSTO is a military alliance. Article 2 of the treaty explains that member states maintain their security on a collective basis:

In case a threat to security, territorial integrity and sovereignty of one or several Member States or a threat to international peace and security, Member States will immediately put into action the mechanism of joined consultations with the aim to coordinate their positions and take measures to eliminate the threat that has emerged.<sup>49</sup>

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<sup>48</sup>[http://www.odkb.gov.ru/start/index\\_aengl.htm](http://www.odkb.gov.ru/start/index_aengl.htm)

<sup>49</sup> [http://www.odkb.gov.ru/start/index\\_aengl.htm](http://www.odkb.gov.ru/start/index_aengl.htm)

This makes Kazakhstan`s security closely tied up with Russia`s security, which is beneficial for Kazakhstan as long as they do not depend too much on Russia. Furthermore, Article 4 states:

In case an act of aggression is committed against any of the Member States all the other Member States will provide it with necessary assistance, including military one, as well as provide support with the means at their disposal in exercise of the right to collective defense in accordance with Article 51 of the UN Charter.<sup>50</sup>

The two countries also share an air defense partnership since 1995 and there are allegedly several top secret Russian military facilities in Kazakhstan (Canas 2005). Russia also leases several test sites from the Kazakh government and the two neighbors cooperate, led by Russia, on fighting illegal trafficking and terrorism (Canas 2005).

## **China**

Kazakhstan cooperates with China on security mainly through the Shanghai Cooperation Organisation (SCO). SCO is a permanent intergovernmental international organization established on 15 June 2001 in Shanghai, by Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan and Uzbekistan.<sup>51</sup> It is a successor of the Shanghai Five mechanism. According to SCO, the main goals of the organization are:

strengthening mutual confidence and good-neighborly relations among the member countries; promoting effective cooperation in politics, trade and economy, science and technology, culture as well as education, energy, transportation, tourism, environmental protection and other fields; making joint efforts to maintain and ensure peace, security and stability in the region, moving towards the establishment of a new, democratic, just and rational political and economic international order.<sup>52</sup>

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<sup>50</sup> [http://www.odkb.gov.ru/start/index\\_aengl.htm](http://www.odkb.gov.ru/start/index_aengl.htm)

<sup>51</sup> <http://www.sectsco.org/EN123/brief.asp>

<sup>52</sup> <http://www.sectsco.org/EN123/brief.asp>

The organization has traditionally been centered on ensuring security and stability in the region. SCO has a permanent Regional Counter-Terrorism Structure Committee (RCTS), the main tasks of which are to fight terrorism, separatism and extremism.<sup>53</sup>

Several bilateral security agreements have also been signed between the two countries and as a sign of goodwill, Nazarbayev has previously stated his opposition to the international recognition of Taiwan (Canas 2005). Kazakhstan also shares a long border with China and they cooperate on drugs and arms trafficking. China is especially concerned about weapons being smuggled to the Xinjiang-Uighur autonomous region and to the separatist movements in the region.

### **The United States**

Kazakhstan and the United States have since Kazakhstan's independence had a close relationship. The United States was the first country to recognize Kazakhstan's independence and already in 1992 the countries established diplomatic relations and opened embassies on each other's soil.<sup>54</sup>

The foundation for the Kazakh-US military and defense cooperation is written in the "Memorandum of Mutual Understanding and Cooperation in the field of Defense and Military Relations between the Ministry of Defense of the Republic of Kazakhstan and the United States Department of Defense" from 1994 and in "Memorandum of Consent on Mutual Intent to Implement the Five-Year Military Cooperation Plan 2008-2012 between the Ministry of Defense of the Republic of Kazakhstan and the United States Department of Defense" of 2008.

The two memorandums on defense strategies mentioned above covers the strengthening of fighting and peacekeeping capacities of Kazakhstan's peacekeeping unit KAZBAT, airmobile forces, naval forces, and the development of military infrastructure in the Caspian region.<sup>55</sup>

But it was only after 9/11 that Kazakhstan became a key ally for the United States.

Kazakhstan was quick to voice its intention to support the American lead war against terror.

The Kazakh government made its airspace and airfields available and a five year military

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<sup>53</sup> <http://www.sectSCO.org/EN123/brief.asp>

<sup>54</sup> <http://www.kazakhembus.com/page/kazakhstan-u-s-relations>

<sup>55</sup> <http://www.kazakhembus.com/page/kazakhstan-u-s-relations>

cooperation agreement between Kazakhstan and the United States was signed in 2003 (Canas 2005). The military agreement involves, among other things, the transformation of the Kazakh navy to serve as an anti-terrorist training center and the construction of battleships that are to be stationed in the Caspian Sea, mainly to protect the country's energy resources.

Kazakhstan became the first of the former Soviet Republics to send troops to Iraq. In 2003, Kazakhstan's peacekeeping unit, KAZBAT, was deployed in Iraq as part of an international division. Kazakhstan had 30 military engineers deployed as part of the International Stabilization forces till 2008.<sup>56</sup>

In 2012, the Kazakh-American Strategic Partnership Commission was established, after the works of Kazakh Foreign Minister Erzhan Kazykhanov and Secretary of State Hillary Clinton.<sup>57</sup> The very first meeting was held in Washington in 2012, where the United States expressed gratitude for Kazakhstan's support for the U.S. coalition in Afghanistan, including its contributions to the development of the critical Northern Distribution Network and to a scholarship program to educate Afghan students in Kazakh universities, while Kazakhstan spoke in support of Afghanistan's integration into regional economic relations, and closer cooperation with its Central Asian neighbors.<sup>58</sup> The next meeting is to take place in Astana in 2013.

## **NATO**

Kazakhstan is an active NATO partner. Since 1994, the country is a member of the Partnership for Peace agreement, aimed at defense cooperation. In 2002, Kazakhstan joined the Planning and Review Process, where the partner countries undertake to provide a wide range of information covering their defense policies, progress in democratic control of armed forces and relevant financial and economic plans.<sup>59</sup>

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<sup>56</sup> <http://fmso.leavenworth.army.mil/Collaboration/international/McDermott/Kazakhstans-2011-military.pdf>

<sup>57</sup> [http://www.kazakhembus.com/archived\\_article/kazakhstan-u-s-strategic-partnership-commissions-inaugural-meeting-opens-a-new-aven](http://www.kazakhembus.com/archived_article/kazakhstan-u-s-strategic-partnership-commissions-inaugural-meeting-opens-a-new-aven)

<sup>58</sup> [http://www.kazakhembus.com/archived\\_article/kazakhstan-u-s-strategic-partnership-commissions-inaugural-meeting-opens-a-new-aven](http://www.kazakhembus.com/archived_article/kazakhstan-u-s-strategic-partnership-commissions-inaugural-meeting-opens-a-new-aven)

<sup>59</sup> [http://www.nato.int/cps/en/natolive/topics\\_49598.htm](http://www.nato.int/cps/en/natolive/topics_49598.htm)

In a statement shortly after 9/11, by Colonel General M.K. Altynbayev, Minister of Defense of the Republic of Kazakhstan, at the NATO headquarters in Brussel, Kazakhstan voiced its support for the US led war against terror:

We are sure that terrorists should be punished, so should be those who were behind them. In this connection the Republic of Kazakhstan confirmed its readiness to support with all forces and means available the measures which are being taken by international community in the struggle against terrorism.....Kazakhstan considers participation in EAPC and Partnership for Peace program as one of priorities of cooperation aimed to integration into global security structures. Kazakhstan took political decision about joining the Planning and Review Process program (PARP) program which will allow us to increase the level of relations with NATO.<sup>60</sup>

Kazakhstan has close contacts with scientists from NATO member states within the framework of NATO Science for Peace program and in 2005 it joined the Operational Capability Concept. Kazakhstan is also a part of the soft security NATO-sponsored, Virtual Silk Highway project.

## **5.1 Security and the multi-vector policy**

The Kazakh government, located between two big military powers, wanted to find a partner to balance the influence that Russia and, later on, China has on Kazakhstan`s security. They found the solution in the West.

In the aftermath of 9/11, a new global security environment increased the strategic importance of the Central-Asia region and Kazakhstan took the opportunity to become an important strategic ally to the United States and NATO by participating in the war against terror and the rebuilding of Afghanistan.

According to the former Kazakh foreign minister, Kasym-Zhomart Tokayev, the United States` primary interest in Kazakhstan is not oil, but security:

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<sup>60</sup> <http://www.nato.int/docu/speech/2001/s011219g.htm>

It is conventional to believe that the U.S. is interested in Kazakhstan only as an energy supplier. This is not entirely true. During the talks in the Oval Office President Bush made it clear that, despite Washington's interest in further energy cooperation with Kazakhstan, it is not the main factor in the bilateral relationship. The main thing is to understand the commonality of purposes. First and foremost, these include the fight against international terrorism, nuclear proliferation and other threats to peace and security (Cohen 2008:98).

The military cooperation with the West was not just to balance Russia and China, but also because of its own security risks, especially the risk of an unstable Afghanistan. The reconstruction of Afghanistan is crucial for long-term security and stability in Central-Asia, and therefore, a top foreign policy priority for Kazakhstan. Stabilization of Afghanistan was and still is one of the most important issues to discuss during high-level meetings between Kazakhstan and the United States. This in turn, helps the Kazakh government reduce its dependence on its big power neighbors.

To prove its support to the West, the Kazakh government provided no-cost over-flight rights for the "Enduring Freedom" operation in 2001 and similar deals have been developed and adopted between Kazakhstan and Germany at the end of 2007.<sup>61</sup> US military and cargo planes have been using Kazakhstan's emergency landing fields since 2002. Being a vital actor in the so-called Northern Distribution Network, through which about 35% of all US cargo arrives in Afghanistan since 2009, Kazakhstan made its rail and motor roads available for transit of non-lethal shipments needed for NATO and U.S. forces deployed in Afghanistan.<sup>62</sup> But Kazakhstan knows that bringing security to the region cannot happen without Russia. For the Kazakh government, Russia is the only reliable source in the region, of 'hard' security in the event of a sudden collapse of the situation in the unstable Afghanistan (Vielmini 2013:3).

It becomes clear from the international cooperation section of Kazakhstan's Military doctrine of 2011 that Kazakhstan seeks to cooperate multilaterally when it comes to security and defense but a political drift towards Russia and China can be observed. The doctrine lists the priority areas for international military cooperation:

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<sup>61</sup> <http://www.kazakhembus.com/page/commitment-to-assist-afghanistan>

<sup>62</sup> <http://www.kazakhembus.com/page/commitment-to-assist-afghanistan>

1. Strengthen confidence-building measures and military transparency in the region.
2. Work to strengthen international regimes for nonproliferation of weapons of mass destruction, abide by the international standards of trade in arms, materials, and military and dual purpose technologies, and pertinent international treaties.
3. Finish the regulatory legal base for military and military-technological collaboration with members of the Collective Security Treaty Organization based on the need to pool efforts to establish a single defense space and ensure collective military security, as well as further develop CSTO assets and resources.
4. Extend the strategic partnership within the Shanghai Cooperation Organization founded on common military-political interests.
5. Increase military and military-technological cooperation with the United States of America and the European Union.
6. Advance the national peacekeeping capability, take part in joint exercises and share experience in planning, conducting and providing comprehensive logistical support for peacekeeping operations.
7. Take use of the NATO method and standards to train peacekeeping units so as to ensure operational compatibility.
8. Work together on a mutually beneficial basis with foreign companies to supply arms and materiel, and set up co-production in Kazakhstan.<sup>63</sup>

Even if the United States, the EU and NATO are all mentioned in the list of priority for international military cooperation, Kazakhstan still allocates Russia a central place in its security policy. It seems that Kazakhstan both prefers and needs Russia as its closest security partner. The order of these priorities is not coincidental. This priority list illustrates that Kazakhstan prioritizes the CSTO and the SCO. Statements like “establish a single defense space and ensure collective military security” and “founded on common military-political interests” make this clear, while NATO is mentioned with the purpose of training peacekeeping units.

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<sup>63</sup> <http://fmso.leavenworth.army.mil/Collaboration/international/McDermott/Kazakhstans-2011-military.pdf>

Kazakhstan`s shift in security interest also becomes clearer by comparing the latest Military Doctrine with the one from 2007. The doctrine from 2007 makes numerous references to NATO and clearly gives NATO a higher priority, while the 2011 doctrine barely mentions the military cooperation with NATO.<sup>64</sup> In an interview with the Russian channel 24 on April 26, 2012, Nazarbayev confirmed that NATO is no longer a priority and even criticized NATO`s role today:

As far as NATO is concerned, after the Cold War was over the role of NATO is absolutely obscure....The Warsaw Pact is no longer in effect. The Cold War is over. What is the essence?....This contrast between everything in the West being the best and the Soviets failing in all realms is no longer there.<sup>65</sup>

The president mentioned the CSTO when commenting on the region`s security:

This Organization was launched to ensure collective defense in case of extremism harming any of the member states....I don`t see any obvious threat of war nowadays. However, some other threats can originate on the southern rims. Drug trafficking is a real threat to all of us. The scale is unprecedented. Afghanistan keeps on growing narcotic substances and offering more sophisticated products....who will be ruling the nation, what policy they will be pursuing ... we yet have to see that.<sup>66</sup>

Kazakhstan`s shift towards CSTO as the only realistic security organization was also confirmed when the NATO IPAP team visited the Astana in the fall of 2011 and was left with the impression that Kazakhstan avoided discussing important and sensitive issues with NATO and is actively limiting its cooperation with NATO.

Furthermore, President Nazarbayev was negative to the Ukrainian revolution, stating that the revolution was staged by the United States to put a more pro-American leader in Kiev (Gumppenberg 2007:36-37).

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<sup>64</sup> <http://fmso.leavenworth.army.mil/Collaboration/international/McDermott/Kazakhstans-2011-military.pdf>

<sup>65</sup> [http://en.tengrinews.kz/politics\\_sub/In-absence-of-Cold-War-NATOs-role-is-obscure-President-Nazarbayev-9499/](http://en.tengrinews.kz/politics_sub/In-absence-of-Cold-War-NATOs-role-is-obscure-President-Nazarbayev-9499/)

<sup>66</sup> [http://en.tengrinews.kz/politics\\_sub/In-absence-of-Cold-War-NATOs-role-is-obscure-President-Nazarbayev-9499/](http://en.tengrinews.kz/politics_sub/In-absence-of-Cold-War-NATOs-role-is-obscure-President-Nazarbayev-9499/)

According to Kazakhstan's Military Doctrine of 2011, the external threats to the country's security and safety are:

- Socio-political unrest in the region and the likelihood of armed provocations
- Military conflicts near Kazakhstan's borders
- Use by foreign nations or organizations of military-political pressure and advanced information-psychological warfare technologies to interfere in Kazakhstan's internal affairs to further their interests
- Growing influence of military-political organizations and unions to the harm of Kazakhstan's military security
- International terrorist and radical organizations, including cyber terrorism and growing religious extremism in neighboring countries
- Production by some countries of weapons of mass destruction and their delivery vehicles, and illegal proliferation of the technologies, equipment and components used to manufacture them.<sup>67</sup>

To address and solve these threats Nazarbayev have stated the following about Kazakhstan's foreign policy and security:

We will pursue an active, pragmatic and balanced foreign policy aimed at ensuring national interests, increasing the international prestige of our country and strengthening national, regional and global security.<sup>68</sup>

The Kazakh government clearly believes that a balanced approach to its security is the best way to address and defend their security interests and concerns. Furthermore, Kazakhstan's security policy can be understood by the aim to remain independent and avoid being dependent on or being too closely affiliated with one or the other big powers (Gumpfenberg 2007:36). Lacking in trained military personnel and technology, Kazakhstan is firmly in favor of strategic partnerships with Russia, China, and the United States for security purposes.

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<sup>67</sup> <http://fmso.leavenworth.army.mil/Collaboration/international/McDermott/Kazakhstans-2011-military.pdf>

<sup>68</sup> <http://fmso.leavenworth.army.mil/Collaboration/international/McDermott/Kazakhstans-2011-military.pdf>

The strategic policy to cooperate with the West and its big neighbors to balance the big power neighbors' influence over Kazakhstan and to remain independent and autonomous can be observed in Kazakhstan's security relationships (Hanks 2009:260). First of all, the country was a charter member of the Shanghai Five, later renamed the Shanghai Cooperation Organization. Second, through regional organizations like the SCO, the CSTO and bilateral agreements, Kazakhstan has a close cooperation with both Russia and China on security issues. Third, Kazakhstan is an active partner of NATO through the Partnership for Peace program. Finally, Kazakhstan also cooperates with the United States through joint military missions, such as building a stable Afghanistan. Kazakhstan is the only country in Central Asia that sent troops to Iraq. The multi-vector approach has enabled Kazakhstan to avoid becoming too dependent on any one big power by cooperating with all of the big powers in the region and letting them balance each other.

With this being said, it is important to note that the multi-vector element is not as clear in regards to its security policy as it is in the oil policy. Although Kazakhstan has a multi-vector approach that carefully balances the big powers, there is a definitive shift in priorities that is important to notice. Security relationships with Russia and China seem to be prioritized over security relationships with the West. This shows that the multi-vector foreign policy is not equally strong in every foreign policy domain and that it is dynamic: It is not written in stone, but changes over time as circumstances change. Kazakhstan's shift could be understood as a rational move since Russia and China are after all its neighbors and Afghanistan has become more stable and therefore the strategic relationship with the United States is not as important as it used to be.<sup>69</sup>

## **5.2 Summary**

Kazakhstan's physical and social environment makes it rational to have a balanced security policy because, to some extent, Kazakhstan is forced to have a close security relationship with Russia and China, simply because they share a border. The relationship with the United States and NATO is also important, partly because they have common interests in a stable Afghanistan, and partly to counterbalance the Russian and Chinese influence. Even though

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<sup>69</sup> Embassy of the Republic of Kazakhstan to Norway representative, Nurzhan Bazylbekov, personal interview, Oslo, April 10, 2013

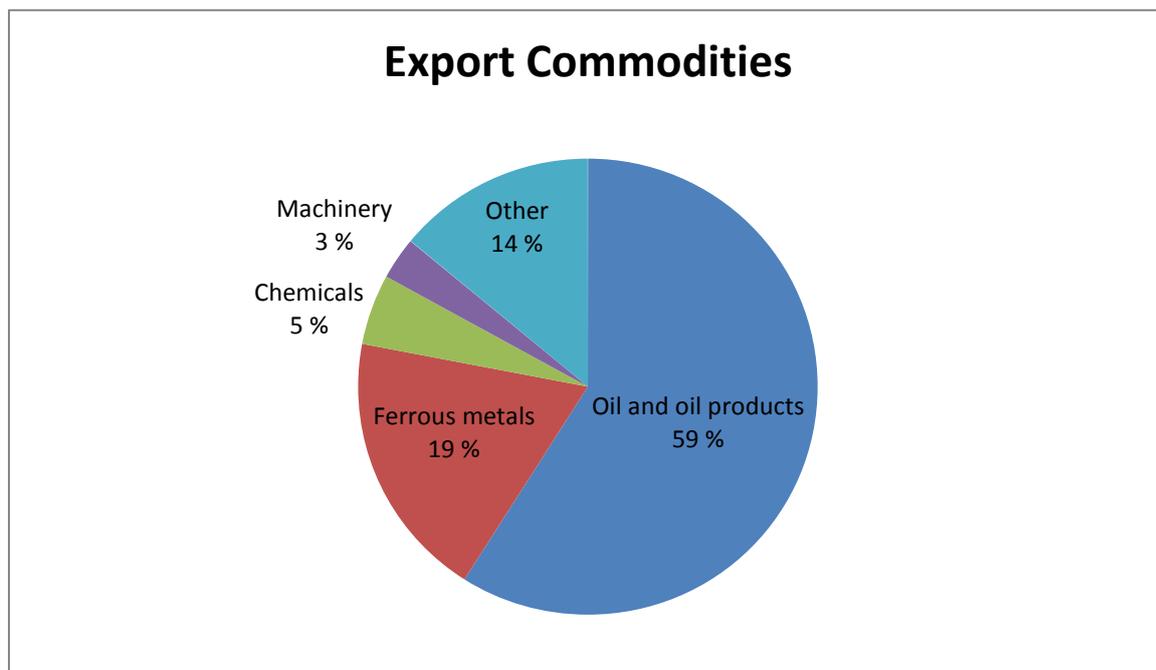
Kazakhstan is prioritizing its security relationships with Russia and China over the relationship with the West, it does not stop it from appreciating the important strategic security relationship it has with the West. I will now move on to the last policy domain that accounts for Kazakhstan`s multi-vector foreign policy; the trade policy.

## 6. Trade Policy

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During the last two decades Kazakhstan has become a more open economy and more open to international trade. Export significantly surpasses imports. Kazakhstan exported for 59.23 USD billion in 2010, an increase from 43.84 USD billion in 2009.<sup>70</sup> Kazakhstan imported for 30.11 USD billion in 2010, an increase from billion 28.77 USD billion in 2009.<sup>71</sup> Fuel and energy dominate exports, while imports consist mainly of machinery and food.<sup>72</sup> The increase of trade openness in the start of the 2000s went hand in hand with the increase of oil and gas production. Kazakhstan started to become a major oil producer and exporter, by 2010 it exceeded 82 million tons per year.<sup>73</sup> Therefore oil was the main driver behind the increase in trade.

Figure 6.1 Export commodities



Source: [www.economywatch.com](http://www.economywatch.com)

When it comes to trade policy Kazakhstan's problem situation is how to optimize its gains from trade and remaining economically independent. To achieve these goals Kazakhstan has

<sup>70</sup> [http://www.economywatch.com/economic-statistics/Kazakhstan/Trade\\_Statistics/](http://www.economywatch.com/economic-statistics/Kazakhstan/Trade_Statistics/)

<sup>71</sup> [http://www.economywatch.com/economic-statistics/Kazakhstan/Trade\\_Statistics/](http://www.economywatch.com/economic-statistics/Kazakhstan/Trade_Statistics/)

<sup>72</sup> <http://www.imf.org/external/pubs/ft/scr/2011/cr11151.pdf>

<sup>73</sup> <http://www.imf.org/external/pubs/ft/scr/2011/cr11151.pdf>

pursued for regional trade integration and the increase of trade with other important trading partners.<sup>74</sup>

This chapter starts by describing and analyzing Kazakhstan's regional trade integration. I then describe and analyze how and to what extent the multi-vector policy promotes Kazakhstan's economic goals by considering its trade policy vis-à-vis China, Russia, the United States and the EU.

## **6.1 Regional trade integration**

The Eurasian Economic Community (EAEC) entered into force in May 2001. It aims to implement a customs union and, eventually, a common economic area that goes beyond just a common external tariff (Hindley 2008:20). Members include Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan, with Moldova, Ukraine and Armenia as Observers.<sup>75</sup> EAEC has till this day not achieved much.

EAEC member states have failed to agree on important matters, such as the introduction of a single import tariff and convergence of tax policies. Nevertheless, it is a regional trade organization where Kazakhstan and the other member states work for a mutually beneficial trade integration.

At the Commonwealth of Independent States summit in Yalta in 2003, Belarus, Kazakhstan, Russia and Ukraine agreed to create The Common Economic Space (CES), which has several main goals: the coordination of customs duties and harmonization of trade and custom regulations; the lifting of current trade barriers and creation of a customs union; and the insolvency of internal customs boundaries to be replaced by a common customs boundary and the creation of a supra-national regulating institution (Hindley 2008:21). This organization has also failed to reach its objectives and most likely, it will not reach them any time soon.

On the 6th of October 2007, Belarus, Kazakhstan and Russia signed an agreement on the establishment of a Customs Union. The three countries managed to remove most of the mutual trade barriers, agreed on a unified customs tariff vis-a-vis third party countries, and

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<sup>74</sup> Embassy of the Republic of Kazakhstan to Norway representative, Nurzhan Bazylbekov, personal interview, Oslo, April 10, 2013

<sup>75</sup> [http://www.eurasian-ec.com/index.php?option=com\\_content&task=view&id=2&Itemid=7](http://www.eurasian-ec.com/index.php?option=com_content&task=view&id=2&Itemid=7)

place the resulting single customs territory under the control of a supranational executive commission (Vielmini 2013:1).

At the end of 2011, the presidents of the three countries went further ahead by relinquishing all restrictions to the movement of goods, services, capital and labor within the free trade zone, thus creating a common economic space (Vielmini 2013:1). The regional economic integration is seen as a step towards the ultimate regional integration, a full-scale economic union which constitutes an institutional supranational architecture formally modeled on the European Union, namely the Eurasian Union (Vielmini 2013:1).

According to the European Bank of Reconstruction and Development, the customs union between Kazakhstan, Russia and Belarus, although relatively new, is the first successful example of regional economic integration between countries from the former Soviet Union.<sup>76</sup> Signs of improvement are already showing. Since the establishment of the union, trade among the three countries has doubled, the increase has been caused mainly by post-crisis recovery, but also by reduced non-tariff barriers and to some extent by common tariffs.<sup>77</sup>

Nazarbayev is rightly viewed as the inventor and a strong believer in the idea of “Eurasian integration” and in the special role that Kazakhstan has to play in making this idea a reality. Based on this idea, Nazarbayev has proposed several regional integration projects. In 1997, he stated:

I have formulated, and will continue to promote the idea of Eurasian unity which, I believe, has a strategic future...Kazakhstan alone cannot realize its great transit potential, nor can any other neighboring country do so. This should be done jointly, in close and mutually beneficial co-operation (Vinokurov 2010:2).

The customs union with Russia and Belarus could be seen as a sign of Kazakhstan moving closer to Russia and moving away from the west. The customs union and the plans of a Eurasian Union can put Kazakhstan`s relationship with the West and China on serious trial. At the same time it will serve to balance the influence from the West and China in Kazakhstan.

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<sup>76</sup> <http://www.ebrd.com/pages/news/press/2012/121107a.shtml>

<sup>77</sup> <http://www.ebrd.com/pages/news/press/2012/121107a.shtml>

Regional integration has been pursued by Nazarbayev for a very long time now, but there are some serious risks in integrating its economy even more with its bigger and stronger neighbor. Concerns about getting too dependent and not being able to benefit from the integration are valid.

Looking at the structure of trade, the asymmetry becomes clearer. Kazakhstan stands for 3% of Russia's total exports, while goods from Russia and Belarus constitute 40% of Kazakhstan's total imports (Vielmini 2013:5). According to several Kazakh politicians, Russia is trying to tailor the integration according to its own interest, but the biggest share of the politicians look at the integration positively.<sup>78</sup> The integration can be a positive opportunity for economic growth, but integration could also weaken Kazakhstan's autonomy and economic independence.

Verifying these concerns are the institutions and decision-making mechanisms of the customs union. In the Common Economic Space Commission votes are weighted, giving Russia 57% and Belarus and Kazakhstan 21.5% each, so that it will be impossible to block Russian initiatives, and the plans for supranational institutions are to include the creation of a Eurasian Parliament directly elected by the citizens, where Kazakhstan would be able to have only 10% of the seats (Vielmini 2013:6).

Russia is an important trade partner for Kazakhstan, with or without the Eurasian Union. Even though it has come with certain risks, a regional trade integration can boost trade in the region and have a positive outcome.

## **6.2 China**

China has become a very important economic partner for Kazakhstan, especially after 2000. In June 2003, on the occasion of Hu Jintao's visit to Kazakhstan, a program of economic cooperation between the two countries was adopted for the period 2003-2008 and on Nazarbayev's visit to China in December 2006, the two countries signed the "Cooperation strategy for the twenty-first century" and the "Plan for economic cooperation between Kazakhstan and China", another visit by Hu Jintao to Kazakhstan in 2007 saw the signing of a

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<sup>78</sup>Embassy of the Republic of Kazakhstan to Norway representative, Nurzhan Bazylbekov, personal interview, Oslo, April 10, 2013

program of bilateral cooperation in the economic sectors not related to raw materials (Peyrouse 2008:35).

Many bilateral committees have been created to encourage trade. The main one is the China-Kazakhstan Cooperation Committee, established in 2004 and led by the Chinese and Kazakh Prime Ministers. It comprises around a dozen specialist sub-committees, for example on finance, biotechnology, petroleum and gas, and the use of nuclear energy for civilian purposes, but it is often criticized for its lack of transparency, and the consequent possibility that the Chinese authorities could buy decisions to their advantage (Peyrouse 2008:35). In 2008, China-Kazakhstan trade represented about 70 percent of all China-Central Asia trade (Peyrouse 2008:34).

Nazarbayev acknowledges the global role of rising China. Both former Minister of Foreign affairs Tokayev and the former Prime Minister Massimov, are not only native Russian speakers and fluent English speakers, they are also fluent in Chinese. The Chinese vector has always been a priority in Kazakhstan's foreign policy strategy. The huge and rapidly growing manufacturing economy of developing China is complimentary to Kazakhstan's raw materials exporting economy. A passive policy towards its giant neighbor could gradually lead to the political and economic expansion of China with adverse effects upon Kazakhstan's strategic interests (Cohen 2008:91).

Kazakhstan has become China's second biggest partner in the region after Russia. China and Russia counterbalance each other, but because of the imbalance in power, the Kazakh government must step very cautious not to become too dependent on its growing economic relationship with China.

The imbalance of power between China and Kazakhstan is obvious. In 2006, Kazakhstan represented only 0.49 % of China's foreign trade, while China represented 15.5 % of Kazakhstan's foreign trade (nearing Russia's 18.8%), and in 2005, China injected 1.2 billion USD into the Kazakh economy, whereas Kazakhstan invested only 7.6 million USD in China (Peyrouse 2008:36).

To diversify its oil supply from the Middle East and its geopolitical vicissitudes, Chinese authorities have turned to Kazakhstan for securing a steady oil supply. China's presence in

the Kazakh oil market is both welcomed and feared.<sup>79</sup> Its presence reduces its dependence on Russia and increases the FDI in the country, but the fear of a total Chinese take over is present in Kazakhstan. The fear is mainly about an enormous wave of Chinese migration and that some regions of Kazakhstan would be too dependent on Chinese businesses (Peyrouse 2008:47).

The concern of China gaining an energy monopoly in Kazakhstan is very often exaggerated. China has brought Kazakhstan new technologies and modern financial and banking structures that are capable of providing a framework for the country's development and its entrance on the world stage (Peyrouse 2008:38). As long as the Kazakh government continues to strategically keep Russia and other major international actors well established in the Kazakh oil sector (and they do, as illustrated by the ownership in major international oil consortiums in Kazakhstan in chapter 4), a total takeover by the Chinese is very unlikely to happen. However, Kazakhstan will have to manage the rising tensions between Moscow and Beijing for control of the key sectors. In addition, Kazakhstan has had to counterbalance its big neighbors and the solution was once again found in the West.

### **6.3 The United States and the EU**

The United States is one of the largest and fastest-growing trade partners of Kazakhstan. In 2011, the trade turnover volume between Kazakhstan and the United States amounted to 2.743 USD billion, an increase of 26% as compared to 2010.<sup>80</sup> Since 1993, the volume of gross inflow of the United States direct investments to Kazakhstan has exceeded 22 billion USD.<sup>81</sup> The basic areas of the United States investment are mining, real estate operations, rent and services for enterprises, transport and communication, trade, repair services, electric energy, gas and water production and distribution.<sup>82</sup>

In 2006, Kazakhstan implemented the Economic Development Program jointly with the United States. The purpose of the program was to promote diversification of Kazakhstan's

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<sup>79</sup> Embassy of the Republic of Kazakhstan to Norway representative, Nurzhan Bazylbekov, personal interview, Oslo, April 10, 2013

<sup>80</sup> <http://www.kazakhembus.com/page/kazakhstan-u-s-relations>

<sup>81</sup> <http://www.kazakhembus.com/page/kazakhstan-u-s-relations>

<sup>82</sup> <http://www.kazakhembus.com/page/kazakhstan-u-s-relations>

economy, increase the economy's competitiveness, including businessmen, and achieve sustainable economic growth.<sup>83</sup>

The United States is trying to prevent Russia from, as they see it, recreating a new version of the Soviet Union through economic integration. According to former US secretary Hillary Clinton, economic integration is just a cover-up for Russia's ambition and plans to get greater influence over the region. At the end of 2012 in a conference in Dublin, she warned:

There is a move to re-Sovietise the region. It's not going to be called that. It's going to be called a customs union, it will be called Eurasian Union and all of that. But let's make no mistake about it. We know what the goal is and we are trying to figure out effective ways to slow down or prevent it.<sup>84</sup>

Even though Nazarbayev is keen on a Eurasian Union, the Kazakh government is quick to deny any accusations about Kazakhstan moving away from the rest of the world. By using a multi-vector approach, the regional economic integration does not hinder Kazakhstan's path on becoming a WTO member or strengthen its economic ties with the West. The United States is very strategically important for Kazakhstan as a counterbalance to Russia and China, but also because of its heavy investments in Kazakhstan. American direct investments in the Kazakh economy was total up to 13.8 USD billions in the period from 1991 to 2007, which is about 30% of all the direct foreign investments to Kazakhstan (Yesdauletova 2009:33).

## **The EU**

Trade relations between the EU and Kazakhstan are regulated by the Partnership and Cooperation Agreement signed in 1995 (entered into force in 1999). At the end of 2011, the EU and Kazakhstan opened the negotiations for a new enhanced Partnership and Cooperation Agreement.<sup>85</sup> Trade between Kazakhstan and the EU has been growing steadily since 2002. The EU has gradually become Kazakhstan's first trade partner, with almost 40%

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<sup>83</sup> <http://www.kazakhembus.com/page/kazakhstan-u-s-relations>

<sup>84</sup> <http://www.ft.com/cms/s/0/a5b15b14-3fcf-11e2-9f71-00144feabdc0.html#axzz2OSa5gAqV>

<sup>85</sup> <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/kazakhstan/>

share in its total external trade.<sup>86</sup> Kazakhstan's exports to the EU are greatly dominated by oil and gas which account for more than 80% of the country's total exports.<sup>87</sup>

Kazakhstan's imports from the EU are mostly machinery and transport equipment, as well as products within the manufacturing and chemicals sectors.<sup>88</sup> Exports to the EU from Kazakhstan substantially surpass exports from the EU to Kazakhstan. Kazakhstan is becoming more important to the EU as an oil and gas supplier. Nearly half of the Foreign Direct Investment inflow in Kazakhstan originates from the EU.<sup>89</sup>

The economic and strategic relationship with the EU will continue to play a vital part in Kazakhstan's foreign policy, especially as a balancer. The European Commission summarized the mutual benefits of the cooperation as follows:

The EU has a vital role to play from Astana's perspective as a balancer between the rival energy and geopolitical interests that Russia, China and the U.S. have in Kazakhstan and the surrounding sub-region... From the European Union's perspective, Kazakhstan represents not only an important source of energy outside of the Middle East, but equally a guarantor of stability in Central Asia, and a potentially long-term strategic partner in the region (Cohen 2008:99).

Apart from the obvious benefits of trade with the EU, like the United States, the relationship is strategically important to counterbalance Kazakhstan's big neighbors.

Looking at figure 6.2 we can see that Russia is an important export partner but China and the EU are Kazakhstan's leading export partners. China stood for 16% of Kazakhstan's total exports while countries from the EU stood for over 27% (France and Germany accounted for the most). The EU is a very important export partner for Kazakhstan. Looking at figure 6.3 we can see that Russia and China are Kazakhstan's most important import partners. The two big neighbors stood for 56% of Kazakhstan's total imports in 2009. Figure 6.1 and 6.2 illustrate that the EU, Russia and China are all important trading partners for Kazakhstan while the United States more of an important investment partner.

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<sup>86</sup> <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/kazakhstan/>

<sup>87</sup> <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/kazakhstan/>

<sup>88</sup> <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/kazakhstan/>

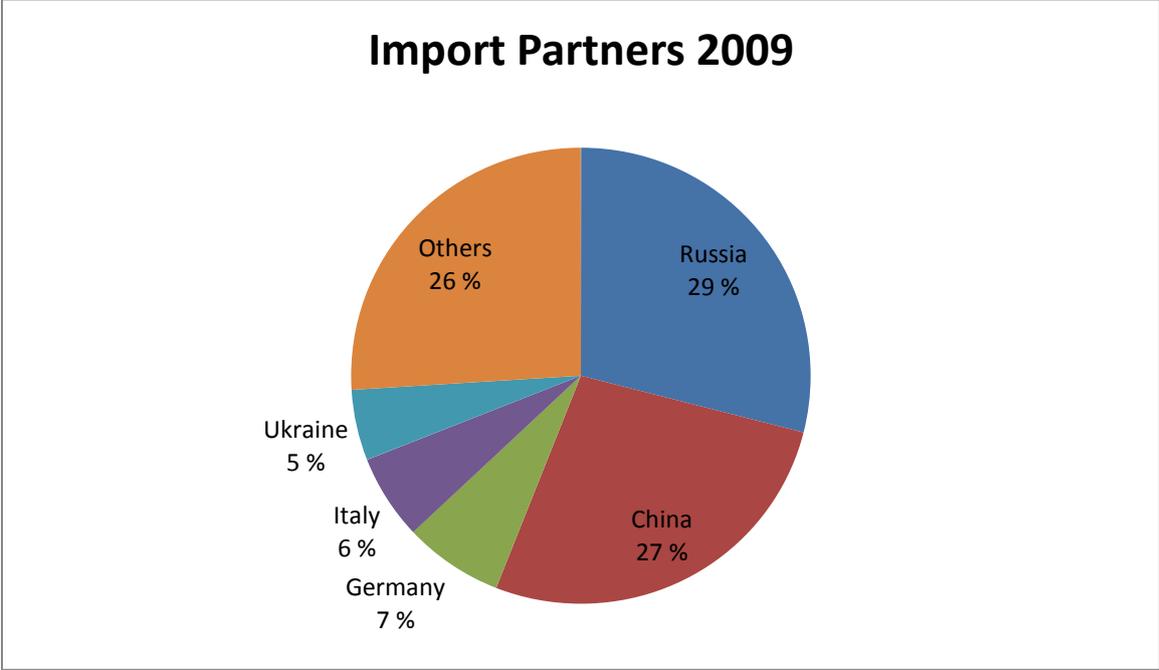
<sup>89</sup> <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/kazakhstan/>

Figure 6.2 Export partners



Source: [www.economywatch.com](http://www.economywatch.com)

Figure 6.3 Import partners



Source: [www.economywatch.com](http://www.economywatch.com)

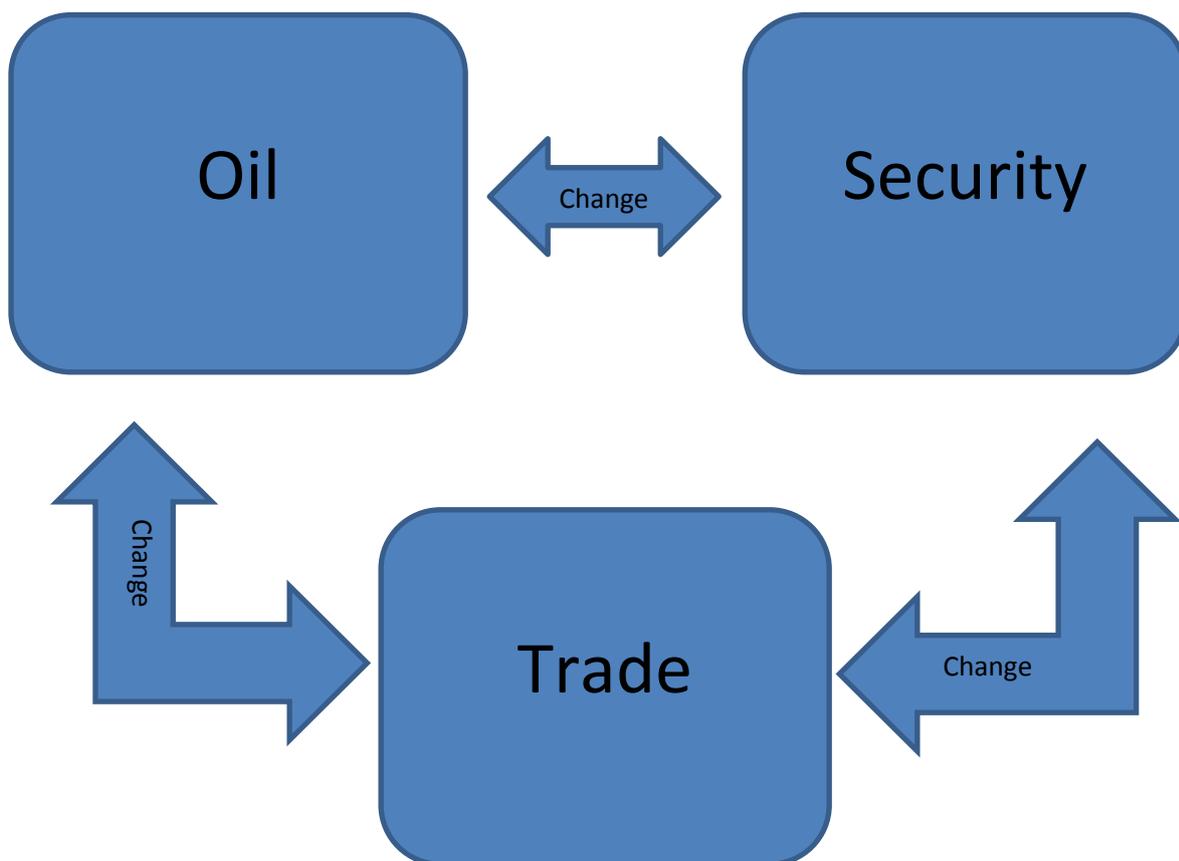
## **6.4 Summary**

To optimize its gains from trade, Kazakhstan has developed important trade relationships with all of the competing big powers. The regional trade integration with Russia may prove to be an important economic opportunity for Kazakhstan. Even with the perusal of a deeper regional economic integration by Nazarbayev, other important actors in Kazakhstan`s social environment are very much included. Countries from the EU are significant export partners, while Russia and China dominate as import partners. The United States is a vital investment partner.

## 7. Discussion of Main Results

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Till now I have analyzed the three dimensions separately, but the oil, the security, and the trade dimensions are interconnected. I thus assume that changes in one of the dimensions have implications (direct or indirect) on the other dimensions. A change in policy and a shift towards one big power in one of the dimensions will affect the other dimensions.



Kazakhstan has managed to balance the interests of the big powers in the oil policy, the security policy, and the trade policy. Kazakhstan, while drifting away from NATO and the United States in the security policy, made some concessions to the United States in its oil policy. For instances, the American oil companies Chevron and ExxonMobile, and the American – Russian oil company LukArco, makes up the majority of the shareholders in Tengizchevroil. Tengizchevroil operates mainly on the enormous Tengiz field. The Tengiz

field is one of the world's deepest developed super giant oil fields, with the top of the reservoir at about 4000 meters, and the oil column measures an incredible one mile thick.<sup>90</sup>

Another example is the regional trade integration with Russia and Belarus. The United States has from the start of the integration criticized the Custom Union. To make up for the United States disappointment, Kazakhstan makes sure that the United States is compensated in other important areas such as in the oil realm. Apart from that, Kazakhstan voiced it's fully support to the new U.S strategy in Afghanistan declared by President Barack Obama.<sup>91</sup>

Analyzed separately, it might seem that Kazakhstan sometimes deviates from its multi-vector foreign policy in some key foreign policy domains. But all of these key areas are interconnected, and if Kazakhstan prioritizes one of the big powers over the other in one domain, it makes sure that its relationship with the other big power is also good by compensating it in one of the other domains.

Due to its physical environment, Kazakhstan cannot afford having disproportionate relations with the two superpowers on its borders. But nor can Kazakhstan afford accepting to their pressures on bilateral matters which is essential to Kazakhstan`s national interest. With each of the big powers and in each of the different foreign policy domains, Kazakhstan has to play its cards differently. Sometimes Kazakhstan can be seen as a cooperative partner, while in other times it can be seen as not cooperative. Kazakhstan does its best for its national interests and the adaption and true implementation of a multi-vector policy serves the best indicator of it.

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<sup>90</sup> [http://www.tengizchevroil.com/en/about/the\\_tco\\_field.asp](http://www.tengizchevroil.com/en/about/the_tco_field.asp)

<sup>91</sup> <http://www.kazakhembus.com/page/commitment-to-assist-afghanistan>

# 8. Conclusion

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In this thesis I have analyzed Kazakhstan's multi-vector foreign policy. I have done so with the use of a case study based on situational logic. My research question was:

## **What makes a multi-vector foreign policy rational for Kazakhstan?**

To understand the motivation for the multi-vector foreign policy of Kazakhstan, one must take its physical environment, social environment, and its problem situation into account. Kazakhstan is rich on natural resources and is located in the heart of Central Asia with Russia and China as its neighbors. Its social environment is characterized by competing big power interests. Its problem situation is how to retain control over its oil resources, retain a high level of security, optimize its gains from trade, and stay independent with a high degree of autonomy.

In chapter 2, I gave a historical background of Kazakhstan to let the reader become better known with Kazakhstan's history and physical environment. In chapter 3 I wrote about Kazakhstan's early independence days and how they affected its foreign policy.

Chapter 4 analyzed how and to what extent a multi-vector foreign policy is rational for achieving Kazakhstan's desire to remain in control over its oil sector. Similarly, chapter 5 analyzed how the multi-vector foreign policy helps Kazakhstan reach its goals relating to security, and chapter 6 analyzed how the multi-vector foreign policy is rational in relation to Kazakhstan's goals of economic growth and economic independence. In chapter 7 I discussed how the oil policy, the security policy and the trade policy are interconnected, and a change in one of them will affect the others.

## **8.1 Main findings**

The main findings of this thesis may be summarized as follows:

First of all, Kazakhstan wanted to reduce its dependence on the Russian oil pipeline system by building multiple export routes. To achieve this goal, Kazakhstan had to move forward with a balanced approach where Kazakhstan had to take all of the big powers interests into

account. The multi-vector foreign policy enabled Kazakhstan to build a direct pipeline to China and join the BTC pipeline without abolishing its important relationship with Russia.

Second, the multi-vector foreign policy made it possible for Kazakhstan to remain in control over its oil sector. Due to the lack of capital, knowledge and technology, the Kazakh government was forced to open up its oil sector to foreign actors. But by including all of the big powers and by performing a carefully strategic balancing act with oil contracts among the big powers, Kazakhstan could develop its oil sector without any of the involved foreign actors becoming too powerful.

Third, to retain a high level of security and autonomy, Kazakhstan cooperates with Russia, China, the United States and NATO on security matters. It is natural for Kazakhstan to cooperate on security matters with its neighbors Russia and China, and the security relationships with the West help counterbalance the big neighbors. Furthermore, Kazakhstan and the West have a common interest in a stable Afghanistan.

Fourth, to optimize its gains from trade, Kazakhstan did not exclude any of the competing big powers and facilitated a good trade relationship with all of them. Its regional trade integration with Russia is an important economic opportunity to increase the level of trade in the region. Countries from the EU are significant export partners, while Russia and China dominate as import partners. The United States is a vital investment partner.

Finally, in some foreign policy domains, to pursue its national interests implies that Kazakhstan has to prioritize one of the big powers over the other. But Kazakhstan makes sure it compensates in one of the other domains.

In conclusion, Kazakhstan's situation, characterized by its unique physical environment and social environment, makes it rational to pursue a multi-vector foreign policy. In this way, Kazakhstan is able to cooperate with all of the big powers and to achieve its goals with regards to its oil, security and trade.

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