

BULLETIN

No. 27 (360) • March 15, 2012 • © PISM

Editors: Marcin Zaborowski (Editor-in-Chief), Katarzyna Staniewska (Executive Editor),
Jarosław Ćwiek-Karpowicz, Beata Górka-Winter, Artur Gradziuk, Beata Wojna

The Consequences of the Eurasian Integration of Kazakhstan for its Economic Relations with the European Union

Konrad Zasztowt

This year, Russia, Kazakhstan and Belarus entered a close economic integration phase with the inauguration of the Common Economic Space within the framework of the Customs Union that has existed since July 2010. At the same time, the importance of Kazakh–Chinese economic cooperation is growing. Regardless of the Eurasian economic integration, EU countries are still a key economic partner of Kazakhstan, and Poland should encourage EU action in favour of political and economic rapprochement with Kazakhstan.

The Economic Situation in Kazakhstan. Regardless of its membership in the Common Economic Space (CES), which is politically and economically dominated by Russia, Kazakhstan has a chance to join the World Trade Organization (WTO) by the end of this year. After the Russian Federation, Kazakhstan has the next-highest GDP per capita among the countries of the Commonwealth of Independent States (CIS) (\$13,000 compared to \$16,700 in Russia). It also has a more dynamic economy than its northern neighbour. According to its *Doing Business* ranking, Kazakhstan is a leader among the CIS countries in terms of having a business-friendly environment. Its economic growth in 2011 was 6.5% (vs. 4.3% in Russia). The Kazakh economy was not affected by the economic crisis as severely as Russia's. In 2009 during the crisis, Russia's GDP declined by 7.8%, while Kazakhstan managed to maintain economic growth, despite a significant slowdown (just 1.2% growth). The increase in oil prices since mid-2009 have helped the Kazakh economy emerge from the economic crisis and enabled further development. However, the main economic threat the country is still facing is the excessive dependence of the economy on the upstream sector. The answer to this problem is the government program for the industrial–innovative development, which aims to increase the participation of other sectors in the economy.

Economic Cooperation with Russia and the Implications of the CES for Kazakhstan. The need for economic re-integration with the former USSR has been repeatedly emphasized by the president of Kazakhstan, Nursultan Nazarbayev. His calls harmonised with Russian policy to restore its great power status through the reconstruction of its economic influence over the areas of the former Soviet Union. Several integration projects were designed for the implementation of this concept, including : the Customs Union since 2010 since 2010 and its next stage—the CES—this year. The next phase of integration is the Eurasian Economic Union, which is planned for 2015.

The practice of constructing such organizations indicates that they are less economic and more *ad hoc* political in importance, and both Russia and Kazakhstan have sought, contrary to their stated goals, to create independent energy and transport systems. The present far-reaching integration efforts raise questions about a number of Kazakh projects that seek independence from the country's northern neighbour, including: the construction of a gas plant in the region of the Karachaganak gas field in order to become independent from a similar complex in Orenburg in Russia; the transition of Pavlodar refinery from processing Siberian oil to Kazakh oil; and, the expansion of the railroad system to make it independent from the Russian network. Currently, the CES brings far-reaching changes that will affect the economic reality of Kazakhstan. This project, which is modelled on the EU, is designed to ensure the free movement of people, capital, goods, and services. In practice this may raise risks associated with migration, including a flow of the most-active parts of Kazakhstan's population to Russia, or the domination by Russians of the local managerial layer through an influx of

Russian capital and the acquisition of Kazakh companies. An influx of Russian consumer goods, which are often more competitive, is a threat to Kazakh producers. In the longer term, according to the assumption by the government in Astana, the creation of the CES will increase the quality of local production. It also must attract Russian capital by creating better investment conditions than Russia.

Cooperation with China. The creation of the CES is a restraint on aggressive Chinese economic expansion in the Kazakh market. In recent years, China became an increasingly important trading partner of Kazakhstan. Both countries are members of a common political and economic structure—the Shanghai Cooperation Organization. China's share of Kazakh exports and imports is steadily increasing. The priority of the two countries is energy cooperation. Kazakhstan seeks to diversify its hydrocarbon export destinations, and China wants alternative sources. By 2009, Kazakhstan remained almost exclusively dependent on the transmission network inherited from the Soviet Union and, therefore, on exports to Russia and transit through its territory. A radical change in this situation occurred with the launch of hydrocarbon supply routes to China: the Atyrau–Alashankou oil pipeline from western Kazakhstan and the Central Asian gas pipeline. China is investing in the exploitation of oil fields located in the vicinity of the Atyrau–Alashankou oil pipeline and the modernization of refineries (in Atyrau). The export of Kazakh hydrocarbons to China far exceeds total exports to all the countries of the CIS. Kazakhstan is also an increasingly important route for the transit of Chinese goods to the markets of Russia, Iran, Turkey, and the EU. However, a negative feature of the Kazakh–Chinese economic relations—from Kazakhstan's standpoint—is the dominance of raw materials in exports but industrial goods in imports.

The Importance of the EU for Kazakhstan. Despite the growing importance of China and close economic integration with Russia, the EU will remain a key economic partner for Kazakhstan. The EU countries that invest the most in Kazakhstan are the Netherlands, the UK, France, Austria and Germany. Among the EU, the Dutch investments reached their highest amount—\$30.26 billion in 2010. For comparison, Russia's investments in Kazakhstan in 2010 amounted to \$1.114 billion and China's was \$2.853 billion. EU countries, in particular Italy, France and the Netherlands as well as Austria, Germany and the UK, are the largest recipients of Kazakh exports, which consists primarily of crude oil and petroleum products. In Central Europe, the major importers are Romania, Poland and Hungary.

However, the EU is not the leader on the list of largest exporters to Kazakhstan. The majority of goods enter the Kazakh market from Russia and China (37% and 13.3%, respectively, of total imports in 2010). Among the EU countries, the only major exporters to Kazakhstan are Germany and Italy (6% and 5%, respectively, of total imports in 2010). Although not in the forefront of European exporters to Kazakhstan, Poland remains a relatively important trade partner of the country among the EU states. Polish exports include chemicals, electrical machinery, wood and paper, meat and fruit. Kazakhstan's entry into the Customs Union in 2010, however, resulted in increases in tariffs, which in the case of many Polish goods were prohibitive.

Recommendations for the EU and Poland. The successful completion of Kazakhstan's efforts to gain WTO membership would boost Kazakh–EU economic relations. Poland should support the EU's process of rapprochement with Kazakhstan by promoting the signing of a new, enhanced Agreement on Partnership and Cooperation. In the negotiations of a new framework for relations between the EU and Kazakhstan, the needs of Polish producers that export to the Kazakh market should be considered.

From the perspective of the European countries, access to Kazakhstan's mineral resources, including its energy resources, is strategically important. The EU should continue its efforts to export Kazakh gas through the Trans-Caspian–Caucasus route to Europe. This route is important for European energy security as an alternative to Russian hydrocarbons.

The economic and political strengthening of Kazakhstan's independence from its northern neighbour is in the interest of the EU. The economic success of the government in Astana dismisses the risk of political instability or reducing Kazakhstan's role to that of a resource base for Russia or China. The EU and Poland should develop its offer of cooperation with Kazakhstan in more than the economic sphere. Equally important is widening the EU's offer to Kazakhstan of cooperation in political, cultural and educational fields. Now that this country is in the CES with Russia and Belarus it is becoming a neighbour of the EU. Promoting the economic and political modernization of Kazakhstan should become an important element of the EU's Central Asian policy.