

CONTENTS



Issued Quarterly Since 2003

Editor-in-Chief
ERLAN KARIN
Director of KazISS
under President of RK

Responsible for publication:
Almas Arzikulov, Marem Buzurtanova
Layout:
Gulnaz Seitakhmetova

Address:
Kazakhstan Institute
for Strategic Studies under President
of Republic of Kazakhstan
4, Beybitshilik St.
Astana, 010000, Republic of Kazakhstan

Phone: (7172) 75 20 20
Fax: (7172) 75 20 21
E-mail: office@kisi.kz
www.kisi.kz

The Journal was registered
with the Ministry of Culture, Information
of Republic of Kazakhstan
on January 24, 2003.
Registration certificate No. 3529-zh.

None of the articles shall be
reproduced without reference to the
Journal.
The opinion of the editorial board may not
coincide with that of the authors
of articles.

Printhouse of
IE Volkova Y. V.
Address: 212/1 Raimbek Ave., Almaty
Circulation: 300 copies

EURASIAN ECONOMIC UNION

Vyacheslav Dodonov
Kazakhstan's Eurasian Initiative4

Leila Muzaparova
Kazakhstan's Path to the Eurasian Economic Union:
Amidst Global Economic Challenges..... 23

Darya Mukhamedzhanova
On Eurasian Integration: Geoeconomics and/or Geopolitics.....27

Lessya Karataeva
Public Opinion in Kazakhstan on Eurasian Integration and
the Eurasian Economic Union 33

Azamat Akeleev
The Eurasian Union: Implications for Kyrgyz Economy42

Ainur Nogayeva
Russia's And China's Energy Policies In Central Asia1.....50

EDITORIAL BOARD



- | | |
|---------------------------|--|
| Erlan Karin | – Editor-in-Chief, Chairman of Editorial Board, Director, Kazakh-stan Institute for Strategic Studies (KazISS) under President of Republic of Kazakhstan, Candidate of Political Science |
| Maulen Ashimbayev | – Deputy of Mazhilis of Parliament of Kazakhstan, Head of International Affairs, Defense and Security Committee, Candidate of Political Science |
| Kazbek Issayev | – Secretary for Academic and Research Affairs, KazISS under President of RK, Candidate of History |
| Sanat Kushkumbayev | – Deputy Director, KazISS under President of RK, Doctor of Political Science |
| Murat Laumulin | – Doctor of Political Science, Professor |
| Leila Muzaparova | – First Deputy Director, KazISS under President of Republic of Kazakhstan, Candidate of Economics |
| Marat Tazhin | – Ambassador Extraordinary and Plenipotentiary of Republic of Kazakhstan to Russian Federation, Doctor of Social Science, Professor |

EDITORIAL BOARD



KAZAKHSTAN INSTITUTE
FOR STRATEGIC STUDIES
UNDER PRESIDENT
OF REPUBLIC OF KAZAKHSTAN

- Ерлан Карин** – шеф-редактор, председатель Редакционного совета, директор Казахстанского института стратегических исследований при Президенте Республики Казахстан (КИСИ), кандидат политических наук
- Маулен Ашимбаев** – депутат Мажилиса Парламента РК, председатель Комитета по международным делам, обороне и безопасности, кандидат политических наук
- Казбек Исаев** – ученый секретарь КИСИ при Президенте РК, кандидат исторических наук
- Санат Кушкумбаев** – заместитель директора КИСИ при Президенте РК, доктор политических наук
- Мурат Лаумулин** – доктор политических наук, профессор
- Лейла Музапарова** – первый заместитель директора КИСИ при Президенте РК, кандидат экономических наук
- Марат Тажин** – Чрезвычайный и Полномочный Посол Республики Казахстан в Российской Федерации, доктор социологических наук, профессор

KAZAKHSTAN'S EURASIAN INITIATIVE

VYACHESLAV DODONOV

Currently the Eurasian initiative within the space of the former Soviet Union, particularly its version of Kazakhstan, is associated with the recent integration associations of economic nature, namely the Eurasian Economic Community (EurAsEC), the Eurasian Customs Union (ECU), the Eurasian Economic Space (EES) and the Eurasian Economic Union (EEU).

It is commonly accepted view that the starting point of the Eurasian economic integration was the speech of President Nazarbayev of Kazakhstan at Lomonosov Moscow State University in March 1994. However, Kazakhstan's initiative had been articulated for the first time in 1991 right after the Belavezha Accords of Belarus, Russia and Ukraine had established the tripartite Commonwealth of Independent States and the USSR had been officially dissolved. Nursultan Nazarbayev took the initiative at the meeting of the leaders of the former Soviet Republics in Alma-Ata trying to prevent the previously existing single economic, social and cultural space from complete disintegration. Thus, the Eurasian initiative of Kazakhstan has a history as long as the post-Soviet existence of the CIS countries and, therefore, is worth a more detailed consideration.

History of Eurasian Initiative: from Alma-Ata Protocol to the Eurasian Economic Union

Given that the first step towards an integration within the post-Soviet space was made at the meeting of the leaders of the former Soviet Republics in Alma-Ata summoned by Nazarbayev on December 21st, 1991 and was aimed at preventing the complete disintegration after the Belavezha Accords had been signed on December 8th by the leaders of the three Soviet Republics of Belarus, Ukraine and Russia. The meeting in Alma-Ata, attended by eleven heads of former Soviet Republics, resulted in adoption of the Alma-Ata Protocol that stipulated the major provisions for establishment of the Commonwealth of Independent States. These provisions were the following:

- Commonwealth shall be based on the principle of equality and its institutions shall be formed on a parity basis and operating in the manner determined by the agreement within the members of the Commonwealth, which, in turn, shall be neither a state nor a supranational entity;

- joint command of the strategic military forces and the control over the nuclear weapons shall be exercised in order to maintain international security; however, the parties shall respect each other's decisions to achieve the status of a nuclear-free and(or) neutral state;

- membership in the Commonwealth of Independent States shall be open to all other former Soviet Union Republics as well as any state sharing the goals and principles of the Commonwealth;

- members of the Commonwealth shall reaffirm their commitment to cooperation in formation and development of a common economic space and single European and Eurasian markets [1].

The above goals make it apparent that the idea of the Eurasian economic integration for the first time appeared in Alma-Ata Protocol. Therefore, one can maintain that the Eurasian initiative can be traced back to December 1991.

The next significant step in the development of the idea was made by President Nazarbayev at Lomonosov Moscow State University. During his speech, Nazarbayev proposed the project of a Eurasian integration that would be based on a supranational structure that he called the “Eurasian Union” because, according to Kazakhstan’s President, this would facilitate a closer and more effective economic cooperation instead of the amorphous CIS. Nazarbayev stressed that the CIS was not adequate to the realities of the contemporary world, neither did it encourage the member states to proceed further towards greater integration. The “Eurasian Union”, on the contrary, in Nazarbayev’s opinion, was exactly what the people needed [2].

Nazarbayev noted that, since the establishment of the CIS, its members - sometimes gravitating towards each other and the other time moving ever further - had signed more than 400 documents on cooperation, but almost none of them had been actually implemented [2].

Nazarbayev pointed at the need to elevate the CIS onto a qualitatively deferent level on the basis of a new interstate association formed on the principles of voluntariness and equality. Such an association, according to Kazakhstan’s President, could bear the name of the Eurasian Union. The principles, it would be based on, should differ from those of the CIS; it should create a number of supranational bodies to achieve the two key goals i.e. formation of a common economic space and maintenance of a common defense policy [2].

It is important to stress, however, that

Nazarbayev did not advocate for delegating of all matters to the supranational bodies of the future union. On the contrary, he insisted that those relating to the sovereignty, domestic and foreign policy and political system should remain within the domestic affairs of the member states and the Union should be based on the principle of non-interference [2].

Later, in 2001, Nazarbayev once again reaffirmed the basic principles he thought the Eurasian Union should be established on were political sovereignty and non-interference. In his article in the “Izvestiya” newspaper, Nazarbayev made the following points. The first, he said that, although the cultural and civilizational factors were very important, the integration should be motivated primarily by economic pragmatism. “These are economic interests not abstract geopolitical ideas and slogans that engine integration processes” - Nazarbayev wrote. Therefore, according to Kazakhstan’s President, the future Eurasian Union should be built as a common economic space embracing our nations for the purpose of their successful economic development [3].

The second point Nazarbayev made was that the participation into the integration project should be voluntary. Each state or, to be more precise, each nation should make an independent decision and form its own understanding why to integrate. However, Nazarbayev underlined that the contemporary globalizing world was making it impossible and insensible to cherish one’s self-sufficiency and uniqueness and continue the isolationist path [3].

The third point was about the equality of the members of the Eurasian Union that Nazarbayev stressed as the vital condition if it was to succeed. The member states shall respect each other’s sovereignty and inviolability of the state borders and restrain from any interference into the domestic affairs of their fellow partners in the Union.

The next important thing, emphasized in the article, was that the supranational bodies, Nazarbayev was talking about, should work according to the principle of consensus and should

take into account the individual interests of all member states. Those bodies should be granted very well-defined and realistic powers and that kind of arrangement should, by no means, impede or limit the political sovereignty of the states concerned. Nazarbayev cited the example of the European Union as a model of successful integration [3].

In 1994, these proposition was not responded enthusiastically by the other members of the CIS. However, one should not underestimate its significance for the idea of the Eurasian integration as it has been promoted by Kazakhstan because it was the moment when the foundational principles were articulated for the first time that would lay the basis for the future integration projects.

In particular, back in 1994, the main provisions of the Eurasian economic integration were set out including both the name of the future union and the fundamentals of its functioning such as formation of a number of supranational bodies, mergence of the economic spaces while preserving the independence and political sovereignty of the member states. These are the relevant principles now, twenty years later, for the ECU and the EES and, eventually, for the EEU.

Speaking about the history of Eurasian integration, it is important to mention that there had been a number of preliminary initiatives within the CIS before the next stage the Eurasian integration began. Some of these initiatives are the following:

- on April 15th, 1994, Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan and Ukraine signed the CIS Free Trade Zone Agreement;

- on January 20th, 1995, Belarus, Kazakhstan and Russia conducted the first agreement establishing the Customs Union;

- on March 29th, 1996, Belarus Kazakhstan, Kyrgyzstan and Russia signed the Treaty on Increased Integration in the Economic and Humanitarian Fields.

Thus, back in the mid-1990s, within the CIS, there were efforts to push for deeper integration

and one of them even resulted in the establishment of the Customs Union. However, very little was implemented; more often the agreements that, otherwise, could have made rather significant difference in terms of a genuine integration, were emasculated before even being realized.

The example of the CIS FTZ is very illustrative. The respective Agreement was signed in April 1994 shortly after Nazarbayev's speech at Moscow State University. However, the actual multilateral free trade regime was not established. The parties, including Russia, failed to agree on the list of exemptions from the free trade regime that was to become an integral part the CIS Free Trade Zone Agreement.

For over 15 years, the efforts to revive the CIS Free Trade Zone continued with varying degrees of success. There were a number of agreements reached at the CIS summits and there were a number of programs adopted by the Commonwealth. However, this idea was not realized until October 18th, 2011, when the Heads of the Governments of the CIS states concluded a new treaty on the Free Trade Zone in St. Petersburg. Yet, the Agreement was not unanimous, only eight of the eleven CIS member states signed it*. It was when the history of CIS FTZ really began.

The example of the CIS FTZ that took almost two decades to be implemented, shows how inefficient the Commonwealth was as a facilitator of economic integration. The existing framework of the CIS proved that any genuine steps towards further integration were hampered by some individual states unable to make any concessions and being reluctant in terms of establishment of any supranational bodies where they were supposed to delegate a part of their economic sovereignty.

The Eurasian Economic Community (EurAsEC) emerged because the CIS impotence as a facilitator of integration had become apparent to all. The EurAsEC was a milestone in the Eurasian integration process.

The Treaty establishing the EurAsEC was

¹ Notably, not all the signatories have ratified the treaty so far.

signed on October 10th, 2000 in Astana and came into force on May 30th, 2001. This integration association was initially formed by the five states, namely Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan that were ready for a closer integration that would mean the establishment of supranational bodies and delegating a part of their economic sovereignty in the interest of enhanced development of all.

On January 25th, 2006, Uzbekistan signed the Protocol of Accession. In October 2008, Uzbekistan, however, suspended its membership. Since May 2002, Ukraine and Moldova had had the observer status with the EurAsEC and Armenia had been an observer since January 2003. The Treaty on the Eurasian Economic Community stipulated for establishment of the Interstate Aviation Committee (IAC) and the Eurasian Development Bank (EDB).

The EurAsEC was established to facilitate the formation of the ECU and the EES with a more general goal to deepen the integration in economic and humanitarian fields.

So far, the economic integration in Eurasia has undergone the following stages: the Eurasian Economic Community (EurAsEC), Eurasian Customs Union (ECU), Eurasian Economic Space (EES) and finally the Eurasian Economic Union (EEU) that has been functioning since January 1st, 2015 with the ECU and EES being the integration structures of higher levels within the EurAsEC with full legal names “The EurAsEC Customs Union” and “The EurAsEC Common Economic Space”.

The major goals of the EurAsEC were the following:

- establishment of a full-fledged free trade regime unifying the customs tariffs and building a single system of non-tariff regulations;
- ensuring free movement of capital;
- creation of a single financial market;
- finding the common ground to formulate the principles and conditions to introduce a single currency within the EurAsEC;
- establishing of the common rules for trade and access to the domestic markets of the member states;

- establishment of a common unified system of the customs regulation;

- development and implementation of the intergovernmental programs of specific goal-oriented nature;

- creation of a single market for transport services and integration of the transport systems;

- creation of a single energy market;

- ensuring equal access to the foreign investments for all member states;

- ensuring freedom of movement for the citizens of the EurAsEC member states within the Community;

- harmonization of the social policies in order to create a community of the welfare states, building a single labor market, common educational system as well as pursuing coordinated policies in terms health-care, migration and other issues;

- convergence and harmonization of the national legislations to facilitate the interaction of the legal systems of the EurAsEC member states to create a common legal space within the Community [4].

Additionally, a number of supranational institutions, namely the Eurasian Development Bank, the Anti-Crisis Fund and the Center for High Technology, were established within the EurAsEC to promote integration and enhance a united capacity to deter possible negative impact of the external factors.

In parallel with the EurAsEC, there was a side project of the Eurasian integration named the Eurasian Economic Space (EES). The first try included the four countries, namely Belarus, Kazakhstan, Russia and Ukraine who signed a respective treaty in September 2003. Notably, the position of Ukraine may be assessed as counter-productive; it repeatedly made unrealistic demands threatening the withdraw from the EES if they would not been met by the other member states. For example, in 2005 Ukraine put forward an unacceptable condition for its further participation the EES, namely establishment of a free trade zone without any restrictions i.e. abolition of all quotas and duties. Kiev

also blocked any attempts to create supranational bodies, it refused to establish the Customs Union and to sign all the documents required. In the result of this behavior of Ukraine, the signing of the documents that would enable formation of that integration structure was delayed for almost ten years.

On December 9th, 2009, at the informal summit in Almaty, Presidents of Belarus, Kazakhstan and Russia approved the Action Plan for 2010-2011 that provided for conclusion of twenty international treaties during the next two years so that the Eurasian Economic Space would have been established by January 1st, 2012.

For the purpose of its timely realization, the development and introduction of the legal framework of the EES was scheduled for 2010-2011 providing for adoption and implementation of dozen agreements by July 1st, 2011 while the remaining six agreements on the EES should be signed by January 1st, 2012. Under the resolution 9 of the Supreme Eurasian Economic Council, the Treaty on the Eurasian Economic Space entered into force on January 1st, 2012.

The EurAsEC was being consolidated in parallel with the formation of the Eurasian Customs Union. It was the establishment of the ECU that signified a decisive step forwards the full-fledged Eurasian economic integration that, at this point, had transcended the political discourse of Kazakhstan becoming a generally accepted idea in the countries that would become the members of the future union. Since the 1990s, the Customs Union project had also undergone a series of gradual moves towards its actual realization on January 1st, 2015. These stages were the following:

- in 1999, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan signed the Treaty on the Customs Union and the Common Economic Space that stipulated the eventual transformation of the Customs Union it was establishing into the Common Economic Space [5];

- in August 2006, the leaders of the EurAsEC, at their informal summit in Sochi, reached an agreement that the efforts to cre-

ate the Customs Union of Belarus, Kazakhstan and Russia, which would be possibly joined by Kyrgyzstan and Tajikistan, should be accelerated [5];

- abovementioned agreement reached at the summit in Sochi enabled Belarus Kazakhstan and Russia to sign the Treaty on the Eurasian Customs Union in October 2007 [5];

- in June 2009, the supreme body of the ECU scheduled the steps to build a single customs territory within the ECU setting January 1st, 2010 as the first stage of its formation [5];

- on January 1st, 2010, the customs on the border of Belarus and Russia were closed; the ECU member states introduced a unified customs tariff within their territories. Since January 1st, 2011, the member states started the regime of free movement of goods and services. Finally, on July 1st, 2011, the customs were closed on the border between Kazakhstan and Russia. Thus, the process of the establishment of a single customs space of Belarus, Kazakhstan and Russia was complete [5];

Next, the three states started the work to form a based common economic space that would be on the recently established ECU. The Presidents of Belarus, Kazakhstan and Russia signed the Declaration on Eurasian Integration on November 18th, 2011. The date when the future Eurasian Economic Space would be launched was scheduled on January 1st, 2012. The EES, being a next stage towards deeper integration, meant free movement of goods and services, capital and labor. This was when the leaders of the three states declared that the ECU and then the EES should result in the establishment of the Eurasian Economic Union [5]. On the same day, the heads of the three states signed the Agreement on Eurasian Economic Commission that would be a single standing body of the ECU and of the EES. The Commission started functioning on February 2nd, 2012 [5].

In conclusion it is important to note that during the two decades of the evolution of the Eurasian integration project from the Alma-Ata Protokol of December 21st, 1991 to its actual

realization in the form of the Eurasian Economic Space of Belarus, Kazakhstan and Russia on January 1st, 2012, the President of Kazakhstan Nursultan Nazarbayev played the leading role in the process. Both Almaty and Astana hosted the events that proved to be of crucial importance of the consolidation of the Eurasian economic integration. Thus, it would not be an exaggeration to state that the economic integration within Eurasia has been a realization of the particular version of the Eurasianism (pragmatic Eurasianism) articulated for the first time by President Nazarbayev of Kazakhstan and, therefore, the Eurasian initiative per se may be attributed to Kazakhstan in terms of its origin.

Macroeconomic Dynamics within Integrated Eurasian Region: Current Trends and Preliminary Outcomes

Kazakhstan’s initiative of the Eurasian integration has always been primarily motivated by economy and aimed at intensification (sometimes resumption) of the economic cooperation in the key fields, namely trade, industry and investment. This economic considerations have always been of the principle importance for Kazakhstan when it made the efforts to promote

a number of initiatives in order to establish certain kind of integrated structures within the Post-Soviet space. Those initiatives varied from the proposal to create the CIS that embraced the majority of the former Soviet Republics to the project of the Eurasian Union that has been functioning since January 1st, 2015.

The paper deals with the analysis of the available data to see how successful the economic integration had been since the first instances of its mere articulation until the establishment of the Eurasian Economic Union. This kind of assessment is only sensible and possible in terms of those integrated structures that have been genuinely viable, namely the EurAsEC as well as the ECU and EES enabled by the EurAsEC.

Since the Treaty on the Eurasian Economic Community entered into force in 2001, it appears to be sensible to consider this date as the starting point for the analysis. The results of the analysis presented in this paper, reveal the trends of the economic development of the countries involved in the process of Eurasian integration. Moreover, the analysis duplicates the stages of the Eurasian integration starting with the foundation of the EurAsEC and proceeding to the ECU/EES. Further, the paper

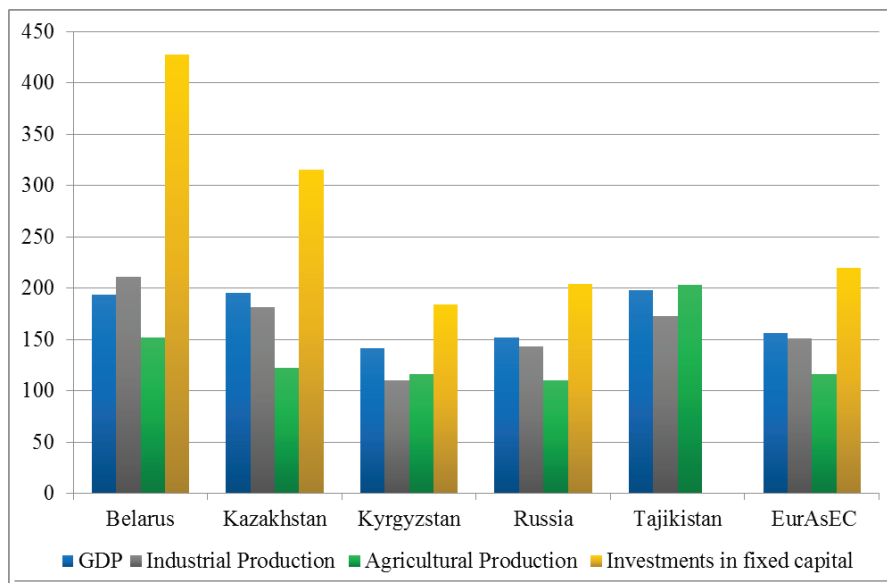


Figure 1. Major Macroeconomic Indicators in EurAsEC Countries in 2001-2010 in %

Source: <http://www.evrases.com>

deals with the basic macroeconomic patterns in the five EurAsEC member states in the period from 2001 to 2010.

Firstly, during the ten-year period of its operation, the EurAsEC demonstrated quite a steady growth of all the key macroeconomic indicators. That growth was experienced in all the five member states and, therefore, effected the indicators of the EurAsEC as a whole (Figure 1).

The GDP, being the main macroeconomic indicator, increased in the five countries; for example the growth was 141% in Kyrgyzstan and 198% in Tajikistan. The industrial production growth rate differed from the minimum two-fold increase in Kyrgyzstan to the maximum threefold rise in Belarus. It is very important to note that the most rapid growth was in the investment into the fixed capital that provided the foundation for future economic growth. Those indicators grew in the all five countries

of the Eurasian Economic Community from the minimum 184% in Kyrgyzstan to the maximum 428% in Belarus.

However, the qualitative analysis of the EurAsEC macroeconomic indicators as such is not suffice. The background global trends should be taken in account as well. This would enable to make a more grounded conclusions about the processes in the Eurasian Economic Community and to assess whether the macroeconomic performance can be estimated as good and, more importantly, whether the causes of the growth originated elsewhere rather than in the fact of the economic integration per se.

If one compares the GDP growth rate during 2001-2010 throughout the EurAsEC with the global GDP growth rates in the same period, it is apparent that the EurAsEC growth indicators were much higher than the world average ones (Figure 2).

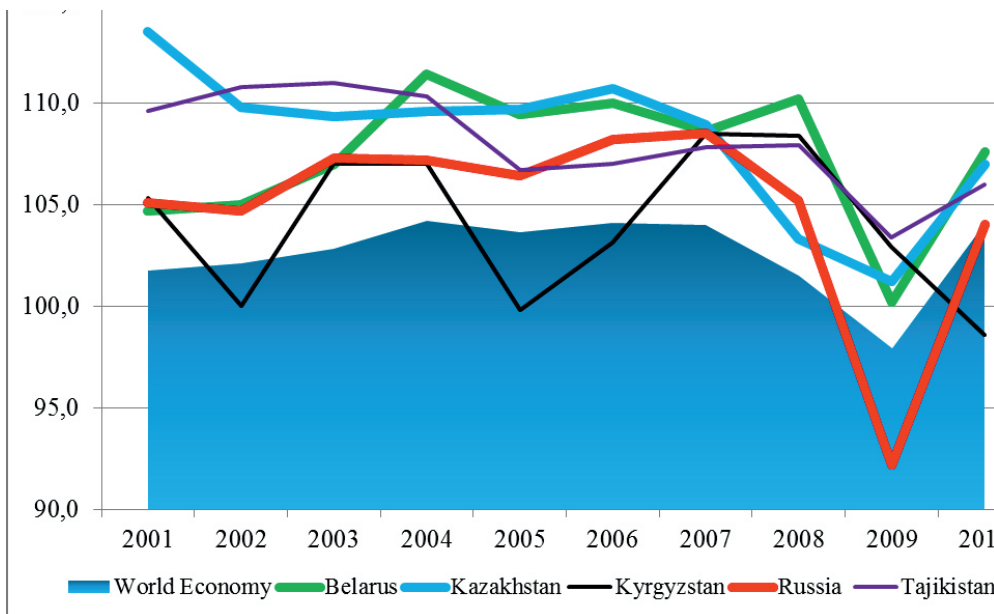


Figure 2. GDP Growth Rate of EurAsEC in Comparison with Global GDP Growth Rate in 2001-2010

Source: <http://www.evrases.com> and <http://data.worldbank.org>

The GDP growth exceeded the world average in the majority of the EurAsEC member states during the pre-crisis period. While the average growth of the world economy in 2001-2008 amounted to 3%, that figure measured 9.4% in

Kazakhstan, 8.9% in Tajikistan, 8.3% in Belarus, 6.6% in Russia and 4.9% in Kyrgyzstan respectively. Despite the crisis of 2009, in 2010 the economies of the EurAsEC came up to the world average in terms of the GDP growth.

Moreover, the overall growth during the decade was significantly higher both in the individual members of the EurAsEC and in the Community as a whole than that of the world average.

Apart from the GDP growth, foreign trade is one of the most important indicators for assessment of macroeconomic trends. The success of integration associations is often estimated in accordance with their performance in trade because intensification of trade volume is considered to be one of the main goals of integration in the first place. Therefore, free trade zones are often established in order to boost mutual

trade. In this regard, it is important to consider the trade indicators in the EurAsEC countries in the period of 2001-2010. Similarly to the GDP analysis above, these figures are, then, compared with the world average trade indicators. Figure 3 shows the dynamics of the mutual trade of the Eurasian Economic Community in comparison with the world exports. As it can be seen, the growth in trade within the EurAsEC was more intense compared to the world trade increasing by 3.1 times (from \$31.1 to \$95.2 billion) while the world exports rose only by 2.5 times (from \$6,194 to \$15,283 trillion).

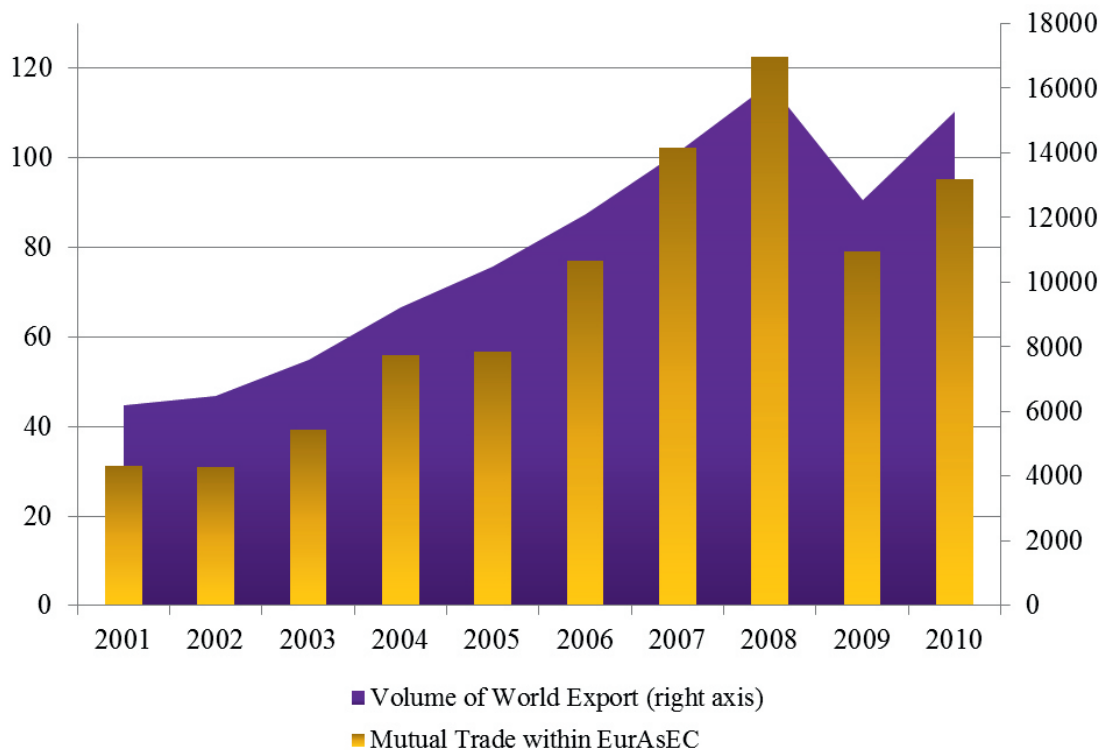


Figure 3. Foreign Trade of EurAsEC in 2001-2010 in Comparison with World Average

Sources: <http://www.evrazes.com> and <http://unctad>

Thus, there is an apparent pattern that the growth in trade within EurAsEC exceeded the world average. However, for having a more detailed picture, the foreign trade of the EurA-

SEC countries with their partners in the Community and that with the rest of the world should also be considered. Table 1 shows the data on the trade of the five EurAsEC member states from 2001 to 2010.

Table 1. Foreign Trade and Export of EurAsEC Countries in 2001-2010 in mln in \$

Total		Export		Foreign Trade Turnover	
		Including EurAsEC Countries	Total	Including EurAsEC Countries	
Belarus	2001	7451	4017	15737	9489
	2008	32570,8	10992,4	71952,1	34687,8
	2010	25225,9	10407,2	60094,1	28882,8
Kazakhstan	2001	8639	2063	15085	5118
	2008	71183,5	7104,6	109072,5	21446,2
	2010	59216,6	5704,6	88976,6	17350,1
Kyrgyzstan	2001	476	161	943	402
	2008	1855,6	526,6	5928	2441,4
	2010	1759,8	731,7	4982,9	2257,3
Russia	2001	100060	8778	141944	15534
	2008	467580,6	38907,9	734681,3	56543,2
	2010	396441,7	30519,6	625395,1	45412,9
Tajikistan	2001	652	198	1340	576
	2008	1408,7	146,4	4681,3	1585,5
	2010	1195,2	135,7	3853	1346,6
EurAsEC	2001	117278	15217	175049	31119
Total	2008	583428	61074,3	941444,9	122660,9
	2010	483839,2	47498,8	783301,7	95249,7

Source: <http://www.evrazes.com>

The table above shows that all the EurAsEC countries demonstrated a rapid increase in the foreign trade throughout the whole period from 2001 to 2010 of hundreds of percent. When the trade of the individual countries with their EurAsEC partners is compared with the foreign trade figures with the rest of the world, the situation is as following: the trade of Belarus with the rest of the world grew by 3.8 times, while its trade with its EurAsEC partners increased by 3 times. For Kazakhstan, those figures were 5.9 and 3.4 respectively; for Kyrgyzstan those were 5.3 and 5.6; Russia showed 4.4 and 2.9-

fold increase and Tajikistan's growth in terms of its trade with the rest of the world grew by 2.9 times and the trade with its EurAsEC counterparts rose by 2.3 times. Thus, almost all the EurAsEC countries traded more elsewhere than within the Community.

As for the export, the comparison of the growth within the EurAsEC with the overall growth during the period from 2001 to 2010 shows the following results: in Belarus, it increased by 3.4 and 2.6 times respectively; in Kazakhstan, the figures were 6.9 and 2.8; in Kyrgyzstan, there were 3.7 and 4.5-fold increas-

* Including Uzbekistan.

es; Russia's growth of its foreign trade with the rest of the world was 4-fold and with the other EurAsEC countries, it was 3.5-fold. The patterns in Tajikistan is different: it increased by 1.8 times its exports to the rest of the world but reduced it by 31% to the EurAsEC.

The data above shows that the EurAsEC countries export Kyrgyzstan, traded with the world more than with each other and the foreign trade of Tajikistan with the EurAsEC even showed the negative growth.

The structure of the foreign trade of the EurAsEC countries appears to be a possible explanation of this. The raw materials constituted (and still do) the bulk of their export and there was more demand for them beyond the EurAsEC. As for the trade within the EurAsEC, those were predominately manufactures.

In the period from 2001 to 2010, there was a very rapid increase in the world prices for the commodities caused by strong liquidity in the markets. The commodities were gradually transforming from being the major resources for manufacturing into the investment and speculative instruments. Accordingly, the prices of the

raw material exports grew much more rapidly than the prices of the other goods, thus, the rapid growth of the exports from the EurAsEC to the countries beyond since 2011, after the turbulence of the world markets had stopped and the prices stabilized. This effected the pattern of the foreign trade of the EurAsEC. These trends are even more apparent when one analyses the indicators the EurAsEC countries showed after being integrated into the EEU.

Apart from the macroeconomic indicators, the popular wellbeing is also important to understand the impact of the Eurasian integration on the countries concerned. This may be translated into such indicators as income per capita or nominal wage. These indicators are not less illustrates for the purposes of the assessment of the effectiveness of a economic policy (in this case the integration initiatives) than traditional GDP.

During the period of formation and consolidation of the Eurasian Economic Community these indicators grew very intensively surpassing the growth rates of the main macroeconomic indicators discussed above (Table 2).

Table 2. Average Monthly Nominal Wages in EurAsEC Countries in 2001 - 2010 in \$**

	2001	2010	Growth Rate (Times)
Belarus	87	414	4,8
Kazakhstan	118	526	4,5
Kyrgyzstan	30	155	5,2
Russia	111	686	6,2
Tajikistan	10	81	8,1

Source: <http://www.evrases.com>

The table above shows how the average monthly wage increased in the EurAsEC countries in the period from 4.5 to 8.1 times. This kind of increase may also be considered as a sign of the positive impact of the Eurasian integration and this time it reached common people.

The Eurasian integration entered its new stage in 2011 when the Eurasian Customs Union was established. This time the integration meant a single customs tariff regime and territory as well as a supranational body, which initially has been functioning as the ECU Com-

** The Indicators are taking into account the official annual average exchange rate to the USD throughout the period.

mission and then was transformed into the Eurasian Economic Commission granted considerable powers in the following areas:

- import customs duties;
- trade regimes in relation to the third countries;
- statistics of foreign and mutual trade;
- macroeconomic policies;
- competition policies;
- industrial and agricultural subsidies;
- energy policy;
- natural monopolies;
- government and(or) municipal procurement;
- mutual trade in services and investment;
- transport and communication;
- monetary policy;
- intellectual property and patenting;
- labor migration;
- financial markets (banking, insurance, currency and securities markets);
- tariff and non-tariff regulation;
- customs administration.

The ECU, as a new phase of the Eurasian integration of Belarus, Kazakhstan and Russia,

is analyzed further in terms of its economic developments in order to understand how the integration of a higher level changed the extent and results of the cooperation.

While analyzing the economic performance of the countries members of the ECU via using the traditional instruments, there are two important moments to remember. Firstly, this kind of analysis is only possible with the data collected since 2011 when the EUC actually started to exist but not since 2007 when it was technically established. Secondly, the three years is a rather short period to enable a robust analysis to indentify and understand long-term trends. At the same time, the positive changes in the longest run possible was(is) the major goal the ECU was created for after all. Yet again, the three-year data is not enough to make a final conclusion about the character of the changes on the macroeconomic indicators. However, during these three years, the bulk of the indicators increased.

The volume of the mutual trade among the ECU countries increased during the two first years, then the growth slowed and in 2013, the indicator dropped slightly (Figure 4).

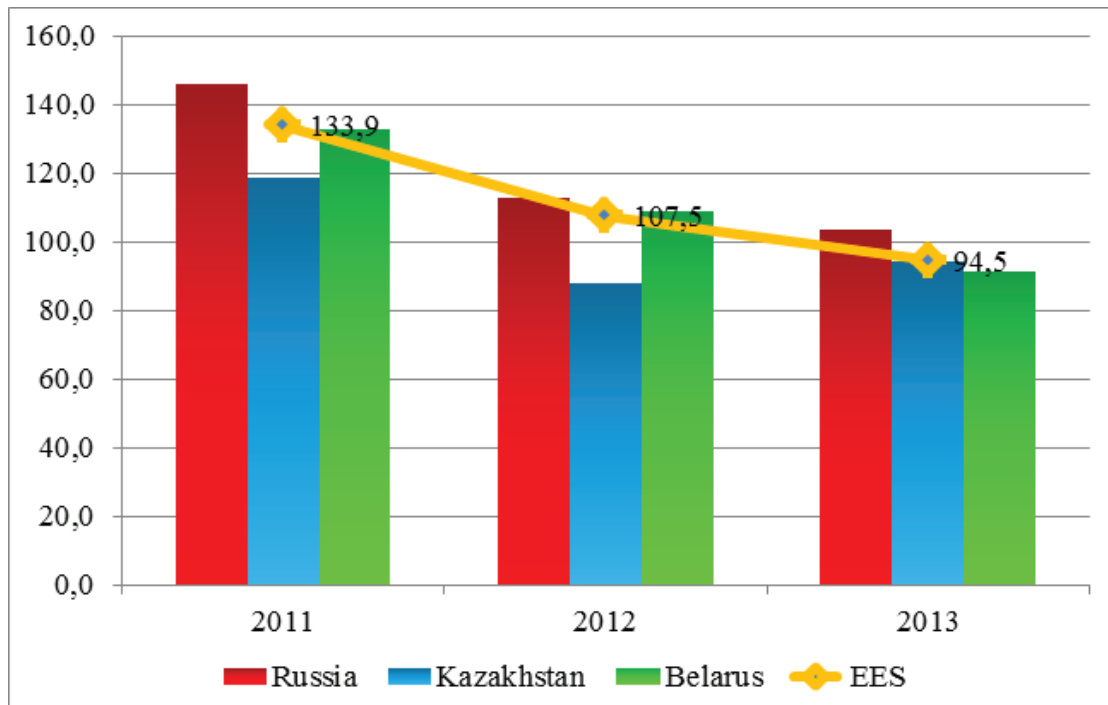


Figure 4. Bilateral Trade in EES in 2011-2013

Source: <http://www.eurasiancommission.org>

Russia demonstrated the reduction in its exports in 2013 of 91.2% compared to 2012, there was also negative growth of 94.1% in the same period in Kazakhstan, while Belarus managed to increase its exports by 3.4 %. It should be noted that there was a considerable decline in the growth rate of the mutual trade of the ECU as a whole since it entered into actual existence in 2011. In 2011, the growth amounted to almost 134% with respect to the previous year whereas in 2013 the figure was only 94.5%.

Belarus was the only country that consistently increased its exports to its EES fellow member states. Therefore, Belarus enlarged its share in the total EES turnover to 27.6 %, while Russia and Kazakhstan demonstrated the negative growth. The share of Kazakhstan, for instance, decreased steadily during the two years reaching 2.2%. The volume of its trade with its EES partners was not adequate to the economic potential of the country such (Figure 5).

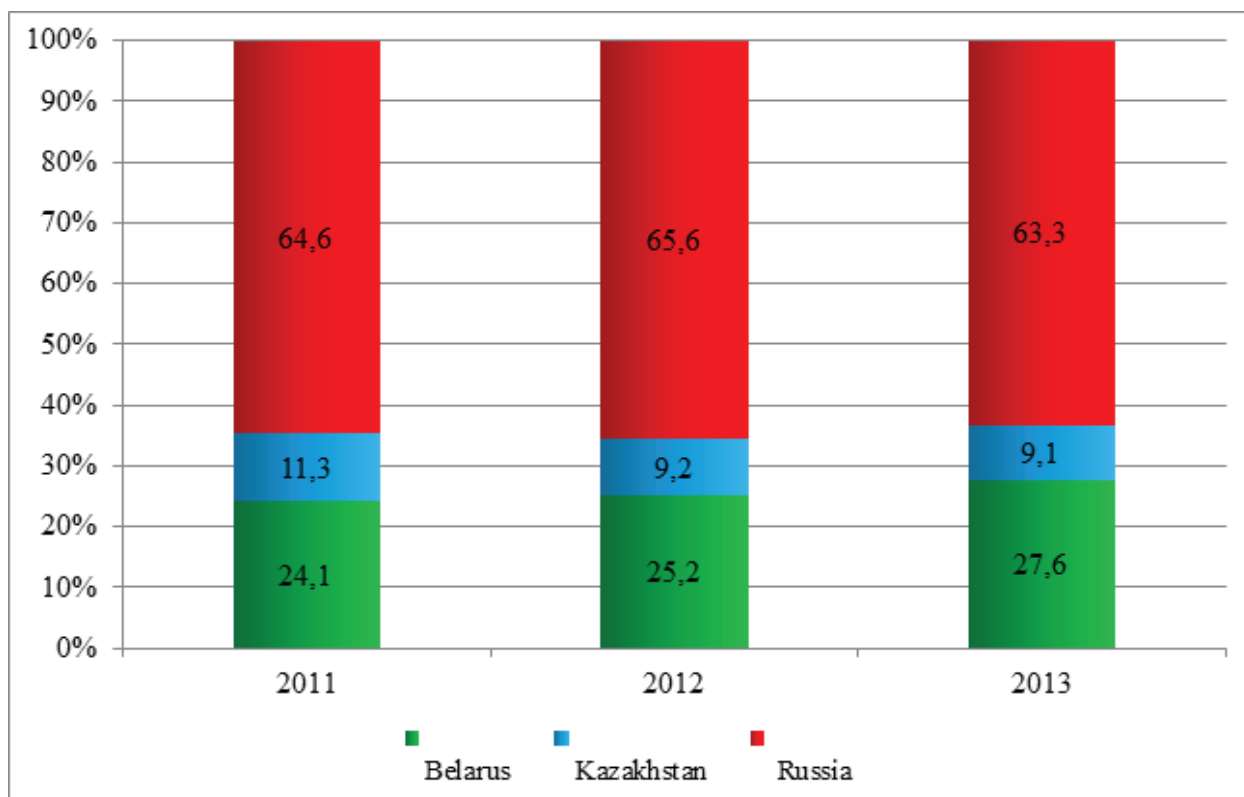


Figure 5. Shares of EES Member States in Total Mutual Trade of EES in 2011-2013

Source: <http://www.eurasiancommission.org>

Although stating the decrease in the volume of trade in 2013 was significant, a more important observation would be that it was the first time during the three years of the ECU/EES existence when the mutual trade within grew at a slower pace compared to the total exports of the

individual member states (Table 3). If in 2011 and 2012 the volume of the mutual trade within the ECU/EES exceeded quite noticeably the total exports of the member states beyond the ECU/EES, in 2013, however, the figures were 94.5%.and 98.6% respectively (Table 3).

Table 3. Mutual Trade within ECU and Beyond, Index***

	Trade with Third Countries			Mutual Trade with ECU Counters
	Volume	Export	Import	Export
2011	132,2	133	130,8	133,9
2012	103,0	102,1	104,6	107,5
2013	99,6	98,6	101,4	94,5

Source: <http://www.eurasiancommission.org>

Despite the slowdown of the foreign trade in 2013, the grand total during the all three years of the Customs Union’s existence is still positive as the mutual trade within the ECU grew faster than the trade beyond the Union both in 2011 and in 2012. There are two possible explanations of the slowdown in the mutual trade in 2013.

According to the Eurasian Economic Commission, the main reason for the decline in mutual trade was the sharp reduction in the supply of oil from Russia to Belarus: (in 2012 compared with 2011 their volumes dropped by 1.5 times). When excluding the fuels from the analysis, the data shows that the mutual trade within the ECU/EES, compared with January-December 2012 increased by 0.3 [6].

Another major reason why the dynamics of

the mutual trade within the ECUEES declined in 2013 was the decrease of the commodity prices. More importantly, these were the prices of the particular commodities, primarily the metal ores that are the bulk of in the mutual trade among the ECU member states.

The second explanation appears even more plausible when one compares the growth in the ECU mutual trade of the metal ores and mineral commodities and the prices for these particular kind of commodities (Figure 6). The figure shows the comparative dynamics of the commodity prices for fuel and metals calculated by the IMF in their relation to the growth of the mutual trade within the ECU/EES; the price index of the industrial metals decreased continuously from January 2011 to November 2013.

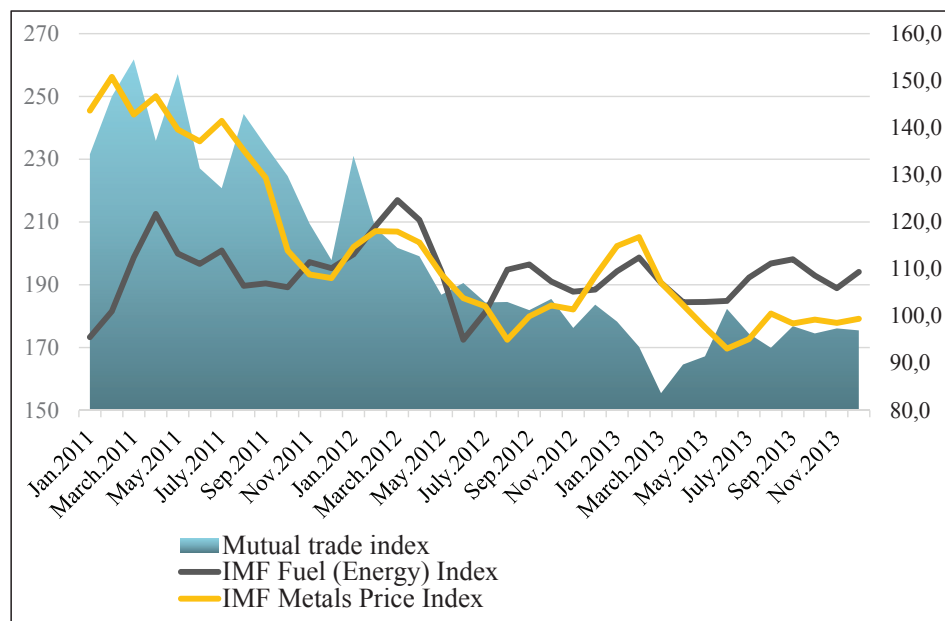


Figure 6. Mutual Trade within ECU and World Prices of Fuel and Metal Commodities

Sources: <http://www.eurasiancommission.org> and <http://www.imf.org>

*** The index is calculated with the respect to the data on the previous year.

The correlation of the volume of the mutual trade among the ECU member states and the prices of metal commodities, which were constantly decreasing, was the most apparent trend throughout the whole period of the ECU actual functioning from 2011 to 2013.

The proportion of metal ores in the mutual trade of the ECU countries was relatively high when compared with the exports to other countries of the world. This appears to be the major reason why the former exceeded the latter: the

metal ores are virtually absent in the exports of the EES countries outside the CIS. In the structure of the exports beyond the CIS the “mineral products” rubric is almost exclusively fuel. Thus, in 2013, the share of fuel in the mineral product export beyond the CIS amounted to 98.6 % [7].

It is also important to note a considerable difference among the individual member states in terms of the structure of their mutual trade within the EES and their export beyond (Figure 7).

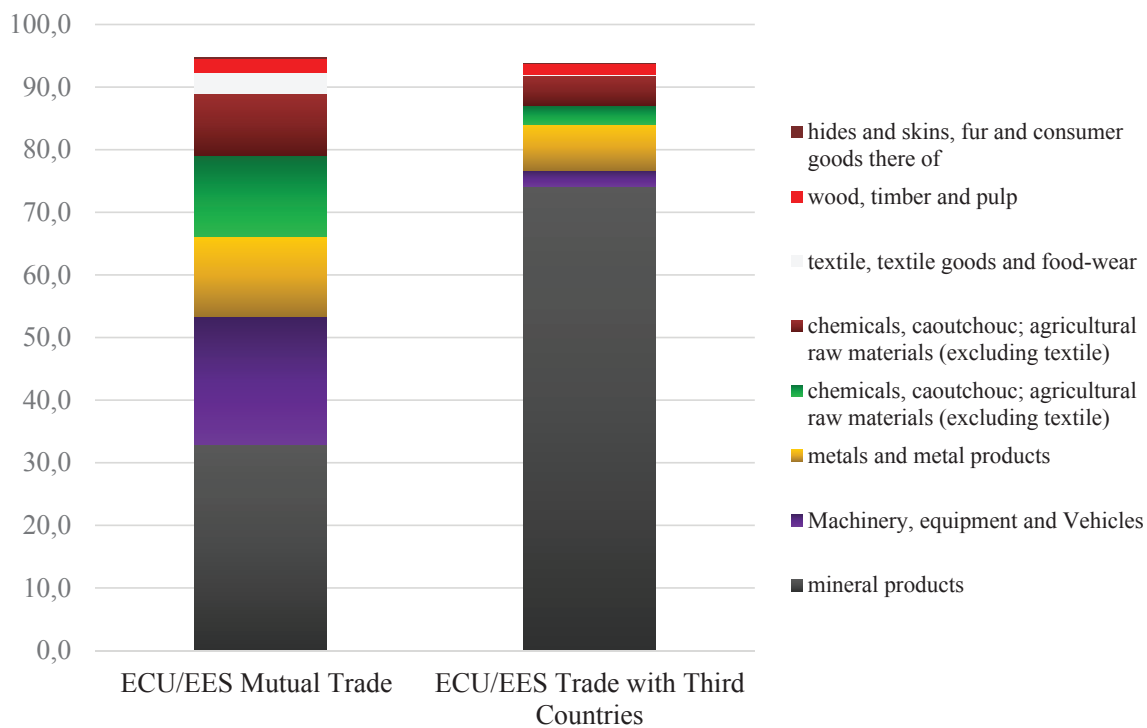


Figure 7. Structure of Mutual Trade within ECU/EES and with Other Countries in 2013 in %

Source: <http://www.eurasiancommission.org>

As it can be seen on figure above, the export of the EES as a whole is mostly the raw materials, i.e. mineral and metal commodities (81.5%); the share of these commodity groups in the mutual trade was only 45.9 %. Thus, the indicators of the export from the EES to the third countries were effected much more by the considerable fluctuations of the world commodities prices (substantial growth in volatility in the global markets of oil and metals in the recent years) than those of the mutual trade

where the share of these commodity groups was smaller.

Given the trends above, it would be reasonable to foresee that the volume of the export from the EES to the third countries will be larger than the volume of the mutual trade provided the prices of oil and metals continue to grow. The reverse process is more likely if the growth of oil and metal prices on the world markets slows down; in this case, the volume of the mutual trade within the EES may exceed the export beyond.

These were the major reasons why the growth rates changed so much during the three years of the ECU/EES genuine functioning as well as the trade indicators of the EurAsEC - described above in this paper - when the trade with the countries beyond the Community increases faster than the mutual trade within the EurAsEC itself. These were the times when the world oil prices grew very rapidly making the member states intensify their export to the outside world. As soon as the prices stabilized and even rolled back, the mutual trade increased while the impact of the oil factor decreased.

Apart from the mutual trade, the investment cooperation may also be considered as an useful indicator of the dynamics within the integration. The analysis of the figures on the mutual investment in the period of 2012-2013 does not enable to make any concrete conclusions, however, some figures may be rather illustrative. Thus, the volume of the mutual direct investment reduced significantly in 2012 comparing with 2011 and increased slightly again in the first half of 2013 if compared to the same period in 2012 (Figure 8).

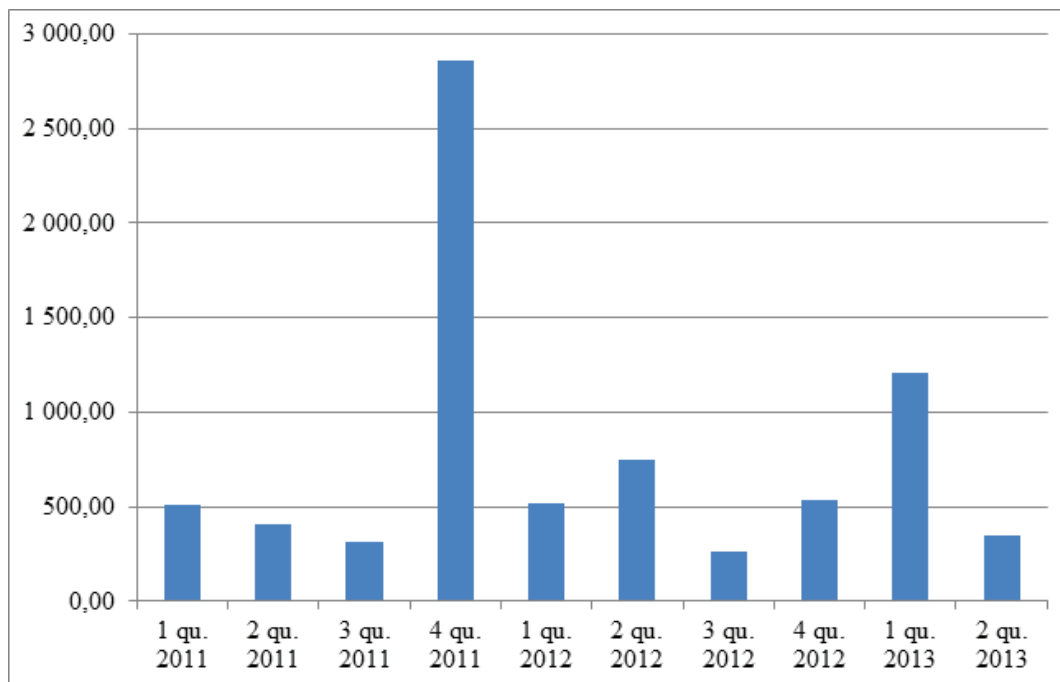


Figure 8. Mutual Investments EES in mln \$

Source: <http://www.eurasiancommission.org>

The data on the mutual investment within the ECU/EES is not suffice to reveal any trends due to a number of reasons. For example, the statistics cannot be considered adequate if we remember the investment flows that were technically coming from beyond the EES, but actually originated within the EES countries. The insufficient length of the period when the data was collected also prevents from indentifying accurately the trends and patterns of the mutual

investments within the ECU/EES. Moreover, the volume of the investments within the ECU/EES was not that large. This is why the indicators demonstrated rather high volatility. For instance, the sharp increase of the volume of the mutual investments in the fourth quarter of 2011 (Figure 7) was caused by singular transaction when the Russian *Gazprom* purchased of 50% stake in the Belarusian *Beltransgaz* for \$2.5 billion making its stake in the company

100% [8]. Therefore, in order to have a more clear picture about the trends in the mutual investment within the ECU/EES, one may rely on the analysis of the indicators of a more relativistic nature.

The share of the individual ECU member states in the total volume of the foreign investment in the economy of each of the ECU coun-

try may be considered as one of the indicators enabling to understand the impact of the economic integration. It is obvious, however, that the investments from Kazakhstan or Belarus are not significant for the economy of Russia, while the investments from the other EES states, primarily from Russia, to both Belarus and Kazakhstan are very important (Table. 4).

Table 4. Direct Investment from EES Countries in Total FDI in EES in %

	2011	2012	1st Half-year 2013
Belarus	70,5	30,7	37,3
Kazakhstan	7,9	8,7	13,7
Russia	0,3	0,8	0,3

Source: <http://www.eurasiancommission.org>

The table above shows that Russian investments were especially significant for the economy of Belarus (there was any FDI from Kazakhstan to Belarus). The situation did not change much even after the *Gazprom* deal in 2011; the share of the Russian investments remained very high throughout 2012 and 2013. Since the ECU had been established, Kazakhstan demonstrated a steady growth of the indicator that may be considered as an indirect evidence that our participation in the cooperation in the field of in-

vestment within the broader process of Eurasian economic integration was, generally, a success.

Kazakhstan's case is useful to understand the role of various factors in the dynamics of the cooperation in the field of investment within the ECU/EES. First of all, it should be noted that there was no any considerable decreases not only in terms of the EES investment share (Table 4), but in the absolute size of the of investments coming from the ECU/ESS member states (Figure 9).

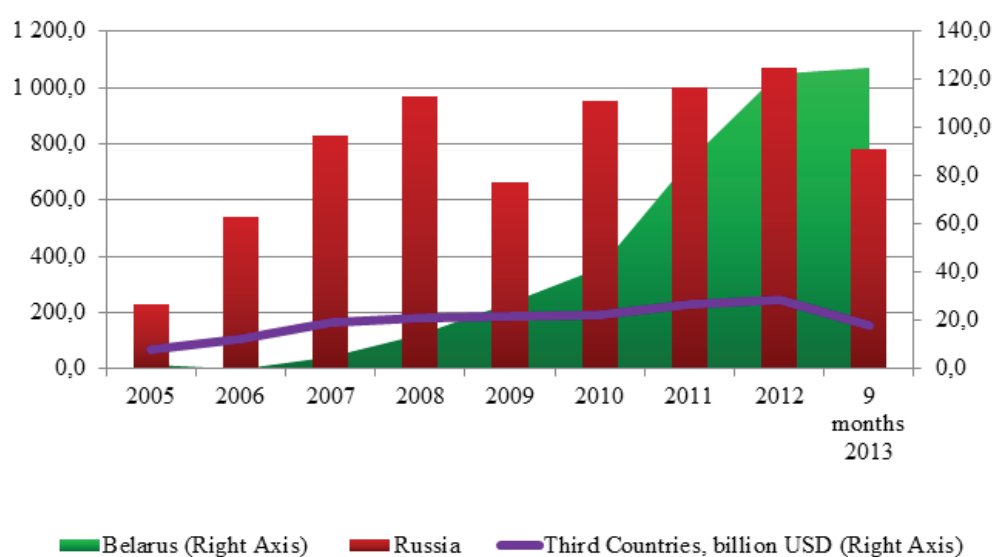


Figure 9. Gross FDI from EES to Kazakhstan in mln in \$

Source: <http://www.nationalbank.kz>

Since 2010, there was steady annual growth of FDI from Russia and Belarus to Kazakhstan; moreover, the growth exceeded that of the FDI from the third countries. From 2009 to 2012, the total volume of the FDI in Kazakhstan rose by 34,6% whereas the investments from Russia grew by 61,1 % and those from Belarus increased in 4,5 times.

Therefore, as the data shows, there was no any decay in terms of the investment cooperation of the ECU/EES countries throughout the entire period. However, it is important to remember that the rate of the investment growth may slow in the future due to the impact of the external factors; the example of how the world economic crisis of 2007-2009 reduced the FDI from Russia to Kazakhstan in 2009 is rather illustrative.

It also sensible to expect that the investment regime may change qualitatively as long as the overall cooperation within the integration enhance due to the establishment of the single financial market enabling the participants to make transactions with their the ECU/EES counterparts.

It is also noteworthy that Kazakhstan's financial involvement in Russia and Belarus was predominantly not in the FDI format but falling into the rubric of the "other investments" and "portfolio investments". In particular, the volume of accumulated other investments (mainly borrowing) from Kazakhstan to Russia at the end of the 3rd quarter of 2013 was \$7.585 billion while the FDI was only \$672 million. The volume of portfolio investments from Kazakhstan to Russia was even less amounting only \$310 million. As for the investments from Russia to Kazakhstan, the situation was similar with the figures of \$4006 and \$38 million respectively exceeding the volume of accumulated direct investments that were \$2.034 billion [9].

To sum up, the data shows that the investment cooperation in the spheres other than the FDI appears to be more potent, it is more likely to grow further as long as the integration itself enhances in future.

Prospects of Eurasian Integration under the Eurasian Economic Union

The treaty on Eurasian Economic Union was signed in 2014. The Eurasian Economic Union started functioning on January 1st, 2015. The Treaty is comprised of the two parts dealing with institutional and functional matters respectively where the format of the Union is stipulated in terms of its structure, bodies, managerial matters, procedures of accession of new members etc. The Treaty sets the goals in the following spheres of the integration within the Union: trade, technical regulation, industry and agriculture, natural monopolies, transport and energy, competition and public procurement, taxes, monetary policy and financial markets, intellectual property, services and investment, labor migration, macroeconomics and statistics.

The overall end the current stage of the integration is aimed at is rather obvious. It is to build and enhance the supranational bodies to manage and expand the common economic regime reaching all key spaces; having started with building of the single market for goods and services (the ultimate goals of the Customs Union) and proceeding to the genuinely functioning single market for goods, services, capital and labor.

It has been clear so far that the EEU has been limited to the economic matters. Currently, at the first stages of its establishment, not only political but also social, humanitarian and cultural affairs remain within the powers of the governments of the member states or are to be dealt with within the other formats [10].

Being an organization of a higher level of integration, the EEU will not only push the existing international institutions to enhance their role in carrying out a coordinated economic policy, but will also build new ones. Technically, the Union shall embrace the institutions that have been functioning within the EurASEC, namely the Eurasian Development Bank, Crisis Fund and Center for High Technology as well as other organizations and institutions of a more political nature such as the Parliamen-

tary Assembly, the EurAsEC Court, number of agencies and commissions.

The establishment of the Eurasian Economic Union puts the end to the Eurasian Economic Community. Back in May 2013, First Deputy Prime Minister of Russia Igor Shuvalov stated that the EurAsEC would cease to exist and all the institutions of the Eurasian Economic Community would be transferred into the Eurasian Economic Union on January 1st, 2015 [11].

The second most significant initiative - articulated by First Deputy Prime Minister of Russia Igor Shuvalov back in March 2014 - is to create a single supranational financial banking regulator by 2025 that will be located in Kazakhstan.

The Union, being a system of the old and new institutions combined with the realization of the four economic freedoms within a single market, namely free movement of goods, services, capital and labor, is drawing the contours for the further integration. After being finally consolidated, the Union is supposed to be transformed into a genuine single economic space without any barriers for the basic factors of production founded on the consensus among the member states on the matters of economic policy in the key spheres, namely macroeconomic, monetary, tax and labor policies. It also would mean having consolidated institutionalized mechanisms aimed at stimulating further development and preventing possible negative impact of external crises.

According to President Nazarbayev of Kazakhstan, the Eurasian Economic Union is a project that is adequate to the immensity of the current and future challenges. The EEU has all it takes to become an integral part of a new global architecture that has been forming after the financial and economic crisis [3].

President Putin of Russia, having stressed the significance of the EEU for establishing the regime that would enable conduction of a coordinated economic policy, said that the Union should be granted considerable powers of economic regulation as this would boost coordination in the key spheres, increase stability and enhance potential of the economies of the mem-

ber states making its single market more capacious and attracting more investments [12].

President Lukashenko of Belarus also stressed that the economic role of the Union should prevail over the domestic decision-making. He drew the attention to the necessity to have a very defined hierarchy in terms of the legal force of the acts of the Union bodies. President of Belarus insisted that the resolutions of both the Supreme Council and the Intergovernmental Council would be binding on all parties [13].

The membership in the Eurasian Economic Union, provided all intended moves and policies are implemented successfully, is more beneficial in terms of economic prospects for the EEU countries than an independent path. The free movement of the basic factors of production shall stimulate all business activities, enhance competition in the domestic markets of the member states that shall, in turn, encourage the production sector to increase its effectiveness and all other participants in the economy to be more efficient because choice shall increase as well. The single market shall mean more direct foreign investments, particularly from those strategic foreign investors from abroad who shall be attracted by the common market of the EEU. This is very significant for smaller economies, namely those of Belarus and Kazakhstan.

The other advantage of the Eurasian Economic Union is that it will facilitate harmonization of the economic policies of the member states that shall improve overall economic management and enable to focus the resources both directly (via the resolutions of the EEU bodies and through the certain institutions aimed specifically at development) to realize the projects of much larger scale that, otherwise, would be impossible. The common institutions for anti-crisis management shall also enhance the Union's capacity to deter and mitigate possible negative consequences of the external factors similar to those resulted from the recent world economic crisis.

The features above will, in our belief, enable the EEU to boost socio-economic development of the member states in the long run due to a number of reasons. The enhanced business within the single economic space shall accelerate trade, attract investment and increase aggregate demand. It also shall enhance capacities of the economies of the participating countries to resist negative external impacts. Importantly, the possible effect on the economies of the individual countries from their participation in the EEU will be proportional to the size of their economy as such; in other words, the lower the GDP, the greater shall the positive influence

of the integration be on the economy and vice versa.

The other reason why membership in the EEU may affect the individual states differently is the features of their economies. For example it may boost the export to the other EEU countries or increase the volume of the investment. As for the total GDP growth of the entire EEU, the analysis of the other cases of integration of the similar kind (customs union and free trade zones elsewhere in the world) suggests that the additional GDP growth may be expected as much as 0,3-0,6% per year throughout the entire period of the Union's existence.

SOURCES:

1. Alma-Ata. Protocol. <http://www.cis.minsk>.
2. Назарбаев Н.А. Выступление в МГУ им. Ломоносова 29 марта 1994 г. Н.А.Назарбаев. Том II. Избранные речи 1991-1995 гг. – Астана. ИД «Сарыарка», 2009., сс. 439-440.
3. Назарбаев Н.А. Евразийский Союз: От идеи к истории будущего. «Известия-Казахстан», 26 октября 2011 г.
4. Евразийское Экономическое Сообщество. История. Официальный сайт ЕврАзЭС. <http://www.evrazes.com>.
5. Евразийская экономическая интеграция: цифры и факты. Евразийская экономическая комиссия, 2014. сс. 6-7. <http://www.eurasiancommission.org>.
6. Об итогах внешней и взаимной торговли товарами Таможенного союза и Единого экономического пространства за январь-декабрь 2013 г. Евразийская экономическая комиссия, 2014. <http://www.eurasiancommission.org>.
7. Экспорт и импорт товаров ТС и ЕЭП по укрупненным товарным группам в торговле со странами вне СНГ. Товарная структура внешней торговли государств - членов ТС и ЕЭП. Евразийская экономическая комиссия. <http://www.eurasiancommission.org>.
8. Долева, А.А. Прямые иностранные инвестиции в Беларусь. NovaBelarus.com. СЕНТЯБРЬ - 7 – 2012. <http://ru.novabelarus.com>.
9. Международная инвестиционная позиция (МИП) Казахстана по странам. Международная инвестиционная позиция. Национальный банк Республики Казахстан, 2014. <http://www.nationalbank.kz>.
10. Сагинтаев Б.А. Предмет договора ЕЭС - исключительно экономическое сотрудничество - первый вице-премьер РК. 08 Апреля 2014. <http://www.kazpravda.kz>.
11. Шувалов И.И. Все институты ЕврАзЭС будут погружены в Евразийский экономический союз с 2015 года -- первый вице-премьер России. Агентство Синьхуа, 2013-05-30. <http://russian.cri.cn>.
12. Путин В.В. Евразийский экономический союз заработает с 2015 года. Российская газета, 05.03.2014. <http://www.rg.ru>.
13. Лукашенко А.Г. Евразийский экономический союз должен быть международной организацией. БелТА, 24 декабря 2013. <http://www.belta.by/ru>.

Kazakhstan's Path to the Eurasian Economic Union: Amidst Global Economic Challenges

LEILA MUZAPAROVA

Currently, a new architecture of the world economy is being built. The recently established Eurasian Economic Union (EEU) of Kazakhstan, Russia and Belarus is to become its integral part that is very likely to play quite a significant role in the future. The fact that the two more nations, namely Kyrgyzstan and Armenia, have entered the Union this year will give some additional impulse for its further development.

President Nazarbayev of Kazakhstan has been very vocal about his vision of the role and place of the EEU. Speaking at the Supreme Eurasian Economic Council meeting held in Moscow in 2013, he predicted that the year 2015 would be the beginning of a new stage of the Eurasian integration. As Nazarbayev rightly noted, the establishment of the Eurasian Economic Union was the first time in history of Eurasia when an integration project was being implemented on a voluntary, equitable and mutually beneficial basis. Moreover, the countries that are being united, according to Nazarbayev, possess the immense natural resources and a transport, energy and technological system of strategic importance on the regional and global scales.*

President Nazarbayev, however, noted that there was understanding in Kazakhstan and elsewhere throughout the Union that the genuine economic integration would take time and that the maximum positive impact would not come soon. Understandingly, the integration to be a success in terms of the improvement of the popular wellbeing and the standards of living would make the economies of the participating states undergo a period of adaptation to the new conditions that would mean greater and harsher competition.

The slowdown of the macroeconomic indicators and the current difficulties faced by the economy of Russia are quite alarming. The inflation in Russia and the weaker ruble probably will have some impact on the economies of the other EEU member states as they are more interdependent now than ever before via the mutual trade and investment. At the same time, it is important to realize that there is always a possibility of crisis in any member state and that the capacity of the economies of the other EEU states to mitigate its negative impact depends on the characteristics of these economies. The major factors here are the balance of payments, the international reserves, the external debt, the structure of GDP as a whole and of the ex-

* Назарбаев Н.А. Заявление для прессы по итогам заседания Высшего Евразийского экономического совета. Москва, 24 декабря 2013 года.

ports and imports in particular, these differ from country to country in the Union. Accordingly, the impact on their economies from the external shocks will also differ.

Given all these, it is important to remember that one of the ultimate goals of the EEU is to enhance the capacities of the national economies of its members to resist the negative external impacts and to increase their economic stability through using the advantages of the EEU single market and via creation of the favorable conditions for the better domestic economic development on the perimeter of the Union and beyond.

It is also important that within the Eurasian Economic Union, each state carries out its independent macroeconomic policy and currency regulation. The EEU member states are sovereign in terms of their fiscal policies, the exchange rates and other regulations of their financial sectors according to their own long-term interests.

The other advantage of the membership in the EEU is the opportunity to realize comprehensive programs of industrialization; the Union facilitates the measures to support the domestic manufacturers that shall also contribute to the further economic growth of the EEU member states. Kazakhstan, for instance, is consistent in realization of the measures aimed at boosting economic diversification and enhancing the competitiveness of the domestic producers in order to minimize the possible negative external impacts on the national economy.

Speaking on the external factors that could be potentially negative, it is important to take into account that the global economy continues to live under the consequences of the crisis of 2008 and that the changes it brought are both cyclical and structural of a profound institutional and technological nature that alter the basis of the global economy. However, like any economic phenomenon, the crisis had both negative and positive effects.

The emergence of a new model of economic growth may be considered as one for the positive effects of the crisis pushing for structural

modernization in both the developed and developing countries, encouraging the search of new technological drivers. The history shows that after the crisis some industries and sectors of the real production are more likely to emerge, that, in turn, mean new challenges and necessity to find new instruments of economic policy. In other words, the current conditions resulting from the recent crisis can lift the global economy to a new qualitative level of efficiency and productivity and the chances are that the Eurasian Economic Union may successfully integrate itself into the process.

It is important to realize that the crisis of a systemic nature such as the recent one cannot be overcome using only the measures of macroeconomic character. As the world economy is undergoing the stage of building of a new technological basis, the national economies shall be modernized via the institutional and structural changes. Through the crises of such kind may also create the opportunities for certain states to make a economic breakthrough that, otherwise, would not have been possible. The better chances to the considerable advance are in those countries that have been able to understand the nature of the challenges they are facing and to find the best solutions that very often mean structural changes. These were previous systemic crises that made some nations advance immensely in terms of their economic development having elevated them to the new level. No matter how hard the crisis hits, the market economies shall always emerge from it being even more powerful and competitive.

Given all that, amidst the post-crisis world, the states like those of the EEU, which are determined to advance their economies, shall consolidate their efforts, work out comprehensive strategies and take concrete moves aimed at not only mitigating the negative influences but enabling to make a genuine breakthrough in terms of their economic development.

The other advantage the EEU countries have is that their approach to the anti-crisis measures is rather offensive. In other words, they are to build the basis for the future economic

breakthrough despite the current conditions in the world economy that are very unfavorable. For instance, the governments of Kazakhstan and Russia are developing a series of anti-crisis economic programs providing for the direct state support to deter the negative impact of the external factors.

In this context, the *Nurly Zhol* new economic strategy that has been articulated by President Nazarbayev of Kazakhstan is especially relevant and timely for a number of reasons. Firstly, the *Nurly Zhol* is a strategy of overcoming the current crisis via, among other measures, using of the resources accumulated in the National Fund (707.5 billion KZT in 2015). Secondly, the *Nurly Zhol* stipulates a comprehensive infrastructural reform that coincides with the second stage of the realization of the National Program of the Rapid Industrialization meaning that 232.9 billion KZT will be allocated in 2015-2017.

Kazakhstan is planning to use the funds mainly for realization of a number of infrastructure projects such as road building, construction of new railways, houses and utilities, repairing of the school and hospital and others. The infrastructural projects of this kind are to make a direct and immediate positive effect on the economy through the development of such branches as building and construction, manufacturing of the contraction materials, transportation, metallurgy and a number of other related goods and services.

The successful cases of the regional integration show that it is very important for the countries to continue their overall engagement into the world economy. The regional integrated structures shall not prevent the member states from participating in the global market. In this respect, the common economic space the Eurasian Economic Union is to build may serve as a link between the East and the West. Kazakhstan, for instance, is very active in terms of finding the additional integration opportunities that would be developed simultaneously with the EEU. The possible vectors of such development are the countries of Central Asia and China's *Silk Road*.

The analysis of the preliminary outcomes of the Eurasian integration during 2010 - 2013 shows that the member states were able to lay down the major cornerstones on which the future sustainability of the EEU shall be based. This process of consolidation of the Eurasian integration underwent the following stages:

- supranational body (Eurasian Economic Commission /EEC) was established and began functioning;
- Eurasian Economic Community (EurAsEC) was reformed;
- CIS Free Trade Area was formed;
- WTO entry.

Conclusions

Summing up, it is important to note that Kazakhstan has always had the Eurasian economic integration as a part of the overall strategy of its development.

The essence of Kazakhstan's approaches to the purposes and principles of the Eurasian integration as well as those of our EEU partners was very clearly stated by President Nazarbayev of Kazakhstan at the meeting of the Supreme Eurasian Economic Council held on December 24th, 2013.

Firstly, the Union being built is not an attempt to restore the Soviet Union despite a commonly shared opinion of its foreign critics. The return to the past is neither possible nor desirable for the all founding members of the EEU. Therefore, the Union is aimed at the better future.

Secondly, the establishment of the EEU resulted (to a certain extent at least) from the 21st century trends of both globalization and regionalization. However, the integration in Eurasia has its own historical explanation and reasons. The participants in the process are not willing to copy the models of the European Union or any other regional organizations.

Thirdly, the Union being built is voluntarily and is aimed at consolidation of the potentials of the member states for the common good.

The fourth point made by Nazarbayev was that the membership in the Union should not be

considered as an opportunistic move to gain any privileges and preferences.

The fifth argument was that the sovereignty of the member states should not be impeded by their membership in the EEU; on the contrary, the Union should enhance their chances to become genuinely potent actors on the international arena.

Thus, the next point was that the enhancement of statehood of the nations involved into the Eurasian economic integration was its ultimate goal because stronger economy should bring stronger state.

Moreover, the united efforts of the Union member states should bring the benefits for all in the long run such as further economic development, security, wellbeing of the people living in the EEU.

Finally, Nazarbayev stated that the Eurasian Economic Union was not an alliance aimed at confrontation with any other state or international organization. On the contrary, the members of the Union were, according to the President of Kazakhstan, committed to the maximum cooperation with the globalized world.

Thus, Kazakhstan, Belarus and Russia established the Eurasian Economic Union in the spirit of trust and friendship for the purpose of the strategic partnership within the organization based on the following principles: economic pragmatism; respect for the national sovereignty of the all member states; voluntariness; equality and consensus in all decisions; openness of the membership in the Eurasian Economic Union to all states sharing its purposes and principles.

On Eurasian Integration: Geoeconomics and/or Geopolitics

DARIA MUKHAMEDZHANOVA

The transformation of the system of international relations has resulted into formation of the multipolar world. This new world order is being built on the background of the competition between the developed and the developing economies. These two compete for the space of various nature, namely political space (territorial conflicts), economic space (changing the frontiers of economic integration units) and ideological space (market individualistic ideology vs more communal one). Resources and markets are still the objects of this competition.

Eurasian continent is currently at the center of these global trends. The economic space of the Eurasian integration, namely the Eurasian Economic Union (EEU) is increasingly involved into the global competition. In this situation, being a new player on the global market place, the EEU faces the task to consolidate its economic status of a significant actor of globalization while pursuing a threefold end: firstly, to ensure that its participation in the global governance is on equal terms; secondly, to develop the regional market; and thirdly, to prevent the EEU member states from being dragged into geopolitical conflicts elsewhere.

The EEU also faces a number of challenges. High degree of interdependence of the economies of different types in the contemporary world means that any changes in this established system may disturb the economic and political balance of power. The most plausible factor that

may cause such an imbalance is the contradictions between geopolitics and geoeconomics. In other words, these are tensions between the developed world, its scale and influence, and the rapid enhancement of the emerging economies.

Economics and Politics in Global Context

The key concepts of space and borders, interests and institutions, security and development are crucial elements of analysis when one is to understand how economics and politics impact each other in the context of globalization. The current contradictory nature of the relations between geopolitics and geoeconomics may be explained taking into account the following factors:

- firstly, the countries that differ in terms of their economic and political competitive capacities operate with these two concepts differently in their economic and political discourses. Hence, we witness misunderstandings and tensions between these two types of states;

- secondly, the economic spaces of integration are growing in terms of their significance because they are not seen as the territories of individual states any longer but as the common markets of the certain states and, therefore, the main objects of competition on the international arena.

The next thing one shall bear in mind is that space and boundaries are conceptualized differently by political scientists and economists. Political space is the territory with the borders over

which a state retains its sovereignty. Economic space often transcends the state borders. The borders as such, however, may be beneficial as their existence may bring certain advantages for the states while they are trading with each other. Political space, by its nature, requires continuity, inviolability of the borders and maintenance of the barriers. Economic space, on the other hand, depends entirely on the changes in demand and supply on the global markets.

The institutions and interests that are political and economic also differ. Political interests lie in the maintenance of a particular kind of social relations within the state borders and with the other states. Economic interests are exclusively related to creation, distribution, consumption of goods and services. The developed states - having established a number of institutions of global governance, namely the World Bank, G7, IMF, WTO - are trying to retain the control over the changes in both socio-political and economic relations. Yet, capital and goods move freely within the economic space being impacted by the laws of economic that has nothing to do with such things as state borders or a particular type of government. This is where the reasons for apparent contradictions lie between the interests of the existing global market, regulated by the institutions established by the developed states, and the interests of the emerging market.

Apart from that, political scientists and economists understand security and development differently. In order to maintain political control over the territory for the sake of national security (preservation of the internal order of a certain kind) as well as for the sake of international security (preservation of the territory and people of a state and its defense against external threats), governments are very much protective of all sorts of barriers. Global economic competition, on the other hand, pushes governments to open up their countries in order to realize the competitive advantages it may have and to make it more attractive for foreign investment.

Thus, globalization makes states more dependent on external factors. Interdependence

of states in the context of globalization gradually transforms the nature and functions of state borders and shifts economic contours. As the result, new protective mechanisms are being established that are more of economic nature rather than political one while the space of international economic cooperation expands.

These new socio-political and economic characteristics of inter-state relations in the globalized world are studied by the two disciplines, namely geopolitics and geoeconomics. The theory of geopolitics consider states as potential threats and therefore focuses on the issues of national security whereas the geoeconomics sees states as potential economic partners and deals with the issues of national development.

Geopolitics and Geoeconomics on Integration

Traditional geopolitics studies the patterns of distribution and redistribution of the spheres of political influence among states or alliances of states (centers of power) within the global socio-political space. Geoeconomics emerged at the turn of the 19th and 20th centuries as a new trend of geopolitics and was seen as a nonconventional school within the latter. Geoeconomics then was particularly attentive to the apparent shift from military-political to economic methods of power execution on the international arena that meant using predominately economic expansion rather than annexation of a territory and, therefore, emergence of new type of geoeconomic conflicts and their escalation.

Geoeconomics, these days, is an independent discipline that studies how the productive relations of economic actors are being shaped under the condition of the globalised market and its economic mechanisms to influence these relations. Geopolitics has been increasingly influential given that the military argumentation seem to regain its popularity as the major instrument of geopolitics and when the UN is seen as having lost or lacking any means to resolve international economic and political conflicts.

The opposition of geoeconomics and geopolitics is still there due to the several factors:

- formation of the multi-polar world system is incomplete;

- UN does not have any efficient institutionalized capacities to manage the economy on the global scale;

- geoeconomics' status as an independent discipline is still questionable for being capable to provide theoretical foundations and explanation how certain mechanisms of geoeconomic character govern the course of the inter-state interactions or conflicts on the world market.

At the current stage of globalization, the major conflict is rooted in the difference of geopolitical and geoeconomic interests and in understandings of integration held by the most significant powers and alliances belonging to the developed and the developing worlds respectively.

The current state of the world development is characterized by simultaneous impacts of new geoeconomic trends from one hand and new geopolitical challenges from the other. The most significant geoeconomic trends are:

- division of the world economic space into the Western (Euro-Atlantic) world that is currently in a state of post-crisis uncertainty and rapidly developing Eastern world that is constantly gaining its importance within the world economy;

- shift in economic activity and world trade from the developed world to the developing one. For example, during 2000-2012, the share of the developed countries in the world GDP decreased by 16.6% and in the world trade, it dropped by 14.7%. The share of the G7 went down by 17.6% and 13.8% respectively. For the same period, the developing and transition economies increased their stake in the world GDP by 14.1% and their share in the world trade grew by 14.7%;

- regional issues dominate over the domestic ones and the influence of the regional alliances of the developing countries, namely BRICS, SCO, EEU, ASEAN and others, is constantly increasing. Within these alliances, the main economic challenges caused by globalization

are addressed according to the principle of collective leadership;

- competition for raw material resources is intensifying and, therefore, the importance of the regions, where those resources are located, is growing;

- human resources and demographic factors are more significant than ever as they alter the quality and structure of the global labor market and consumption.

The contemporary geopolitical challenges are the following:

- competition between the East and the West for the "right" to decide on the model of further global development;

- imbalance of the capacities of economic and non-economic elements to impact the developed and the developing economies;

- actors of economic globalization (including those in the developing world) change in terms of their number and range while the criteria of global influence remain the same still meaning the military-political potential;

- competition for the "right" to shape discourses and perceptions and to construct the values. Enormous numerical advantage of the developing world of 80.7% of global population means that the ideology remains an important factor of influence and challenges the emerging models of international development. For example, the population of the SCO member states is twice bigger than the population of the G7 countries combined. As for the BRICS, these countries exceed the G7 four times in terms of their population. According to a number of American experts, over the next fifteen to twenty years, more and more countries with the developing economies may be gravitated to the Beijing model rather than the Western model of the market economy [1].

As the developed countries still strive to retain their global political influence, while their economic status makes it more and more challenging, they are more likely to chose to intervene in the following spheres:

- into the economies of those states whose location is advantageous in terms of geopoliti-

cal considerations and where the bulk of the raw materials are by the means of the sanctions of political, military or economic nature;

- into the regional and interregional relations via launching the alternative integration projects that would include the emerging economies, such as the New Silk Road for the countries of Central Asia and the Eastern Partnership for Georgia, Moldova, Ukraine.

As the geopolitical challenges intensify the major Western powers (the USA in particular) are increasingly likely to employ non-economic, predominately military, means of influence due to the following factors:

- Euro-Atlantic alliance is still controlling the main global institutions (the World Bank, IMF, WTO, UN to a certain extent);

- western countries still have large shares in the economies of the developing countries, particularly in terms of the foreign trade and the energy sector. For example, the EU accounted for 52.9 % of the turnover and 57.9 % of the total exports of the EEU/EES of Belarus, Kazakhstan and Russia. As for the G7, the figures are 30,5% and 28 %, respectively;

- the developed countries still have very uneven levels of investment consumption and savings as well as of their shares in the world GDP and in the world sovereign debt;

- military means of global influence still prevail over the economic mechanisms. The US spends on its defense more than China, Russia, Japan, India and all the other NATO countries combined. Thus, the US has a \$700 billion share in the NATO annual budget of more one trillion [2].

EEU in Goeconomic Space

The EEU has been established on the background of the intensified geopolitical rivalry for defining the further directions in international relations and the goeconomic rivalry

on the world market. The gravity in this new multipolar world system is distributed between the developed and the developing worlds (the United States and Germany vs China and Russia), these are the gravitation centers creating new integration economic spaces around themselves, which are the main objects of the global competition as well as new integration unions that are becoming the main actors of globalization.

The competition is between these main actors of globalization, namely the EU, NATO, NAFTA, G7 etc. representing the developed world and the EEU, SCO, BRICS, ASEAN, G20 of the developing world. They compete for the economic space in order to expand their influence and to ensure their access to the mineral, infrastructural and human resources.

The tension increases along the following lines:

- between the institutions of globalization; the G7, WB, IMF, WTO on the one hand and those of the G20 on the other;

- between the actors of globalization; the EU, NATO, NAFTA on the one hand and the SCO, BRIKS, EEU on the other;

- between the technological power of the developed world and the natural resources in the developing world;

- between the scale of developed economies (their GDP) and the economic growth in the developing countries as well as the sales volume in the developed world and the growing trade flows in the developing countries*;

- between the financial capacity of the developed world and the rapidly growing financial markets in the developing world**;

- between the quality of human capital and potential of human development of the developed and developing countries given that the population of the latter is 5.5 times bigger than in the developed countries.

* In 2012, the share of the developed economies in the world GDP was 60.4% and in the world trade it was 53%, whereas the developing and transition economies had the shares of 39.7% and 47 %, respectively. Importantly, the share of the former in the world GDP decreased by 16.5% and their involvement in the world trade dropped by 14.7% compared to 2000 while the share of the latter increased [3].

** In 2012, the share of the developed economies in the global FDI outflows and inflows amounted to 65.4% and 41.5 %, while the developing and transition economies had 34.6% and 58.5 % respectively. The investment flows of the former decreased by 22.5% and 39.3% , while the share of the latter increased compared to 2000 [3].

Since Eurasia is not immune from the global trends and conflicts discussed above and given that the Eurasian market is an object of the global competition, it is crucial for the EEU to elaborate a comprehensive vision of the economic integration in order to sustain and secure its development. This vision should take into account both the geopolitical and geoeconomic consequences of the expanding boundaries of global economic cooperation.

It should be noted that whether the EEU is to enhance and preserve its economic significance depends on the following:

- dynamics of its economic growth should be maintained further via a number of programs aimed at enhancing of the economic structure, namely the programs of industrialization, modernization and technological breakthrough;

- availability of the resources should be preserved. This is particularly relevant not only with the regard to the mineral, especially renewable resources, but also the infrastructure and human resources;

- already existing cultural and humanitarian ties should be strengthened further especially within the former Soviet Union and throughout the developing world;

- economic influence on the CIS, which should be maintained and deepened via economic integration and cooperation within the CIS Free Trade Zone and the Eurasian Economic Union, should expand.

Secondly, the success of the EEU is dependent on better use of the mechanisms of economic influence when the EEU member states interact within other integration structures, namely the CIS, its Free Trade Area, SCO, BRICS and APEC as well as the Cooperation Council of Turkic Speaking States, Organization of Islamic Cooperation, Economic Cooperation Organization.

The third thing to do is to use the informal mechanisms within the G20; further cooperation with Islamic World, namely Turkey, Saudi Arabia, Indonesia should be considered as a possible direction to consolidate the emerging economies.

The fourth thing the future of the EEU is dependent on is whether the new formats of cooperation with partner countries will be found within the existing international alliances. This refers to the space of the economic partnership that is being formed and that would include the EEU, SCO, BRICS. In our view, such an “Eurasian-Asian” format can successfully counterbalance the G7 in Eurasia. There are a number of the grounds for us to believe so:

- eleven countries (thereafter G11) the members of the EEU, SCO and BRICS are constantly improving in terms of their share in the global economy while the share of the G7 gradually going down. For example, there has been 12.4% increase of the share G11 in the global GDP while the share of the G7 reduced by 17,6%; the share of the G11 the world trade rose by 10.5% while the G7 demonstrated 13,8% decrease; in terms of FDI inflows, the G11 performance improved by 15.5%, the G7 lost 30,6%; as for the global FDI outflows, the G11 showed 10% growth and there has been 1% reduction for the G7; finally, the G7 had 11.5% of the global population in 2000 and 10.7% in 2012 whereas for the G11, these figures were 44.6% in 2000 and 43.2% in 2012 [3];

- imports of the G7 and G11 of the major commodity groups has a similar structure; the G11 has greater demand for the raw materials and less demand for the manufactured goods than the G7 (in contrast to the EEU and the CIS). In 2012, the raw material amounted 19,1% and 20% in the import structure of the G7 and the G11 respectively and the figures for the manufactured goods were 63.9% and 60% [3]. This gives additional opportunity for the market of the raw materials;

- proportion of the raw material in the export structure of the EEU, SCO and BRICS is much bigger than in that of the G7. In 2012 the raw materials comprised 6,8% and 18% of the G7 and G11 exports respectively. Therefore, the G11 countries are more likely to maintain cooperation in the energy sector. [3];

- the share of the G11 in the EEU external trade (excluding the EEU member states) is

rather high amounting to 15.7% with 12.1% of the export and 22%) of the import.

Given the changes in the geoeconomic situation in Eurasia where the economic weight of the EU is decreasing while the political presence of the USA (NATO) is increasing and the Asian vector in USA policy in Eurasia is gaining its significance, the G11 as an economic space is strategically not less important for the EEU than the G7 and, in the number of cases, is even more preferable than the G7.

To sum up, as the formation of the multipolar world system of a particular kind has been incomplete, there is the competition between the economic and political interests of the actors of globalization for expansion of the boundaries of the spaces that are crucial for its future outline. This clash of the geopolitics and the geoeconomics is caused by the lack of any effective institutions of global governance as well as any geoeconomic mechanisms to regulate the interstate conflicts on the world market.

The EEU has to establish itself on the background of intensified geopolitical rivalry over a future of the international relations and the geoeconomic competition for the world market. The developed and the developing states are currently the two poles of gravitation that form a number of economic integration spaces around them (these are the objects of the global competition) and create a number of integration unions (that are to be the main actors of globalization).

The subjects of globalization compete for the economic space, in particular, for the right to draw the borders and for the resources. The competition is steadily intensifying due to the following factors: contradictory relations be-

tween the institutions of globalization and the subjects of globalization; the scale of the developed economies and the rapidly growing developing economies; the financial power of the developed countries and the vigorously increasing financial markets of the developing countries; the technological dominance of the developed world and the immense deposits of raw materials in the countries of the developing world; finally, the difference in the quality of human capital and the level of human development in the developed countries comparing to huge human resources in the developing ones.

The establishment of the Eurasian Economic Union enhanced the global status of Eurasia as an economic space in terms of the future configuration of the multipolar world system with the Euro-Atlantic and East Asia being the major power centers. The sustainability and security of the EEU at the present stage is dependent on having a comprehensive vision of its future development that would take into account the possible expansion of the economic borders of the Eurasian space. Therefore, it is of crucial importance for the EEU to consider the following:

- how to maintain the economic significance of the EEU in future;
- how to use better the mechanisms of economic influence within the existing formats of integration;
- how to use the informal mechanisms of global governance;
- how to use the new formats of cooperation, in particular the “Eurasian-Asian” framework, which would comprise the EEU, BRIKS and SCO, to win the economic competition in Eurasia against the G7 to maintain economic stability of the EEU.

SOURCES:

1. Мир после кризиса. Глобальные тенденции –2025: меняющийся мир. Доклад Национального разведывательного совета США – М.: Издательство «Европа», 2010 С.46.
2. Кудрин А., Фильбенгауэр П. Дискуссия о военных расходах // Вестник Европы .-2012.- № 34/ //http://magazines.russ.ru/vestnik/2012/34.
3. UNCTAD Handbook of Statistics 2013 // http://unctad.org.

Public Opinion in Kazakhstan on Eurasian Integration and the Eurasian Economic Union

LESSYA KARATAYEVA

The new course of comprehensive economic pragmatism as well as the consistent and predictable foreign policy aimed at promoting the national interests and strengthening the regional and global security is a priority of the strategic development of Kazakhstan until 2050 [1]. The prospects of achieving these goals depends, to a certain extent, on the success of the Eurasian Economic Union that, in turn, relies not only on the political will of the governments concerned but on the support of the people who are to be the main beneficiaries of the integration project.

The discourse of Eurasian integration emerged in Kazakhstan in the mid 1990s being triggered by President Nazarbayev's speech at Lomonosov Moscow State University in 1994 [2]. The idea of rapprochement of the countries of the former USSR was received rather ambiguously both in Kazakhstan and beyond. The lack of enthusiasm was quite understandable then given that the former Soviet Republics had had only three years of their independence; the disintegration forces were at their peak.

During the two decades, the idea of Eurasian integration has been always present in the public discourses of Kazakhstan. Before the Eurasian Customs Union (ECU) was established, the discussion had been focused on the issue of

feasibility of the integration per se. When the ECU was formed, the political discourse on the Eurasian integration in Kazakhstan started to polarize and the attitudes were getting more and more uncompromising.

Currently, there are several discourses on the Eurasian integration in Kazakhstan. These are the official and the alternative discourses. It is also worth mentioning that, although one can draw a clear line between the Kazakh-speaking and the Russian-speaking discursive segments, their differences in terms of the attitude and perceptions of the Eurasian integration are largely exaggerated. As the social base of the Kazakh language expands, the two segments of the society are interpenetrating and so are their discourses. Therefore, the assumption that Kazakh-speaking people are predominantly against the Eurasian integration and their discourses regenerate this attitude while the Russian-speaking people are supportive and the discourse emanating from them is forming a positive image of the integration project is not based on any solid grounds.

The question is how each of the discourses deal with the issue of the Eurasian integrations. The official discourse tends to be more utilitarian emphasizing the "economic advantages" and "pragmatism". The official rhetoric is based on the following premises: the era of the hydrocar-

bons is almost over; the negative consequences of the financial-economic crisis are aggravating. Under these conditions, the nations who have not been able to build the industrial economies that would be based on innovations and technological advances, those who have not been able to find their niche in the world economic order, those who are unable to make their human capital thrive are not to survive and will be displaced to the periphery of the international system. Therefore, the only way to mitigate these drastic impact of globalization is regionalization. The official discourse underlines the economic nature of the regional integration.

The official discourse, while promoting the idea of the Eurasian integration, is not immune of being critical towards some instances of its practical implementation. For example, there have been a number of critical remarks on the official level about increasing imbalance in the mutual trade, about the EEU Commercial Code that needs considerable liberalization and about the Eurasian Commission. Moreover, rapid expansion of the Union has been also disapproved of for being unjustified and too hasty. The Union has been criticized for failing to implement a number of very feasible agreements that, otherwise, could have led to the considerable changes for better.

There have been a number of topics that receive largely positive reporting. The Kazakh-Russian cross-border cooperation has been occupying a special place due to a number of factors, namely the length of the border as such, the historically close economic ties between the two nations as well as the inter-ethnic fusion throughout the border areas of the two countries. Therefore, all of the abovementioned discourses portray this situation as positive or, at least, neutral.

The unofficial discourse, however, is more diverse emanating both positive and negative attitudes towards the Eurasian integration project. The positive aspects stressed by the unofficial discourses are:

- integration enables to have a single market and create advantages for the domestic manufacturers; this will generate positive macroeconomic effects;

- financial, intellectual and human resources combined within the Union will enable to solve the problems that are too difficult for states dealing with them alone and these will enhance overall wellbeing of the people living in the EEU and enable further advancement of the field of science and technology;

- integration is inevitable course of action determined by the contemporary trends of the world development. However, Kazakhstan may choose between several integration projects pushed forward by the various players, namely the Free Trade Area of the SCO, the project of Turkic Unity, the Great Silk Road within the broader Greater Central Asia. The Eurasian integration just seems a more logical and natural solution due to the obvious economic, historical and cultural reasons;

- Eurasian integration gives the states an opportunity to become genuinely independent and potent actors in the Eurasian space in terms of both their economic and political influence;

- Eurasian integrations enables the member states to safeguard the secular character of their political regimes that is crucial given the increasing threats of religious extremism and terrorism.

The negative attitudes towards the Eurasian integrations is being formed primarily within the nationalist circles. Here, the fact that the project means integrations with Russia is particularly amplified. The criticism is mostly focused on the danger of gradual takeover of Kazakhstan by Russia in economic, political and cultural sense that is, understandingly, regarded as a threat to the nation. The supranational bodies and institutions are the subjects of the major concern as well as the idea of the single currency and the apparent Kazakhstan's trade deficit. It should be noted, however, that despite the fact that Russia is the key factor of the concerns, the oppositional discourse is addressed domestically and appeals to the Kazakhstan political class, accusing the former of connivance of the neo-imperial ambitions of Russia.

Given that these are the expert communities, public intellectuals and academics as well as artistic intelligentsia who are forming the discourses, the question remains what do common people of Kazakhstan actually think of the Eurasian integration? It is worth to know about the popular

attitude towards possible further expansion and deepening of the integration processes, about people's assessment of the risks and about their major expectations from the Eurasian Economic Union.

In order to answer these questions, the Institute for Strategic Studies under the President of Kazakhstan (KazISS) held a survey on the "Public Opinion on the Eurasian integration and Kazakhstan's membership in the Eurasian Economic Union". The survey was conducted prior the ECU was transformed into the EEU [3].

The survey revealed the attitude of the people of Kazakhstan to the integration process in general, Kazakhstan's participation in it in particular; the current state of the ECU and the prospects for its development as well as the major expectations from Kazakhstan's membership in the EEU.

The study was carried out in two stages. Firstly, the massive survey was conducted in all regions of Kazakhstan as well as the two biggest cities of Astana and Almaty. The second stage was the discussions within a number of the focus groups.

Attitude towards Kazakhstan's Integration

The survey revealed that the overwhelming majority of the respondents (91,1%) thought that it was good for Kazakhstan to participate in various international structures and alliances. The

three major reasons to do so, according to the survey returns, were the following: the contemporary international realities make it impossible for individual states to thrive all alone (55,8%), the integration will impulse positively the domestic developments in Kazakhstan (44,1%), this kind of cooperation is mutually beneficial (42,2%). However, 5,3% of the surveyed were against Kazakhstan's involvement in any alliances and international structures. Notably, 67,3% of those who opposed any integration were utterly skeptical about any possibility of having equal relationships among participants in the integration, while 26% of the opponents thought Kazakhstan to be all-sufficient.

The most supported vectors of integration were the CIS and fellow members of the ECU, namely Russia and Belarus. These two directions for further integration were assessed more positively than the integration with the countries of Central Asia, the other Turkic-speaking countries or China. A closer integration with Europe and Islamic World were not popular choices by the respondents either.

The survey also revealed that the majority of the respondents preferred the integration to be purely economic in nature. At the same time, Kazakhstan's involvement in military alliances was the least popular choice (Figure 1). This can be explained by the fact that the nation has been able to get rid of the militaristic and confrontational sentiments during its independence.

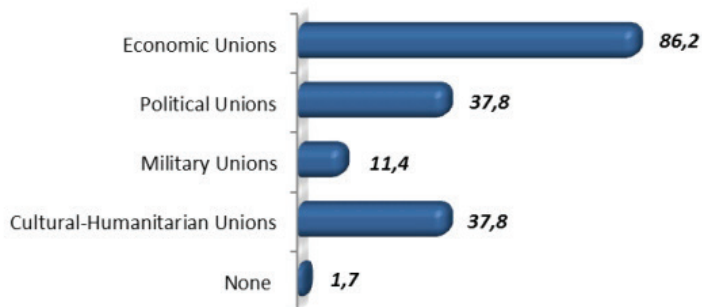


Figure 1. What Kind of Kazakhstan's International Involvement (Union) Do You Support? (% of the surveyed)

Source: KazSS. 2014. *Eurasian Integration and Kazakhstan's Participation of the Eurasian Economic Union // Public Survey.* Almaty: KazSS under President of Kazakhstan.

The majority of the respondents (64%) thought that the key positive impact of Kazakhstan’s participation in the integration was improvement of the relations with the neighboring countries; 50,8% underlined that Kazakhstan’s economy had acquired more competitive strength due to the integration while 49,5% pointed at the expansion of the markets for the goods made in Kazakhstan.

The fact that being a member of the integrations structures, Kazakhstan could face the necessity to participate into defending the other nations concerned one in four of the respondents (25.3 %). Additionally, one in five (20.5%) of the surveyed assessed negatively the fact that Kazakhstan’s had assumed too many “unnecessary” obligations. Nearly one in seven of the respondents (14.7%) disapproved of giving too much access to the foreigners to the domestic market.

In most cases, the respondents believed that Kazakhstan should take part only in those integration projects that would not impede its national power. There could be two explanation of that: on one hand, the prospect of losing sovereignty was mentioned as utterly negative by the majority of the opponents of the Eurasian integration, on the other hand, people did not have enough knowledge about the options available in terms of the ways how the member states might delegate parts of their national powers to supranational bodies.

Public Opinion on the ECU

The majority of the respondents assessed the performance of the Eurasian Customs Union as positive (73.1 %); the proportion of those who expressed negative attitudes towards the CU was small (4.8%) (Figure 2).

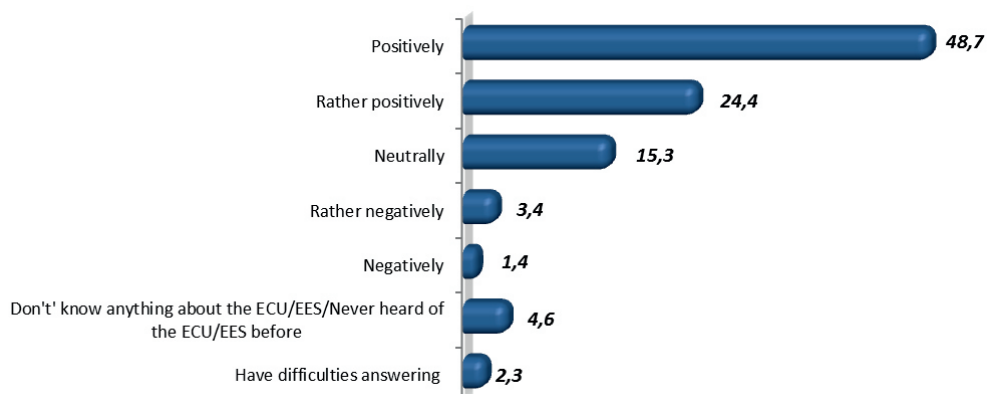


Figure 2. How Would You Assess Performance of the ECU So Far? (% of the surveyed)

Source: KazSS. 2014. *Eurasian Integration and Kazakhstan’s Participation of the Eurasian Economic Union // Public Survey.* Almaty: KazSS under President of Kazakhstan.

The survey revealed the direct correlation between the positive assessments of the ECU and the

income level of the respondent: the higher the income was the more likely a respondent was to be positive about the Union. At the same time, there were no any significant differences of the opinion of the respondents in terms of the age and ethnic groups.

The survey showed how the people assessed the influence of the Eurasian Customs Union on the socio-economic situation in Kazakhstan. The comparative analysis of the responses about the

impact of the ECU on the domestic situation and how that translated into the respondents’ own wellbeing led to the conclusion that the overall situation in the country was regarded more positively. While saying that their own wellbeing was not changing, the respondents believed that the situation in Kazakhstan was still improving. There were twice more the respondents who pointed at the improvement of the situation in Kazakhstan than those who said that their own

wellbeing had changed for better. Importantly, the positive changes that had occurred due to the establishment of the Eurasian Customs Union were evaluated by the respondents in the light of the national interest of Kazakhstan as a whole.

Among the other positive changes the respondents mentioned was opening of the new markets for Kazakhstan’s goods (42.1%); more employment opportunities (41.8%); strengthening of the economy of Kazakhstan because the customs duties had been abolished within the ECU (39.9 %). Almost one quarter of the respondents (23.8 %) said that increasing attractiveness of Kazakhstan for foreign investors was a good thing. One in five of the surveyed (21.2%) said that the goods and services from Kazakhstani gained a lot in terms of their competitiveness. Only 16 % of the respondents said that their personal wellbeing improved because the quality and range of

goods had increased or their prices had reduced.

The survey revealed that people in Kazakhstan were mostly concerned about the rising prices for the imported goods produced outside the ECU, especially the durables such as cars and household appliances. The people surveyed were also unhappy with the fact that the goods made in Kazakhstan were gradually pushed out from the domestic market being replaced by those produced in Belarus or Russia. The small and medium businesses of Kazakhstan proved to be unprepared for the such a competitive environment. The situation is even more alarming given that these people were supposed to become the principle beneficiaries of the deeper integration in Eurasia.

Generally speaking, the surveyed were more likely to regard the ECU as a positive factor rather than negative one (Figure 3).

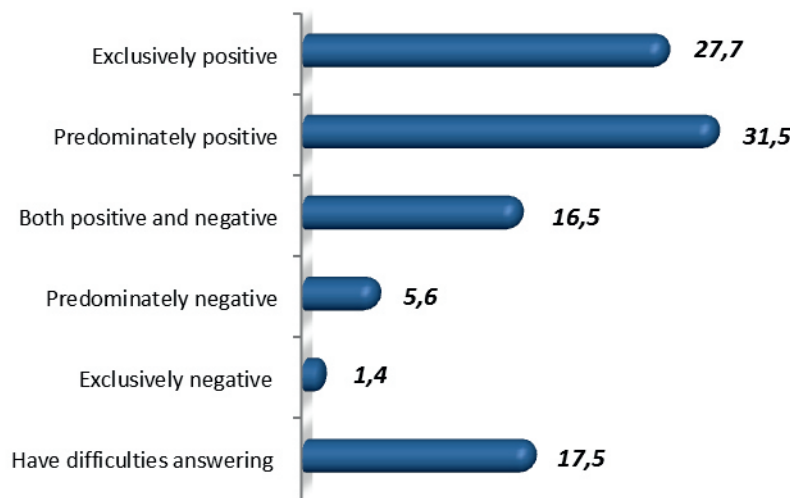


Figure 3. Has the ECU Impact on Kazakhstan Been Mostly Positive or Negative? (% of the surveyed)

Source: KazSS. 2014. *Eurasian Integration and Kazakhstan’s Participation of the Eurasian Economic Union // Public Survey.* Almaty: KazSS under President of Kazakhstan.

Interestingly, the survey showed that people from urban areas, who had their income of the average level and higher, assessed the impact of the ECU more positively than their fellow citizens belonging to the other strata of the Kazakhstan’s society.

The EEU: Attitudes and Expectations

By the time the survey was conducted, there had not been enough time to give to the people of Kazakhstan a good sense of what it was like to live in the Eurasian Economic Union unlike the

Eurasian Customs Union that had been functioning since 2010 or the Eurasian Economic Space that had been established in 2012. However, there were clear positive and negative understandings and expectations about the EEU. Given that, at the time of the survey, the EEU was just to be launched, there were a number of discussions held in the focus-groups in the framework of the study in order to learn how much the people knew about the future Union (Figure 4).

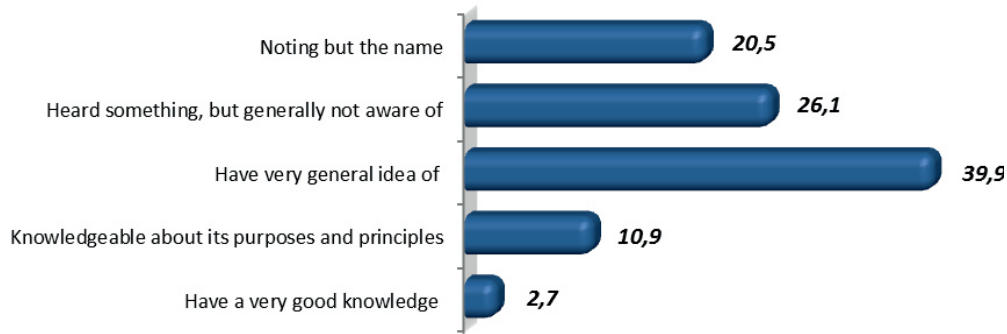


Figure 4. What Do You Know About the EEU? (% of the surveyed)

Source: KazSS. 2014. *Eurasian Integration and Kazakhstan’s Participation of the Eurasian Economic Union // Public Survey. Almaty: KazSS under President of Kazakhstan.*

It was also important to know whether the respondents supported Kazakhstan’s membership in the EEU. The study showed that the majority of those participating demonstrated

the positive attitude to the matter while the overwhelming minority (7,5%) were against Kazakhstan’s entering the Eurasian Economic Union (Figure.5).



Figure 5. Do You Support Kazakhstan’s Membership in the EEU? (% of the surveyed)

Source: KazSS. 2014. *Eurasian Integration and Kazakhstan’s Participation of the Eurasian Economic Union // Public Survey. Almaty: KazSS under President of Kazakhstan.*

Although the survey revealed that people were rather knowledgeable about the EEU and supportive of the idea in general, 40% of the respondents admitted that the Union did not gain any significance yet in their personal lives. Almost one-third of the surveyed (31,1%) said that the EEU symbolized the unity of the sister nations in their thriving towards better life. The economic consideration were of the primary importance for the 29,3% of the respondents (Figure 6).

There were the three most popular arguments in favor of Kazakhstan’s membership in the EEU: it would enhance the position of Kazakhstan on the international arena (41,2%); it would strengthen and broaden the economic

and cultural ties that had already been existing (38,9%); it would impact positively Kazakhstan’s economy (38,7%). About one of the three of the surveyed (30,8%) stressed that the EEU would improve the economic opportunities for people of Kazakhstan, especially for businessmen. Almost the quarter of the respondents (24,2%) said that the reasons for their support was an expected increase of the trade with Russia and Belarus. The security consideration were significant for 20,2% of the respondents as they thought that Kazakhstan’s membership in the EEU would facilitate the common efforts to prevent contemporary threats (Figure 6).

The 7,5% of the surveyed were against Kazakhstan’s membership in the EEU and 38,9%

of them did not believe that the idea was all in all viable; one-third of the opponents (33,6%) were concerned about Kazakhstan's losing its sovereignty and the other third (30,9%) stated that the membership in the EEU would not bring any good for the economy of Kazakhstan while inevitable inequality in the relationship among the members of the Union concerned 28,9% of the and 14,1% said that Kazakhstan should integrate elsewhere but not into the EEU (Figure 6).

The overwhelming majority of those who were supportive towards integration in principle thought that the most preferable sphere would be that of economy while the integration in military

terms was the least popular option. Those from the large cities were more likely to support a political integration that those from the rural areas and smaller towns. Political and cultural integration were more popular among those from the middle and upper-middle classes in terms of their income. As for the respondents of deferent ethnic background, the survey showed that there were no any significant influence of this factor on the attitude towards the Eurasian integration. The most appropriate model the Eurasian Economic Union should follow, according to the almost every second respondent, that of the European Union (Figure 6).

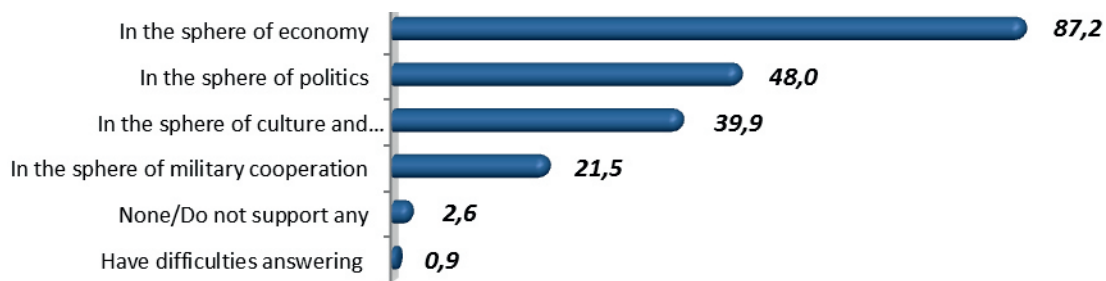


Figure 6. What Are the Most Preferable Spheres of Integration Within the EEU? (% of the surveyed)

Source: KazSS. 2014. *Eurasian Integration and Kazakhstan's Participation of the Eurasian Economic Union // Public Survey*. Almaty: KazSS under President of Kazakhstan.

Uneven economic development of the members of the Eurasian integration was, according to the majority of the surveyed (43,1%), the major factor that could impede its successful implementation. Almost one-third of the surveyed (34,5%) were concerned that too much bureaucracy might impact negatively on the EEU. There were those who thought that the stereotyping and prejudices (27,9%) or differences among the member states in understanding of their national interests (27,2%) could prevent the EEU from being a success. One in five of those surveyed believed that the Eurasian integration was of a constrain nature due to their concerns about Kazakhstan losing its sovereignty. One in seven of the respondents tended to think that the negative memory of the USSR could also make negative impact on the EEU perspectives.

The geographical expansion of the EEU was unconditionally supported only by one-third of the respondents. Another third agreed to an extension but on the condition that the new members would be able to strengthen and enrich the Union as a whole. That position was confirmed during the discussions in the focus group as well. The number of those who were utterly against the EEU was 4.6 %.

Kyrgyzstan and Armenia were named as the most preferable partners for the integration, here the surveyed agreed with the official discourse. Kyrgyzstan was regarded as a more desirable candidate for the membership by virtue of its being a Central Asian state given that, traditionally, people in Kazakhstan are more supportive to the cooperation of Central Asian countries. The three Turkic-speaking countries, namely

Azerbaijan, Uzbekistan and Turkmenistan followed Kyrgyzstan and Armenia in terms of their popularity. None of the European post-Soviet states, namely Moldova, Ukraine, Latvia, Lithuania, Estonia was mentioned by more than 10% of the respondents.

According to 80,2% of the surveyed, Kazakhstan's membership in the EEU was in its national interests while 4,4% expressed the opposite opinion. Almost every sixth respondent could not answer this question (Figure 7).

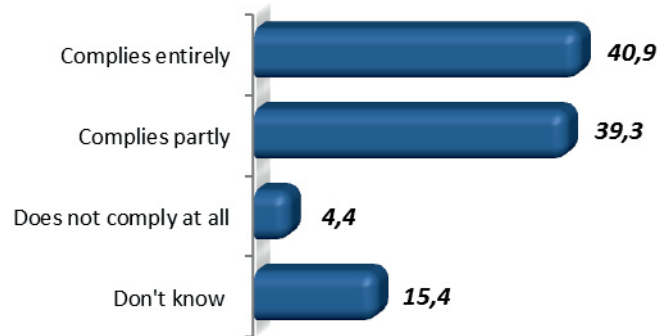


Figure 7. How Much Do You Think Kazakhstan's Membership in the EEU Complies with Its National Interest? (% of the surveyed)

Source: KazSS. 2014. *Eurasian Integration and Kazakhstan's Participation of the Eurasian Economic Union // Public Survey. Almaty: KazSS under President of Kazakhstan.*

The overwhelming majority of those participating in the survey (88,4%) thought that Kazakhstan's membership in the EEU would be beneficial. According to 7,4% of the respondents there were no advantages for Kazakhstan to enter the Union. The major positive impact was expected to be in the economic sphere, however, almost every fifth respondent believed that virtually all spheres of the public life would benefit from Kazakhstan's membership in the EEU.

The majority of the respondents had positive expectations from establishing of a single market for goods, services, capital and labor. Only every eleventh respondent stressed the possible deterioration in the labor market due to increased competition for jobs and every fourteenth said that Kazakhstan's business would lose due to the competition.

In the meanwhile, half of those surveyed expected that Kazakhstan's business would benefit due to the expansion of the market while 42.3% of the respondents thought that the positive impact would not be limited to the business sphere giving better chances for employment to more people. Every fourth of the respondents expected Kazakhstan's business to benefit because the

EEU would facilitate the access to more qualified labor force from abroad.

It shall be noted, however, that, while assessing the advantages for Kazakhstan from its membership in the EEU, the respondents were more likely to use the criteria of national or public interests whereas the critical assessments were made through the prism of personal wellbeing.

During the study, the respondents were given an opportunity to formulate what their personal benefits from Kazakhstan's membership in the Eurasian Economic Union would be. Some of the surveyed used it. The most popular answers were:

- economic development (9,1%);
- better quality of life (6,5%);
- freedom of movement, lack of the borders (6,4%).

It is noteworthy that more than two thirds of the respondents could not articulate their own personal expectations from a single market for goods, services, capital and labor, which signified the apparent lack of awareness among the public about the opportunities the Eurasian Economic Union might bring them personally.

To sum up, the survey did not reveal any sig-

nificant differences in the attitude to the integration among the groups that differ in terms of their socio-demographic characteristics or territorial location despite the rather common misconception that the ethnic Russians are the most active supporters of the Eurasian integration. There were no any serious variations of the opinion expressed by the respondents belonging to the deferent generations either. The study revealed

that the higher income of the respondents the more positively he or she assessed the Eurasian integration. Similarly, those from the big cities are more likely to have positive attitude towards the Eurasian integration than their fellow citizens from the rural areas and smaller towns who were more prompt to be anxious about the risks of the integration with Russia and Belarus that were discussed in the media.

The Eurasian Union: Implications for Kyrgyz Economy

AZAMAT AKELEEV

With Russian ruble crumbling, oil prices in freefall and Kazakhstan economy suffering the consequences the looming crisis it may seem the worst time for Kyrgyz state to enter the Eurasian Economic Union. Yet the ruling coalition, the Government and the President, are demonstrating readiness to enter the Union by May 9th with the agreements signed and roadmaps approved. The reason is, as stated in the local media “because it is lesser of evils” with implications being geopolitical pressure rather than economic interest the main motivator of entering the Eurasian Economic Union. This summarizes the general mood that is prevailing in Kyrgyz society at the moment.

The paper describes the studies made to forecast the impact the membership in the Customs Union on the economy of Kyrgyzstan as the factors and trends revealed then are still true for the Eurasian Union’ effects. It proceeds to discuss the estimations of the effects on the national economy made while taking into account the Eurasian Economic Union membership.

The following benefits of the EEU membership are suggested as potential advantages of entering the Eurasian Economic Union:

- access to the common market with 170 million potential for Kyrgyz goods;
- free movement of capital, services, goods and labor, with special emphasis made on pos-

sible improvement of the labor conditions for the migrants from the country;

- easy access to fuels and commodities such as grain, wood, steel, oil, gasoline.

First, there were efforts taken to predict the impact of the membership in the Customs Union (Eurasian Union predecessor) for the national economy bearing that the effects might be both positive and negative. The meetings were held with the representatives of the ministries and departments, namely the Eurasian Service, Ministry of Economic Affairs, Ministry of Labor, Migration and Youth and Ministry of Foreign Affairs of the Kyrgyz Republic. As a result, the following types of possible shocks were identified in order to be applied in the simulation:

- trade (price) shocks: changes in the import tariffs;
- investment shocks: changes in the level of FDI and total factor productivity.

Given the above mentioned impact on the national economy, three basic scenarios were elaborated with the government measures taken accordingly, namely *Baseline Scenario*, *Introduction of Import Tariffs Scenario* and *Export Facilitation Scenario*.

Baseline Scenario actually captured the prevailing trends in the economy and in particular: the average moderate GDP growth, macroeconomic imbalances in the economy associated with high budget deficits. The role of *Baseline*

Scenario was important because only in the comparison with the effect of comparative modeling one can identify any shock. That is, the use of shock should show whether there is an increase in the rate of economic growth or slowdown compared to the baseline scenario.

Introduction of Import Tariffs Scenario simulated the impact of the introduction of import tariffs only as a result of the adoption of the common tariff of the Customs Union. *Exports Facilitation Scenario* dealt with the reducing barriers on the exports to the Customs Union making the Kyrgyz entrepreneurs to decrease the prices on the goods they are to sell. These two scenarios were the key, since these effects would be manifested when joining the Customs Union with a high degree of probability and the introduction of new import duties were imminent. A number of other calculations were FDI, total factor productivity and migration modeling. However, the emergence of such shocks could not be attributed to the shocks with a high proportion of the probability of their occurrence. Therefore, these calculations were not attributed to the basic scenario.

General Equilibrium Model

Tool for this evaluation is a general equilibrium model (MAMS Maquette for MDG Simulations) developed by a group of the World Bank researchers. This model has been developed in relation to the economic system of Kyrgyzstan in order to analyze its economic policy. The main source of the data for this model is a social accounting matrix (SAM) which is an extended version of the inter-industry balance.

The model consists of 66 equations that describe the entire economy, including:

- prices: export, import, domestic commodity, producer prices, consumer price index, etc.;
- production: aggregate supply and demand, GVA, production of goods, gross output, labor and so on;
- institutions: taxes, savings, net income transfers, consumption and so on;

- investment: foreign direct investment (FDI), public investment, the balance of payments and fixed assets, total factor productivity etc.

It should be noted that the modification of the model used has some limitations, particularly there are only two regions in the model: Kyrgyzstan and the rest of the world. Subsequently, the model requires that the main shocks were calculated in advance on the basis of the weighted average of the commodity turnover between the countries that are CU members and non-CU countries. Therefore, the model does not take into account the trade reorientation resulted of the changes in the import duties. This issue was resolved by applying the methods listed below.

Methods for Calculating Main Shocks

The change in import tariffs after joining the CU changed the prices on the imported goods. The equation of the import prices in the model is $PM_{(c,t)} = pwm_{(c,t)} \cdot (1 + tm_{(c,t)}) \cdot EXR_t + \sum_{c' \in C} (PQ_{c't} \cdot icm_{c',c,t})$ where $PM_{(c,t)}$ is the price of the imports in period t ; $pwm_{(c,t)}$ is the average import price; $(1 + tm_{(c,t)})$ is the effect of import tariffs; EXR_t is the exchange rate and $\sum_{c' \in C} (PQ_{c't} \cdot icm_{c',c,t})$ is the transaction costs (transport costs) [1].

In this model, the effect of the transaction costs on the formation of the import price is insignificant when new import tariffs are introduced. The equation above shows that the import tariff is one of the key factors influencing the formation of the import price.

To determine the effect of the import tariff on the price the average tariffs were weighted for the each of the branches used in the model. In order to do that, the data provided by the Kyrgyz Eurasian Service in 2012 on the imports in all commodity groups (97 commodity groups, each with an average of 20 product categories) was used. As for the commodity sectors of industry, the aggregation model was produced in accordance with the agreement encodings the HS classifications and GKED. The next step was to

calculate the average product for each sector on the basis of the currently existing import tariffs as well as the tariffs to be applied in Kyrgyzstan after joining the Customs Union (Table 1).

Table 1. Average Tariffs on Imports by Industry

Industry	before joining CU, %, average	after joining CU, %
agriculture, forestry, fisheries	0,905	1,375
fuel production	0,062	0,015
metal mining and others. Minerals	0,846	1,296
food industry	2,763	9,164
light industry	8,837	11,110
woodworking, paper, publishing	0,109	6,276
chemical and petrochemical industry	0,975	6,269
manufacture of other non-metallic mineral products	5,764	10,757
metallurgical industry	0,007	3,783
manufacture of metal products	1,279	7,965
engineering	4,799	3,760
other manufacturing industries	2,049	11,939

Source: Eurasian Service of Kyrgyzstan, (calculated by author)

The table above shows that the weighted average tariffs on imports virtually for all industries were expected to grow, due to a significant increase in tariffs on imports from countries outside the Customs Union. On average, estimated increase was more than three-fold for the tariffs on imports of food and more than five times in the wood products, chemicals and metal products. Whereas, the import tariffs on engineering products should reduce slightly.

Nevertheless, it was clear that mere simultaneous assessment of the change rate was insufficient since the tariff rates changes might have prolonged or delayed effects. At the same time, the studies indicated that this effect might be different depending on a particular category of goods. According to the available data Kyrgyzstan imported 49.8% goods from non CU countries 11.4% of goods were imported exclusively

from the CU countries and 38.8% from both. This means that there are different scenarios of the changes in the structure of imports, which would entail change in the import tariffs. To assess the changes in the structure of imports two hypotheses were proposed.

According to the “Substitutable Products” Hypothesis due to the availability of the substitute goods more types of goods are more likely to be imported from the CU countries rather than from non-CU countries and the import tariffs for the countries outside the CU would grow.

According to “Inelastic Non substitutable Imported from non-CU Countries” Hypothesis the increase of the tariffs for certain types of the goods imported of non-CU countries would not change the structure of import as there were no alternative available to import then the CU countries.

The first hypothesis meant that since the new tariffs in the CU should be greatly reduced, the importers would switch on importing the certain goods from the Union instead of from elsewhere as it would be cheaper. But according to the second hypothesis, some categories of goods would be still imported from non-CU countries, despite the estimated increase in their prices.

Based on the hypotheses above new average tariffs were calculated with delayed effects on the import prices and, as a consequence, the structure of imports. For this purpose, the so-called “price flexibilities” were calculated on the basis of how historically the change of the structure of imports depended on the changes in prices for the period from 2008 to 2012 (Table 2).

Table 2. Flexibility of Import Structure of from Non-CU Countries, by Price

Industry	Flexibility 12-08	Flexibility 12-09	Flexibility 12-10
agriculture, forestry, fisheries	-4.10	-0.98	-8.78
fuel production	-0.85	-2.75	-2.18
metal mining and others. minerals	-0.85	-2.75	-2.18
food industry	-0.52	-2.69	-2.85
light industry	-0.29	-1.31	-6.03
woodworking, paper, publishing	-2.11	-8.67	-9.80
chemical and petrochemical industry	-0.85	-2.75	-2.18
manufacture of other non-metallic mineral products	-0.17	-0.13	-0.91
metallurgical industry	-0.99	-4.36	-2.07
manufacture of metal products	-0.41	-1.72	-5.24
engineering	-0.85	-2.75	-2.18
other manufacturing industries	-0.17	-2.55	-2.69

Source: Akeleev, A., Hasanov, R., Attokurov et al . 2014. Analysis of consequences of entering Eurasian Union for Kyrgyz Republic

Table 2 shows how the structure of imports from the non-CU countries change when the price changes by 1%. For example, the average growth of 1% on the substitutable products in the food industry would reduce the proportion of these products in the import from the non-CU by 2.85% in the first two years; by 2.69% in the first three years, 0.52% in the next four years.

Based on the calculated flexibilities and the data on the average tariffs after joining the CU,

a by-industry forecasts were made taking the average tariffs from CU and non-CU countries. Thus, the prolonged of the growth of import prices on the structure of the trade between the CU and non-CU countries was estimated based on the formula above and the price shock was modeled (Table 3). The calculations cover the period until 2019 meaning that the trends reveals are also relevant for the Kyrgyzstan’s membership in the Eurasian Economic Union.

Table 3. Changes in Import Prices after Joining the CU/EEU by Industry (price shock)

Industry	2014	2015	2016	2017	2018	2019
agriculture, forestry, fisheries	1	1,005	1,002	1,002	1,002	1
fuel production	1	1,000	1,000	1,000	1,000	1
metal mining and others minerals	1	1,004	1,002	1,002	1,002	1
food industry	1	1,062	1,024	1,033	1,031	1
light industry	1	1,021	1,004	1,011	1,010	1
woodworking, paper, publishing	1	1,062	1,013	1,035	1,031	1
chemical and petrochemical industry	1	1,052	1,023	1,027	1,026	1
manufacture of other non-metallic mineral products	1	1,047	1,022	1,024	1,024	1
metallurgical industry	1	1,000	1,018	1,019	1,019	1
manufacture of metal products	1	1,066	1,020	1,034	1,033	1
engineering	1	0,990	0,995	0,995	0,995	1
other manufacturing industries	1	1,097	1,035	1,052	1,049	1

Source: Akelev, A., Hasanov, R., Attokurov et al. 2014. Analysis of consequences of entering Eurasian Union for Kyrgyz Republic

Table 3 shows the changes of the average price of the imported goods in each sector of the industry given that the base price is taken as 1. Thus, having 2014 as the base price, all sectors are expected to face the increase in import prices during the period from 2015 to 2019. (excluding fuel production and engineering). A slight increase in the prices is expected in imports of agriculture, mining and other metals, minerals, iron and steel industry. The most significant increase is expected in the imports of food, metal products, wood processing industry, non-metallic mineral products, chemical and petrochemical industry and other manufacturing industries.

Change in Foreign Direct Investment

According to the analysis of the investment flows in the various regional groupings, the following assumptions can be made about the change in the flow of foreign direct investment after Kyrgyzstan's entry into the EEU.

In the first year sharp increase in FDI is expected (threefold net growth in FDI) followed by a slowdown with some postponed increase in total factor productivity.

Consequences of Export Barriers Removed within the Eurasian Union

One reason for regional integration is that it enable to reduce the costs for the business while passing the state borders. According to the report published by the World Bank, the Eurasian Union might contribute into reducing the costs for the Eurasian borders. In general, the most plausible effects are the following:

- barriers of all kind removed throughout the entire Eurasian Union;
- number of documents required for foreign trade reduced and the procedures simplified;
- greater transparency and simplicity resulted in less corruption that, therefore will reduce significantly the transaction costs for importers and exporters

The report was made using the methodology to estimate the border costs via the comparison of the data from Kazakhstan with investigations of Ukraine. According to the report, the costs for the Eurasian borders of Kazakhstan make up 12% of the total trade within the Eurasian Union.

Given the geographical proximity of our countries one can apply this methodology to the case of Kyrgyzstan. Having done this, the author proposes the two possible scenarios.

The first pessimistic scenario suggests that joining the Eurasian Union will not bring expected positive changes in terms of simplification of the red tape and the transaction costs remain the same.

The second optimistic scenario suggests that the membership in the Eurasian Union may result in up to 25% reduce of the costs. In addition, such products as oil, gas, electricity, minerals will not be affected by the mechanisms aimed at the reduction of the transaction costs.

The Eurasian Union practices so far demonstrate that there is high risk that trade barriers and non-tariff policies would be arbitrarily implemented. Moreover, it is important to bear

in mind that the dispute resolution mechanisms within the Union are underdeveloped and lack legitimacy with some national governments and institutions. This has led to continued trade disputes and decreased competitiveness of smaller economies within the Union.

Simulation Outcomes

Increased Import Tariffs Simulation showed that the most significant effect the economy Kyrgyzstan will be on trade meaning the price shocks, namely the increase of the import tariffs. Figure 1 shows possible developments provided the change of GDP, the data obtained via modeling the changes in the import prices.

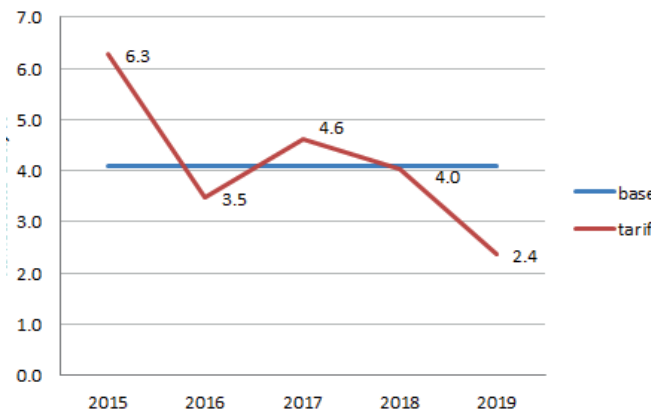


Figure 1. Simulation: Change in GDP*

Source: MAMS (calculated by author)

Fig. 1 shows that in the first year after joining the EU, a sharp increase in GDP (to 6.3%) is expected with the main reason for growth

being the improvement in the net exports (see Fig. 2 and 3) due to a significant increase of the import tariffs leading to a reduction of imports into Kyrgyzstan.

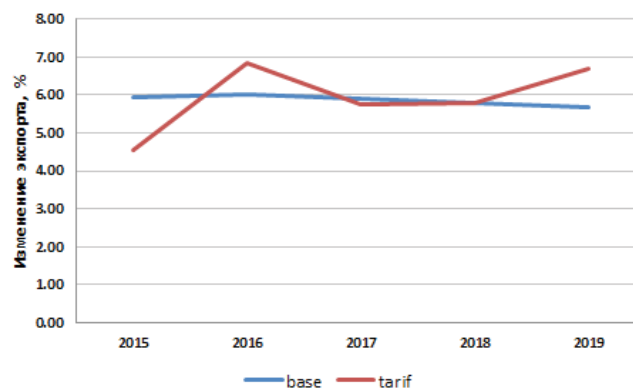


Figure 2. Simulation: Changes in Exports

Source: MAMS, calculated by author

* In the figure above, the "base" stand for the basic scenario, "tariff" means the scenario of "increased import tariffs"

However, this will not be a long-term effect, further deterioration of trade shall lead to a slowdown in the growth figures as the major

players adapt to the new economic conditions, particularly to the increased import and slowing export growth.

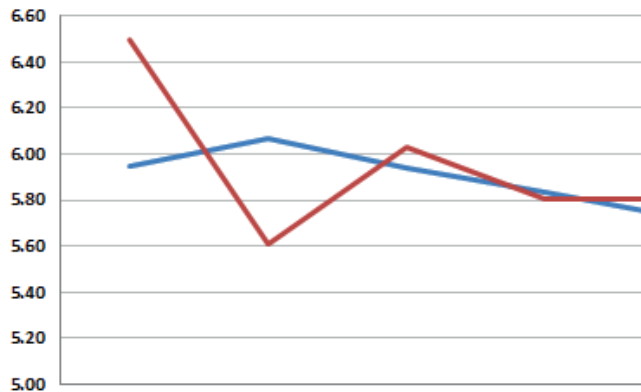


Figure 3. Simulation: Changes in Imports

Source: MAMS, (calculated by author)

Trade Facilitation Simulation similarly to the scenario above is based on the assumption is that the trade barriers will be significantly reduced as well as the costs of the export to the countries of the Eurasian Union. As it is shown

in Figure 4, the GDP growth will be even higher in comparison with the Introduction of *Import Tariffs Scenario* above (Figure 3) by the end of the forecast period provided a real reduction in the trade costs.

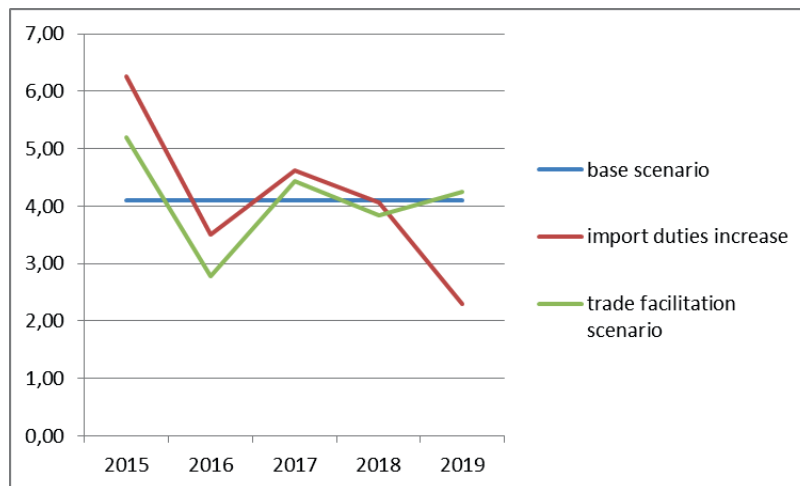


Figure 4. GDP Growth in Main Scenario

Source: MAMS, (calculated by author)

Figure 4 shows that the average growth rate for the 2016-2019 is 4.10% for *Baseline Scenario*; 3.50% for *Import Tariffs Scenario* and 3.76% for *Trade Facilitation Scenario*.

the import tariffs will not be fully overcome. The explanation is that the imported shock of higher value will be received by all industries while the export positive shock will affect smaller number of industries. In this case, there is a negative balance that will also cause the slowdown.

However, negative development are forecast for 2016-2019 as the effects of the increase in

This scenario shows that the GDP growth is possible in the long term after equilibrium is reached by 2019 provided that the export is supported and expanded.

Conclusions

The impact of the increased import tariffs will be positive for Kyrgyzstan during the initial period after joining the EEU and overall government revenues will increase due to the inflows of cash resulted from the increased tariffs. This will create additional domestic demand and thus increase overall GDP growth.

However, the simulations show that due to the increased price of raw materials and imported goods, there will be gradual slump in GDP growth by the second year of the EEU mem-

bership. The negative shock during the period of 2016-2019 will be hard to overcome as the competitiveness of the locally manufactured goods will suffer from the high-risk environment resulted from the removed tariffs.

It is important to note that this article and the modeling it analyses does not take into account very important recent developments.

The first is the current crisis in Russia and estimated GDP slowdown of -3-4%. This affects the all figures in the analysis (mainly migration and export) negatively. The second factor is potential demands for compensation and settlement conditions from the current WTO trading partners that may amount to \$1.5 billion from China only according to some estimates.

SOURCES:

1. Akelev, A., Hasanov, R., Attokurov, A. et al. 2014. Analysis of consequences of entering Eurasian Union for Kyrgyz Republic. Ministry of Economic Regulation of Kyrgyz Republic.

Russia's and China's Energy Policies in Central Asia¹

AINUR NOGAYEVA

The independent Central Asia, which is defined as “global Balkans” by some authors [1; p.62] or “backwater” [2] by the others, having emerged after the disintegration of the USSR, suddenly found itself in the middle of the struggle among the great powers. Isolated from the world during the USSR period, the region was drawn into the projects and strategies prepared by those from the other parts of the world. The importance of Central Asia results from its geographical location right beside the regional powers that emerged after the collapse of the USSR. This strategic importance originates from the fact that the region is located in the area where regional hegemony is emerging. Since big players such as Japan, the EU and most notably the USA are not interested in emergence of new rivals in other regions, their policy will be preventive.

In this context, the most plausible explanation of the attention paid by the world powers is that Central Asia is a region where the smaller players like India and Iran alongside with bigger powers such as Russia and China are present and, therefore, can be observed and influenced, but not the natural resources of the region per se.

Russia's Energy Policy in Central Asia

As the European countries' biggest energy supplier, Russia intends to increase the amount

of the fuels it purchases from the countries in the region. *Russia's National Security Strategy* (2009) points out that in the long term the international rivalry for controlling the energy resources in the Middle East, the North Pole, the Caspian Sea, and Central Asia shall intensify. The document warns that the possibility the efforts could be taken to solve the problems arising from this competition through the military means shall not be ignored. In such a case, “the balance that has been achieved around the borders of the Russian Federation and its allies can be upset” [3].

The *Energy Strategy* until 2020 published in 2003 explains Russia's strategic interests in the region. They are joining the energy and transportation infrastructure in the areas of Europe and Asia that border on Russia, development of the international energy transfer systems and having a transit system that would be non-discriminatory. To this end, the government is planning to assist the Russian companies in the development and implementation of a number of large-scale international gas, oil, and hydroelectric projects [4]. Here, the role that Central Asian countries are to play, while Russia is becoming a global energy power, is also explained. The *Strategy* lists the reasons why the energy factor is Russia's major focus; the importance of the energy problems on the global scale and increasing politicization of the energy

* From book: *Russia, the USA and China in Central Asia: A Pursuit of Balance in the New World Order*, LAP Publishing, Saarbrücken, Germany, 2014).

issues as well as Russia's dominant role in the world energy system. The *Strategy*, then, states that Russia's intentions in the long term are to include Central Asian energy resources into its own energy system in order to ensure that the gas deposits in the northern Russia are saved for the future generations and to ease the pressure on the markets that have strategic importance for the country [4].

For Russia, which began to emerge as a rising power due to the energy sector of its economy, the natural resources of the region are important both for maintaining this status and for restricting other powers' access to these resources. Therefore, Russia has been engaged in comprehensive economic cooperation with the countries of the region.

With the disintegration of the USSR, Central Asia emerged as a rival for energy-rich Russia due to the resources the countries possess. Being interested in keeping the relations with these newly independent states and considering the passage of the transportation routes through its territory as an advantage, Russia tried to take this opportunity. To the end of making the countries of the region dependent on Russia, Moscow concluded a number of long-term contracts with the governments of Central Asian countries. Apart from the comprehensive natural gas agreement with Turkmenistan, the contracts stipulated for tripling the amount of natural gas transported through Kazakhstan within three years and for subsidizing Azerbaijan with two billion cubic meters of natural gas. Russia's discourse and policies were aimed at becoming more active in the Caspian region as well. The inclusion of former Energy Minister in the foreign policy decision-making mechanism as a deputy Foreign Minister and the Representative for the Caspian Affairs, greater cooperation with Turkey in the *Blue Stream* project and increasing importance of the energy factor in the relations with Europe are among the facts and factors that should be considered within this context [5].

The reason why Russia attaches such an importance to the energy sector in the countries of Central Asia is that the other powers, operating in the region are in search of the alternative

routes of transportation that would bypass Russia. Therefore, Russia has changed its policy and now Moscow major strategy is to make the countries of Central Asia its major trade partners. To this end, it invests into maintenance and increase of the capacity of the pipelines in the countries of the region.

The volume of the investment that Russia had made by the end of 2007 in the gas and oil sector in Central Asia reached \$4 to \$5.2 billion. A large part of these investments (80-85 %) were in Kazakhstan (\$3.4-4.1 billion) and Uzbekistan (\$0.5 -1 billion). Turkmenistan, Tajikistan, and Kyrgyzstan were able to attract about \$50 million of Russian investment. On the other hand, Russian firms are planning to make the investments worth \$14-16 billion in the next five years. A large portion of these investments will be into the pipeline infrastructure as well as exploration and production [6].

Russia is sponsoring a number of the large-scale projects in Tajikistan and Kyrgyzstan as these countries are poor in respect of the fossil fuel but rich in terms of their hydro potential. Russia owns 75% of the *Sagduta-1* hydroelectric power plant in Tajikistan that had been constructed since the 1980s before starting to operate in July 2009 during the visit of President Medvedev of Russia to Tajikistan. It has the capacity of 670 Mw and costs \$700 million. Moreover, wishing to construct three more medium-size power stations in the country, Russia became the most important strategic partner for Tajikistan, the latter has faced serious power shortages in the recent years. Today, half of the investments in Tajikistan are being made by Russia [7]. However, the investments of Russian companies such as *Rusal* and *RAO EES* come under harsh criticism domestically because, instead of contributing to the development of the country and increase of employment, they just enable to sell abroad the energy produced in Tajikistan or to use it for the production of aluminum because it is so cheap [8; p.70].

In Kyrgyzstan, in May 2003, *Gazprom* and the Kyrgyz government signed the 25-year Cooperation Agreement [9]. A decade after, Russia's took over Kyrgyzstan's natural gas net-

work and pledged to invest billions of roubles to upgrade the gas infrastructure in Kyrgyzstan and ensure a stable supply. The agreement stipulated that Russia's gas export monopoly *Gazprom* would guarantee the development and upgrading of Kyrgyzstan's gas equipment and pipelines infrastructure as well as uninterrupted supplies of gas to the local consumers [10]. The *Gazprom* CEO Alexey Miller stated that these steps were taken to ease Kyrgyzstan's "dependence on gas". Since 2015 in the next three years, *Gazprom* plans to invest about \$758 million in various projects in Kyrgyzstan [11].

China's Energy Policy in Central Asia

According BP Statistical Review of World Energy 2014, China accounts for 22.4% of the world's total energy consumption [12] and 49% of net global growth [13]. Hence, China is taking measures to ensure its energy security via meeting its energy demands. This means investing into the projects of exploration and operation of the oil fields abroad, negotiations on building more international oil and gas pipelines, maintenance of the strategic reserves of oil, building of the refineries to process the oil imported from the Middle East, development of the natural gas industry and gradual opening of its own off-shore fields to the foreign companies. China is concerned about its dependence on the imported energy because this may be used by those who wish to influence or pressure on China. The commonly shared opinion is that the USA is the major threat as it prevents China from rising and, therefore, its dependence on the USA must be reduced to minimum. In a world where the USA is the sole superpower, China's position is especially important. If the relations between the two countries deteriorate, the USA, which controls the oil imports from the Gulf to the South Chinese Sea, may use its superior military power to cease China's oil supplies [14].

China's Investments in Central Asia

China's policy in the energy sector is aimed at both controlling the production and ensuring long-term supply through buying the stocks in the companies. For example, because China, un-

like its western counterparts, does not trust the markets, it is making investments in the stocks in the exploration companies and concludes long-term contracts on energy transportation. Some suggest that the fundamental view of the Chinese government is that the energy security of the country requires secured access both to the resources in the soil and the transportation routes [15; p.44]. To this end, China is spending considerable amounts of money to purchase the bulk in the oil and gas transportation infrastructure or even buy the entire pipelines in the Gulf, Central Asia and Russia [16; p.102]. The reason for this is that China will not be able to build the navy fleet soon enough to defend its tankers transporting the oil from the Middle East [17].

The Chinese oil companies, operating abroad, act very pragmatically. Firstly, Chinese companies buy the stocks of the fields with proven reserves only and those that have already started the extraction in order to reduce the exploration costs to minimum. Secondly, within the joint ventures, the Chinese attempts to obtain the controlling stake or buy out the company altogether when it is possible. These actions of the Chinese companies indicate that they are directly motivated by China's energy security considerations [18]. When the overall control is impossible, a solution is to seek for diversification of the energy resources supply from all over the globe. To this end, China sells the weapons, including missile technologies, to the countries from which it imports the fuel (i.e. Iran, Iraq, Sudan, Saudi Arabia). The military cooperation of China with Central Asian within the SCO could be regarded in this context as well [16; p.101].

Thus, the energy resources of Central Asia and Russia are the most convenient for China. However, its unsuccessful negotiations with Russia regarding the construction of the pipeline from East Siberia to North-East China led Beijing to seek for the opportunities to implement joint energy projects with certain Central Asian countries instead [19; p.33]. In other words, Central Asia holds significance for China in terms of its ability to reach the energy resources and diversify the transportation routes because it is considered safer than the maritime routes

that are controlled by the USA. The countries of Central Asia, in their turn, are to engage in the energy cooperation with China rather than with the USA due to the geographical proximity of the former.

For example, under the Agreement signed with Kazakhstan in 1997, China should invest \$11 billion in its energy sector [20]. China's largest oil company *China National Petroleum Corporation (CNPC)* bought a large portion of the *AktobeMunayGas* company in West Kazakhstan region in 1997 and became its sole owner in May 2003 after buying the remaining shares for \$150.2 million. *CNPC* seized control of the Northern Buzachi field on the Caspian coast in the same year**. In 1998, *CNPC* bought *ChevronTexaco's* shares in Kazakhstan but began the active operations only in 2002 extracting 327.6 tons of oil since. *CNPC* is planning to raise this figure to 1 million ton and transport the oil via the Kazakhstan - China pipeline [18]. Moreover, the Chinese companies are investing in development of the areas surrounding these pipeline routes (Northern Buzachi, Northern Kumkol and Karajanbas) [15; p.44]; 49% of the Kenkiyak-Atirau pipeline, which constitutes a part of Kazakhstan - China pipeline, belongs to the Chinese. *CNPC* also bought Canadian *PetroKazakhstan* for \$4.2 billion in 2005 that extracts 9.5% of the oil in the country [18].

The increasing presence of the Chinese in the energy sector of Kazakhstan is not at all uncontroversial. The news that *CITIC*, another Chinese company, would buy the shares of *Kazakhstan's Nations Energy Company* was received rather negatively by the general public and the media. The main concern was the national security of Kazakhstan. The two sides were able to sign the Agreement on the Karajanbas oil field only when *CITIC* promised that it would give half of its shares to Kazakhstan's *KazMunayGas* company within a year.

President Nazarbaev of Kazakhstan paid a five-day visit to the People's Republic of China in

late December in 2006. During this visit, which was the second one in the same year, a number of significant issues were considered by the two parties; namely the agreements were signed on the construction of the second part of the Atasu-Alashankou oil pipeline, which had been started in 2004 and the first section of which had been opened in 2005. These agreements stipulated that the former would be connected to the Kenkiyak-Atirau pipeline. Also, the terms of the agreement signed in 1997 were extended stipulating for having a pipeline that stretch from West Kazakhstan to West China [14]. As the project was completed, the pipeline capacity in 2008 was 10 million tons and increased to 12 million tons in 2011 finally reaching its capacity of 20 million tons in 2014 [21].

Although some Chinese experts question the entire policy, stating that the building the pipelines is both too costly and unsecure and making the alternative proposition to transport liquefied natural gas from Australia and Indonesia to industrial cities of China [22; pp.184-5], Beijing views the 3000-km pipeline as essential for its energy import diversification strategy. According to some researchers, China's energy strategy is to connect the fields that the Chinese companies have bought to the pipelines that are being constructed [15; p.45]. The Kazakhstan-China pipeline constitutes a part of the four bigger projects of China with total of 13.500 in length to connect Russia and Central Asia to China. Beijing promised to invest \$12.5 billion to implement the project [23; p.215].

Moreover, during Nazarbaev's visit to China, the two sides agreed in principle to build a gas pipeline for transporting Turkmen gas to China via Kazakhstan. Thus, Russia's monopoly on natural gas in the region ceased as soon as the project was successfully implemented. As the leadership in Turkmenistan changed, the concerns arose about the agreement concluded with Niyazov on annual export of 30 billion cubic meters of Turkmen gas to China.

** In August 2003, *CNPC* purchased 35% of *Sudi Nimir Petroleum Ltd.* (a joint company of *Texaco North Buzachi Inc.*) operating at Northern Buzachi reserves. It bought the rest from *ChevronTexaco*, but a short while later sold 35% to a Canadian company. As a result, 50 % of this reserve, which contains 300 to 500 million barrels of oil, belongs to the Chinese whereas the remaining 25% is shared between Russian *Lukoil* and Indian *Mittal*.

The new leader, Berdimuhammedov reaffirmed the country's commitments via signing the 30-year agreement on the construction of Turkmenistan-China pipeline with 30 billion cubic meters capacity in April 2006; the additional protocols were signed during his visit to Beijing in July 2007 stipulating that the parties would increase the bilateral energy cooperation. *CNPC* and *Turkmengas* concluded the agreement on the Bagtiyarlik gas field on the Amu-Derya River. The exports from Turkmenistan to China increased further reaching ten billion cubic meters by July 2009 [24]. Turkmenistan is currently China's largest foreign supplier of natural gas with the figures being over 21.3 billion cubic meters in 2012 comprising 51.4% the all energy imports [25].

Thus, Central Asia is now meeting nearly half of China's needs for the imported gas with the major role played by Turkmenistan. [13]. The Central Asia - China pipeline broke Russia's monopoly. The export to China has allowed the countries of Central Asia, Turkmenistan in particular, to increase substantially their production. Additionally, the construction of the fourth spur (Line D) via Tajikistan and Kyrgyzstan is due to begin in 2014 expanding the pipeline's overall capacity to 80 billion cubic meters by 2020. The gas from the pipeline is to account for 40% of China's gas imports. [26].

Having reached the agreement with Kazakhstan and Turkmenistan on building of the China-Central Asia gas pipeline, China's national *CNPC* signed the contract with *Uzbekneftgaz* in October 2011 on exploration of the Mingbulak field in Namangan province. The Chinese are to invest \$212 million into the project. It is being planned to produce 200,000 tons per year [27].

Apart from the fossil fuels, Central Asia is rich in the hydropower resources that which have not been fully explored. Hence some Chinese experts suggest that that the water resources of the Amu Darya, Panj and Vakhsh rivers in Tajikistan may attract the attention of China as well. The 64 million-kilowatt hydropower potential of the rivers of Tajikistan is almost three times as large as that of the Three Gorges project. This makes Tajikistan the world leader in terms of

the hydropower resources per capita. Kyrgyzstan has 252 rivers of various sizes including the Syr Darya that originates from the western Tianshan glaciers with the potential to generate 18.5 million kilowatts of hydro-electricity nationwide. In this regard, the amount of the exploited hydropower in the abovementioned two Central Asian countries has yet to account for one-tenth of their reserves [13].

The current state of the hydro-energy infrastructure in the region dating from the Soviet era is similar to that in the oil and gas sectors. In terms of cooperation in the hydro energy, China, unlike Russia, is involved in small and medium size projects. Beijing made a landmark decision to undertake the construction of the Moinak power station on the Charin River in Kazakhstan [15; pp.48, 49]. In addition, China signed the agreement concerning the use of the Sari-Caz hydro-energy resources in Kyrgyzstan. Additionally, in 2002, Beijing made the \$300-million promise and \$70 million transfer to Uzbekistan to extract its oil and gas [28].

China is also interested in the uranium of Central Asia. Kazakhstan has 12% of the world's uranium resources, in 2009 it became the world's leading uranium producer with almost 28% that increased to 33% in 2010 and reached 38% in 2013 [29]. Uzbekistan is another country that possesses significant uranium deposits. According to the International Atomic Agency, Uzbekistan ranks the world's seventh in terms of uranium supply and is expanding its production [30].

China signed numerous agreements concerning the development of the atomic energy. For example, during the visit of Chinese Prime Minister Wen Jiabao to Kazakhstan in 2008, Kazakhstan's *KazAtomProm* and China's *Nuclear Guangdong Power Corp (CGNPC)* as well as China's *National Nuclear Corp (CNNC)* signed a series of long term cooperation agreements on joint extraction of uranium and production of uranium fuel for the power stations and building of new facilities.

In 2009 *KazAtomProm* signed the agreement with *CGNPC* to construct a number of nuclear power plants in China. However, since Kazakh is currently working with Russia's *AtomStroy-*

Export, the projects aimed at manufacturing of small and medium-sized reactors have been suspended. There have been no any significant moves in this direction except for the joint feasibility study in mid-2009 so far. In mid-2014 *KazAtomProm* said that 55% of the uranium produced in Kazakhstan was exported to China [29]. In May 2014 China's *CGNPC* agreed to buy uranium from Kazakhstan for \$800 million until 2021. According to the Chinese customs reports, Uzbekistan is the second largest uranium exporter after Kazakhstan. In 2013, 1663 tons of uranium was imported by China [30].

The policy discussed above bears considerable advantages for the both sides as it reduces China's dependence on the USA and Central Asian dependence on Russia. At the same time China's influence in the region is likely to increase because the countries of the region perceive China as a gateway to the energy markets of the Asia-Pacific and further. In this context, due to the mutual economic benefits and increasing interdependence, the attitude towards the economic presence of China in Central Asia has changed [31; p.8].

Conclusion

The competition among the great powers for Central Asia, which is of huge strategic significance, has manifested itself in the field of energy as well as military security. Today, the energy issue is not longer of economic nature; it is dealt together with security issues because energy is not limited to the extraction of the raw materials only, the pipelines construction and overall investments are also included. However, no great power wishes the current balance in the region to be disturbed especially if it is in favor of its rivals. Therefore, when one of the key actors gains strength, the other two take measures to prevent it from getting even stronger through short or long term alliances. Thus, the strategic balance in the region is restored. Mearsheimer once described constant desire of states to increase their power as "tragedy" [32]. The same can be said about the great powers' constant labor to maintain the balance in Central Asia because if the balance is lost the chaos will emerge and this is something none of the great powers will or can afford.

SOURCES:

1. Brzezinski, Z. Tercih. Küresel Hakimiyet mi? Küresel Liderlik mi?, (İstanbul: İnkılap Kitabevi, 2005), p. 62.
2. Rumer, E. The US Interests and Role in Central Asia After K2, *Washington Quarterly*, Vol. 29, No. 3, Summer 2006, p. 141-154.
3. Strategija Nacional'noj Bezopasnosti Rossijskoj Federacii do 2020 goda, *Sovet Bezopasnosti Rossijskoj Federacii*, 12 May 2009, No. 537, <http://www.scrf.gov>.
4. Energeticheskaya Strategiya Rossii Na Period Do 2020 Goda, The Ministry of Industry and Trade of the Russian Federation, <http://www.minprom.gov>.
5. Cafersoy, N. Enerji Diplomasisi: Rus Dış Politikasında Stratejik Araç Değişimi, *TurkSAM*, <http://www.turksam.org> (2 January 2006).
6. Paramonov, V., Strokov, A. Rossijskie Neftegazovye Proekty i Investicii v Central'noj Azii, *ARAG Paper 08/19R*, May 2008, <http://www.da.mod.uk>.
7. Polovina vseh investicij v jekonomiku Tadzhikistana – rossijskie // *Finans*, 28 Mart 2009, <http://www.finansmag.ru>.
8. Mullođjanov, P. Mirovie Centri Sily v Centralnoj Azii i Tadzhikistane: Dinamika i Perspektivy Vliyaniya, *Central Asia & The Caucasus*, No. 3 (45), (2006), p. 70.
9. OAO Gazprom i Pravitel'stvo Kyrgyzskoj Respubliki Podpisali Memorandum o Vzaimoponimanii, (9 Oct.2008) <http://www.gazprom.ru>.
10. Gazprom Takes Over Kyrgyz Gas Network, Vows Stable Supply, *Reuters*, 29 July 2013, <http://uk.reuters.com>.

11. Gazprom Uvelichit Investicii v Kirgizii do \$758 mln,” Vedomosti, 30 Jan.2015, <http://www.vedomosti.ru>.
12. BP Statistical Review of World Energy 2014, <http://www.bp.com> Central Asia supplies close to half of Chinese gas imports in 2013, bne IntelliNews, <http://www.bne.eu>.
13. Central Asia supplies close to half of Chinese gas imports in 2013, bne IntelliNews, <http://www.bne.eu>.
14. Thrassy, N. M., China’s Energy Needs and the Shanghai Cooperation Organization (SCO) in the post 9/11 Period, <http://www.riecas.gr>.
15. Laruelle, M., Peyrouse S. China as A Neighbor: Central Asian Perspectives and Strategies,(Washington DC: Central Asia and Caucasus Institute, Silk Road Monograph, April 2009), p. 44.
16. Blank, S. China, Kazakh Energy and Russia: An Unlikely Ménage a Trois, The China and Eurasia Forum Quarterly, Vol. 3, No. 3, (November 2005), p.102.
17. Guang Pan. China’s Success in the Middle East, Middle East Quarterly, (December 1997), <http://www.meforum.org>.
18. Samye Aktivnye Investory V Kazahstan - Kitajcy, Delovaja Pressa, No. 51 (202), (23 December 2003),<http://www.businesspress.ru>.
19. Wishnick, Russia, China and The United States In Central Asia: Prospects For Great Power Competition And Cooperation In The Shadow Of The Georgian Crisis, (Carlisle, PA: Army War Coll Strategic Studies Institute, February 2009), p. 33.
20. Kaukenov, A. Kazahstansko-Kitajskie Ekonomicheskie Otnosheniya: Mehanizmy i Principy, Kazenergy, No. 2, March - April 2009, <http://www.kazenergy.com>.
21. Ismayilov, E., Budak T. Bağımsızlık Sonrası Kazakistan’ın Enerji Politikası”, Bilgesam Analizi Enerji, No:1189, 13 Feb.2015, p.6.
22. Daojiong Zha. China’s Energy Security: Domestic and International Issues,” Survival, Vol. 48, No. 1, Spring 2006, p. 184-185.
23. Gladney, D. C. China’s Interest in Central Asia: Energy and Ethnic Security in Robert Ebel, Rajan Menon, (ed.), Energy and Conflict in Central Asia and Caucasus, (New York: Rowman and Littlefield, 2001), p. 215.
24. Gazoprovod Turkmenistan – Kitaj: Primer Dinamichnogo I Vzaimovygodnogo Partnerstva, Turkmenistan State Information Agency, (25 Oct. 2009), <http://www.turkmenistan.gov>.
25. Sadykov, M. Turkmenistan Supplying Over Half Of Chinese Gas Imports”, 6 Aug.2013, <http://www.eurasianet.org>.
26. Third spur of Central Asia-China pipeline launched, The Economist, 4 June 2014, <http://www.eiu.com>.
27. CNPC may start oil mining in Uzbekistan in 2015, 18 April 2014, <http://www.uzdaily.com>.
28. Xu Haiyan, China-Central Asia ‘Twin-Track’ Energy Cooperation, China International Studies November/December 2013, <http://www.ciis.org>.
29. Uranium and Nuclear Power in Kazakhstan, World Nuclear Association, <http://www.world-nuclear.org>.
30. Uzbekistan Uranium, World Nuclear Association, <http://www.world-nuclear.org>.
31. Dongfeng, A.The Central Asia Policies of China, Russia and the USA, and the Shanghai Cooperation Organization process: a View From China, (Stockholm: SIPRI, 2003).
32. Mearsheimer, J. Tragedy of Great Power Politics, (New York: Norton and Co Press, 2001).

Authors

CENTRAL ASIA'S AFFAIRS
QUARTERLY ANALYTICAL REVIEW
No.1, 2015

Azamat Akeleev

Director, Promotank Consulting Company, MBA

Vyacheslav Dodonov

Chief Research Fellow, KazISS under President of Kazakhstan, Doctor of Science (Economics);

Lessya Karataeva

Chief Research Fellow, KazISS under President of Kazakhstan, Doctor of Science
(History of IR);

Leila Muzaparova

First Deputy-Director, KazISS under President of Kazakhstan, Candidate of Science
(Economics)

Darya Mukhamedzhanova

Senior Research Fellow, KazISS under President of Kazakhstan, Candidate of Science
(Economics);

Ainur Nogayeva

Vice-Dean, Gumilyov Eurasian National University, Department of International Relations, PhD

Сведения об авторах

CENTRAL ASIA'S AFFAIRS
ЕЖЕКВАРТАЛЬНОЕ АНАЛИТИЧЕСКОЕ ОБОЗРЕНИЕ
№ 1, 2015

Акелеев Азамат — директор консалтинговой компании «Promo Tank»,
Магистр делового администрирования

Додонов Вячеслав — главный научный сотрудник КИСИ при Президенте РК,
доктор экономических наук

Каратаева Леся — главный научный сотрудник КИСИ при Президенте РК,
доктор исторических наук

Музапарова Лейла — первый заместитель директора КИСИ при Президенте РК,
кандидат экономических наук

Мухамеджанова Дария — главный научный сотрудник КИСИ при Президенте РК,
кандидат экономических наук

Ногаева Айнур — зам. декана по научной работе факультета международных отношений
Евразийского национального университета им. Л.Н. Гумилева, доктор PhD, доцент.



Kazakhstan Institute for Strategic Studies under President of Republic of Kazakhstan

Kazakhstan Institute for Strategic Studies under President of Republic of Kazakhstan (KazISS) was established on June 16, 1993, by the Decree of the President of Republic of Kazakhstan.

Since its foundation the mission of the KazISS as the national research institution is to provide analytical support to the President of the Republic of Kazakhstan.

The KazISS enjoys a reputation of the leading think tank of Kazakhstan as it employs a highly professional pool of experts; at present it includes nine doctors and eight candidates of sciences, who specialize in political science, history, economics and sociology.

The KazISS has published more than 250 books on international relations, global and regional security, economics and politics. The Institute is publishing three journals: *Kogam zhane Daur* in Kazakh, *Kazakhstan-Spectrum*, and *Central Asia's Affairs* in English. The KazISS has a trilingual website.

The KazISS holds a great number of international conferences, seminars and round tables, including the Annual Conferences (regularly held since 2003) on the issues of security and cooperation in Central Asia with participation of the experts from Kazakhstan, Central Asia as well as Russia, China, Germany, France, India, Iran, Turkey, Japan, the U.S. and other countries.

The KazISS is the basis for both professional practice work of students from the leading Kazakhstan universities and fellowship of experts representing foreign research institutions.

Contact us for further information:

4, Beybitshilik st.
Astana, 010000,
Republic of Kazakhstan
Tel: +7 (7172) 75 20 20
Fax.: +7 (7172) 75 20 2
E-mail: office@kisi.kz
<http://www.kisi.kz>



Казахстанский институт стратегических исследований (КИСИ) при Президенте Республики Казахстан

Казахстанский институт стратегических исследований (КИСИ) при Президенте Республики Казахстан был создан Указом Президента Республики Казахстан 16 июня 1993 г.

С момента своего возникновения основной задачей Казахстанского института стратегических исследований при Президенте Республики Казахстан как государственного научно-исследовательского учреждения является научно-аналитическое обеспечение деятельности Президента Казахстана, руководящих органов страны.

За это время КИСИ превратился в высокопрофессиональный научно-аналитический центр. В настоящее время в институте работают восемь докторов наук, восемь кандидатов наук, специалисты в области политологии, истории, экономики, социологии.

За 20 лет деятельности в институте было издано более 250 книг по международным отношениям, проблемам глобальной и региональной безопасности. В КИСИ издаются три журнала: «Қоғам және Дәуір» (на казахском языке), «Казахстан-Спектр» (на русском языке), «Central Asia's Affairs» (на английском языке). Институт располагает собственным сайтом на трех языках: казахском, русском и английском.

В КИСИ ежегодно проводится большое количество международных научных конференций, семинаров, круглых столов.

Особый интерес у экспертов вызывают ежегодные конференции КИСИ, проводимые с 2003 г. и посвященные проблемам безопасности и сотрудничества в Центральной Азии.

В научных форумах КИСИ принимают участие не только эксперты из Казахстана и стран Центральной Азии, но и ученые из Германии, Индии, Ирана, Китая, Пакистана, России, США, Турции, Франции, Японии и др.

На базе КИСИ постоянно проходят стажировку и преддипломную практику студенты ведущих казахстанских высших учебных заведений, а также зарубежные эксперты.

В настоящее время в институте созданы необходимые условия для профессионального и научного роста сотрудников. Более подробную информацию о КИСИ можно получить по адресу:

Республика Казахстан, 010000, Астана,
ул. Бейбитшилик, 4
Тел.: +7 (7172) 75-20-20
Факс: +7 (7172) 75-20-21
E-mail: office@kisi.kz
www.kisi.kz