

KAZAKH SILK ROAD ANALISYS

Abstract

This New Silk Road proposes increased regional transportation throughout Central Asia as a means of transport from Europe to Asia, in particular China. This includes the potential for new oil pipelines, which could only further benefit oil producers such as Kazakhstan. In addition this will also foster increased integration of the Central Asian republics into the world economy, contribute to investment in transportation and infrastructure, and hopefully establish a more ready groundwork for dialog on the international level. The New Silk Road would require increased communication and multilateral cooperation amongst countries, something that is much easier envisioned than actually accomplished.

Key words: New Silk Road, globalization, the way of direct investment, regional integration.

Аңдатпа

Аталмыш мақала Қазақстан арқылы өтетін Жібек жолының саяси және экономикалық маңызын дәйектеуге бағытталған. Орталық Азия мен Еуропа және Қытай қарым-қатынасын нығайту мақсатын көздеген бұл жобаның интеграциялық бірлестікпен қатар, тасымалдау, инфрақұрылымды дамыту, жаңа инвестиция көздерін ашу мүмкіндігі турғанына автор баса назар аударады. Жаңа Жібек жолы мемлекеттер арасындағы ынтымақтастық пен әр түрлі қарым-қатынас түрлерін дамытуға ат салысатыны да сөзсіз.

Тірек сөздер: Жаңа жібек жолы, жаһандану, тура инвестициялар жолы, өңірлік интеграция.

Аннотация

Данная статья направлена на аргументированный анализ значения Шелкового пути, включая политические и экономические вопросы. Проект, непосредственно направленный на укрепление и сотрудничество стран Центральной Азии с Европой и Китаем, также создает совокупность решения таких проблем, как транспортировка, развитие инфраструктуры, открытие новых инвестиционных возможностей. Новый Шелковый путь, по словам автора, станет важным связующим звеном в укреплении содружества между государствами.

Ключевые слова: Новый Шелковый путь, глобализация, пути прямых инвестиций, региональная интеграция.

Introduction

Of all the Central Asian states Kazakhstan is the largest by far, both in terms of geography and economics. The economic growth Kazakhstan has undergone, as well as the potential it possesses for even further development, makes its study a worthwhile endeavor. GDP growth from 2000 until the 2008 financial crisis was above 8.5% in all years, and was generally closer to 10%. Since 2010 it has recovered such that reported GDP growth was 5% in 2012, compared to the US which had only 2.8% growth (GDP Growth (annual %)). As the 14th largest exporter of oil and possessor of some of the largest oil fields in reserve Kazakhstan's growth via oil (and gas) exports is significant and shows no signs of decline. As an example, the Kashagan oil field, which only began production in September of 2013, is the largest oil field outside of the Middle East, and the fifth largest in the world (Kazakhstan).

This is not to say that Kazakhstan's importance is purely reliant on its oil resources – though it is undeniably significant when considering global energy security and competing powers within – but rather that the growth which it has undergone has in fact been fueled by it and is far from peaking. Inevitably, as with any topic that is even remotely one concerning international affairs, the process of globalization is brought up. While mentioning the implications of globalization has become routine, almost monochromatic in its existence, that does not negate the fact that it is indeed a pressing force. Any country that succeeds in rapid economic growth is of importance, globalization enhances that fact, and Kazakhstan seems to be well on its way to achieving more significant stature in the global economy.

A New Silk Road

The Silk Road was a series of trade networks that connected Europe and Asia, spanning thousands of miles and helping transport a plethora of goods, as well as providing exposure to new ideas and

cultures. The Silk Road flourished for centuries before succumbing to politics and advancements in trading by sea, but in present times an increased awareness of the potential wealth that Central Asia possesses has prompted the discussion of a "New Silk Road".

This New Silk Road proposes increased regional transportation throughout Central Asia as a means of transport from Europe to Asia, in particular China. This includes the potential for new oil pipelines, which could only further benefit oil producers such as Kazakhstan. In addition this will also foster increased integration of the Central Asian republics into the world economy, contribute to investment in transportation and infrastructure, and hopefully establish a more ready groundwork for dialog on the international level (Fedorenko, 3-4). The New Silk Road would require increased communication and multilateral cooperation amongst countries, something that is much easier envisioned than actually accomplished.

While the idea of the New Silk Road was originally proposed by then US Secretary of State Hillary Clinton, Kazakhstan itself has reached at the opportunity of enhancing both its international prestige, and its wealth. Kazakhstani President Nursultan Nazarbayev stated, "Today I'd like to suggest that you all to start the project of the New Silk Road. Kazakhstan should revive its historic role and become a business transit hub for Central Asia. As the result of implementation of this project, by 2020 the volume of transit goods passing through Kazakhstan should double with further plans of achieving 50 million tons of cargo" (Nazarabayev...). While Kazakhstan's present growth is impressive, the New Silk Road reveals the potential for more, especially as Kazakhstan is a landlocked country – the chance to further develop its infrastructure and thus its transportation abilities by harnessing the concept of the New Silk Road is just one further advantage.

Based off the growth Kazakhstan has achieved, and the potential seen in the New Silk Road this study examines its exports and imports to get a better idea as to which countries are of significant impact to Kazakhstan in these terms, and to examine the trends in both volume and percentages to decipher which way these relationships may be going. In this particular analysis the focus will be upon a set of countries which have been classified as "World Powers" which possess broader significance in both economics and politics. The countries we will be examining are then as stated: Russia, China (mainland), the United States, and the European Union (France, Germany, Italy and the UK only). Additionally, by viewing these relationships conclusions will be drawn as to whether they are sufficient, or at least progressing, with the ideal of this New Silk Road at the end.

Modern Developments

Before an examination of these trends in exports and imports begins, it will be useful to consider recent developments that have occurred with each of these countries in relation to Central Asia.

The United States' involvement in this project is hindered not only by distance, but by a division in its focus. Though it was the first country to voice the idea of a New Silk Road, the ongoing issues in the Middle East and Afghanistan have absorbed much of its focus, leaving Central Asia, and Kazakhstan with it, to the wayside. Additionally, not only does the distance between the two provide difficulties by simple lack of proximity, it also means that many of the benefits the United States stands to gain by promoting the New Silk Road are indirect, rather than immediately visible. Nonetheless the United States has been promoting Central Asia by providing money for developmental assistance. From 2010 to 2012 over \$380 million was provided specifically for developmental assistance while an additional \$520 million was given for security assistance such as law enforcement (Fedorenko, 5-6). Despite the amount of funding though, the assistance provided by the US has an almost lackluster air to it when considering the efforts that have been made by the other world powers (Denyer).

China has also been assisting Central Asia, but its approach is more to the way of direct investment rather than granting money. China has been funneling money in particular towards investments that help in transportation, an obvious step when one considers their increasing needs for oil and gas as hydrocarbon consumption continues to rise. Road and railway investments are rising, and in 2009 the Central Asia-China gas pipeline was finished while an entirely separate Kazakhstan-China oil pipeline has also been created (Fedorenko, 13). In addition to investing in transportation, in 2013 China bought into the Kashagan oil field to the amount of \$5 billion, securing it the rights to 8.33% of the field (Gordeyeva); as you may recall the Kashagan oil field was the sizeable field mentioned at the outset of this paper.

The European Union too has begun investments in Central Asia, and its interests as of this moment seem to be more focused on the aspect of transportation. However, it is a move that

makes ample sense is connecting Europe to Central Asia, and will prove vital for the New Silk Road. The highlight of this investment is TRACECA, the Transport Corridor Europe-Caucasus-Asia, which aims to do exactly what its name implies. TRACECA is an international initiative which includes all of the European Union as well as 13 other member countries scattered throughout Europe and Asia (Transport Corridor Europe-Caucasus-Asia). TRACECA is huge in scope, and the project which involves tremendous space and a wide swath of countries is an ongoing effort to produce a more stable and extensive energy corridor.

Russia, rather than pursuing the concept of the New Silk Road seems more interested in creating its Eurasian Union as an alternative plan (Fedorenko, 15; Roberts and Cohen, 7-8). The Eurasian Union would serve to center Eurasia upon itself providing better collective focus, and to potentially rival the United States, NATO, and the European Union. Recently the formation of the Customs Union between Russia, Belarus, and Kazakhstan serves as a beginning step to this ultimate goal. It must be noted, though, that there is evidence that the Customs Union (CU) is not simply an expansion of Russian power, but also involved compromise to the benefit of the other member states (Mkrtchyan, 2). Despite these benefits the CU, by its very nature, offers up new issues of higher trade barriers between its members and those states that are not a part of it, increasing the difficulties of wider regional integration.

Data Collection

The data used for the graphs and tables within this research was taken from the IMF Direction of Trade Statistics Yearbooks, using several volumes to encompass the entire selected time frame. Limitations to this data include inaccurate numbers prior to 1994, for two separate reasons. The first is that of simple reporting error, and the second is that trade for Russia with countries of the former U.S.S.R. before 1994 are not included. Additionally for the most recent two years (2011 and 2012) the stated amount of volume for both export and imports with regards to Russia was \$0 USD, a scenario which is highly unlikely and thus makes the past two years also subject to a margin of error.

World Powers – Exports

Beginning with export volume we can see in Graph 1.1.1.1 (created from the data in Table 1.1.1) that the European Union and China both began to increase in export volume around 2003 at the same time that overall export volume for Kazakhstan began to increase. Growth in volume for the European Union and China match the overall trend for Kazakhstan and the EU stands as the largest recipient for Kazakhstan's exports, followed by China. With regards to Russia we can see that export volume increased at a slower rate than either the EU or China up until 2008 where it began to decline and failed to recover – though the past two years for Russia are in question as to their stated amount of zero, that Russia has experienced a decline is nonetheless observable. The United States plays little role in Kazakhstan's exports and shows no signs of increase.

Using the volume we can also create graphs and tables of percentages to better visualize how much each country compares as a consumer of Kazakhstan's total exports. As we can see in Graph 1.2.1.1 (remembering to discount the first two years due to data error) the EU's percentages have been increasing over time to a present level of roughly 30%. Similarly we can also see percentage gains in China which currently consumes about 20% of Kazakhstan's exports. Russia on the other hand has had declining percentages through the long run, though volume only recently began to decline – this is a function of Kazakhstan's growing export volume which Russia fails to keep pace in, indicating that Russia as a consumer of Kazakhstani goods has been dwindling in significance for an extended period of time. As was seen in the previous graph comparing volume the United States has little role in Kazakhstan's exports which is additionally reflected in its low percentages.

In summary it can be seen, even using only this set of graphs, that the world powers dominate percentage (and volume) shares of Kazakhstan's exports. Both the European Union and China have become more significant, with the European Union ranking first, followed by China. In contrast a decline in Russia's volume in the short run, and percentages in the long run, display a dwindling role for a historically significant partner.

That the European Union and China have increasing roles in Kazakhstan's economy bespeaks the potential for it as a corridor between the two. In addition enhanced relationships with both of these regions are necessary in order to achieve a New Silk Road. The trends in the exports also both fall into line of what one may expect given the previous information about investments from both countries in Central Asia.

The absence of the United States as significant likely is a result of its present focus on operations in the Middle East and Afghanistan. While the US is not strictly defined as part of the route of the New Silk Road, it possesses the means by which to further the New Silk Road agenda through investment and political clout. However, considering the amount of trade Kazakhstan is engaged in with the EU and China, it seems unlikely that it will suffer overly much. The decline for Russia could be a function of multiple variables, but once again, in pursuing a New Silk Road is not particularly troubling for Kazakhstan. Russia has had a high degree of influence over its former Soviet state, and a decline in this instance may be an indication of Kazakhstan potentially trying to shake free from some of those controls.

World Powers – Imports

Graph 1.3.1.1 shows the amount of volume for imports among the world powers. The first trend to note is that of Russia whose volume increased steadily up until 2008 where it began to decline, and in fact composed the majority of Kazakhstan's imports up until 2011 and 2012, even with the declining values. Again, as was stated before, the reliability of the numbers for Russia in these two years is highly in question, and so it is possible that despite the decline which began in 2008 Russia still composes a significant amount of imports. The states of China and the European Union have both increased in volume throughout the time frame, though China has now surpassed the EU which has stabilized to a steady volume. The trend shown for China indicates that further growth is likely. The United States, as the final world power, has the smallest amounts within this graph though small volume increases have been made in the past several years.

In a comparison with the import volume the import percentages present a similar picture that can be seen in Graph 1.4.1.1. Russia is revealed as the predominant provider of imports which retained higher percentages in excess of 30% at all times, up until 2008 where it began to decline, coinciding with the same decline seen in percentages. Once again the rock bottom percentages seen in 2011 and 2012, based off the stated values of zero for these years are likely highly inaccurate, meaning that Russia, while it may be declining here, has most likely not done so to the extent proposed by the IMF. The US can be seen to increase its percentages, aligning with the assumptions that were drawn from the graph on volume (Graph 1.3.1.1).

Overall, the world powers are significant providers of imports for Kazakhstan with China the largest contributor, and the European Union as second. However, this picture may prove inaccurate with regards to Russia which up until 2011 and 2012 (the years in which data recorded for Russia are in question) served as the largest provider, despite declines in 2009 and 2010 (both percentages and volume). Once again the European Union and China stand as key states for Kazakhstan to establish trade with in pursuit of a New Silk Road and increases with the US also shows promise due to its relative wealth and power, if not proximity.

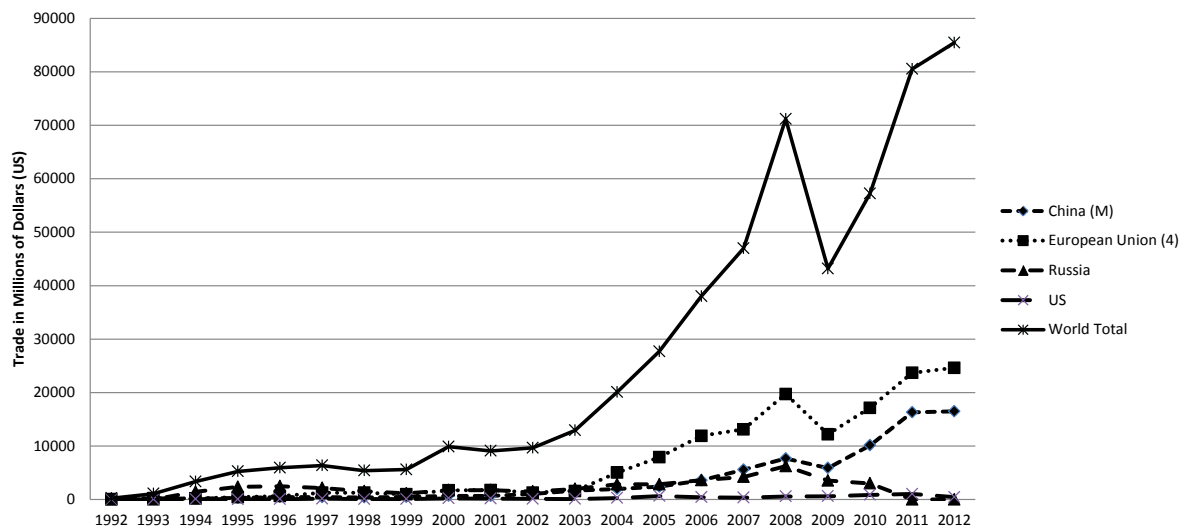
Comparison of Exports and Imports

It can be seen that both the European Union and China have been gaining in influence with regards to Kazakhstan's exports and imports – the European Union was first for exports and China dominated imports. Russia shows decreases in export volume in the short run and decreases in its percentages in the long run. With regards to imports they were in decline as of 2008, but are likely not as low as was reported for 2011 and 2012. The United States had very little to do with Kazakhstan's exports, but provides 7.9% of its imports.

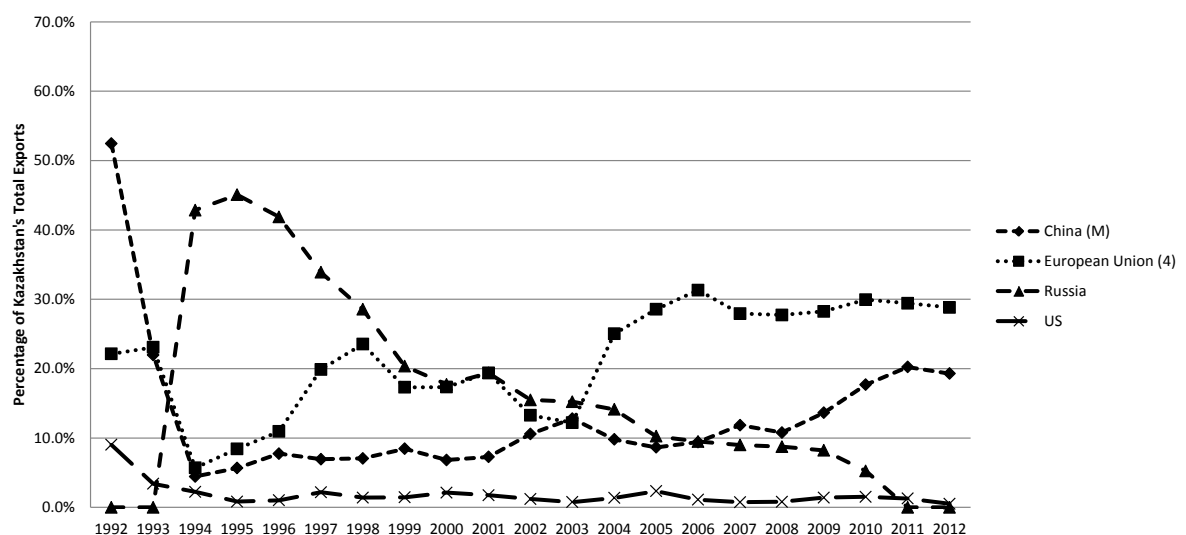
In comparing some of the recent events that have occurred with the collected information we can make a few assumptions. The European Union and China have both spent increasing amounts of investment in Kazakhstan and Central Asia in an effort to promote the New Silk Road, and for each of these countries exports and imports with Kazakhstan have been rising at a rapid rate. For Russia, despite faulty numbers for the past two years, a trend of decline can be seen before that, an interesting development when compared to its goals of a Eurasian Union. The United States as a proponent of the New Silk Road has been primarily a helping hand with regards to funds, and examining the low amount of exports to it gives no reason to deny this assumption. The same can be said of its imports though these have been increasing moderately, but still at a much slower rate than the EU and China.

The decline in Russia's numbers indicates the possibility that Kazakhstan may in fact be trying to distance itself somewhat from Russia, whose relationship with it has historically been a dominant-submissive role. Though it remains as part of the Customs Union, Kazakhstan refrains from throwing itself completely to one side or the other. At the same time considerations for Russia as a major partner and source of investment, must be considered. The fact that Kazakhstan does not seem

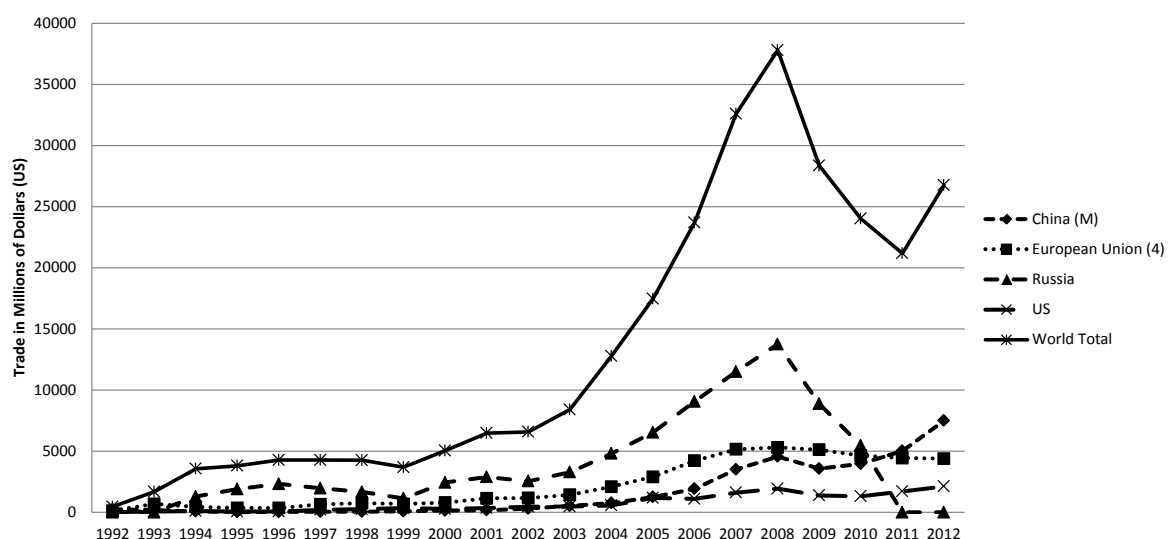
Graph 1.1.1.1 - Kazakhstan Export Volume - World Powers

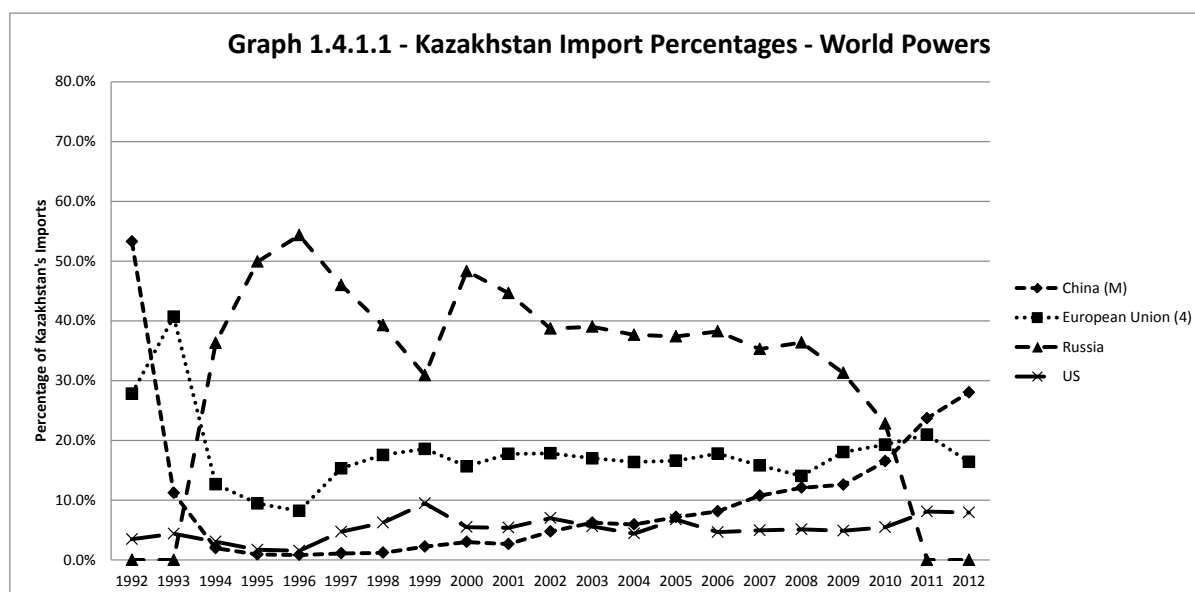


Graph 1.2.1.1 - Kazakhstan Export Percentages - World Powers



Graph 1.3.1.1 - Kazakhstan Import Volume - World Powers





to be overtly favoring China over the EU and vice versa also indicates that Kazakhstan may be attempting a balancing act of playing different states off of each other so that no single country dominates it completely; a policy of attempted non-alignment may be coming into play. If this theory holds, and Kazakhstan succeeds in pursuing this policy, this will enable it greater freedom to pursue its own policies, such as that of the New Silk Road. Based off of this study the New Silk Road shows promise as Kazakhstan has growing ties to the European Union and China, both of which support large economies and are key components of the New Silk Road.

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