

CONTENTS



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REGIONAL SECURITY

Murat Laumulin
 The European Union and Its Central Asian Strategy 3

INTERNATIONAL RELATIONS

Sanat Kushkumbayev
 SCO and Central Asia in the Relations between Russia and China 16

German Kim
 The Contribution of Ethnic Koreans in Promoting Bilateral
 Cultural Relations between Kazakhstan and Korea 22

ECONOMY

Vyacheslav Dodonov
 Exhausting Opportunities of Extensive Growth
 as a Factor of Potential Macroeconomic Destabilization 30

Bela Syrlybayeva
 The Shipment of Hydrocarbons:
 Environmental and Economic Aspects 38

Dariya Mukhamedzhanova
 Kazakhstan and Modern Integration Processes in
 the Economy of the Arab World 44

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The European Union and Its Central Asian Strategy

MURAT LAUMULIN

As soon as the Soviet Union collapsed, Central Asia and the rest of the post-Soviet space became part of so-called “political Europe,” that is, on the strength of their OSCE membership, all the post-Soviet states were drawn into the European Union’s (EU) sphere of interests.

The EU’s strategy and policy in Central Asia are not directly related to any military or security strategy, since the EU can exert its influence on security issues indirectly via European institutions such as the OSCE, the European Commission and the European Parliament, and through the policies of individual European powers (particularly the UK, Germany and France) and NATO, the military-political institution to which most EU countries belong [1].

The EU is guided in its Central Asian policy by two very important considerations.

- Firstly, and in contrast to the US, China, and even Russia (which have no conceptual documents related to the region), the EU is the only geopolitical actor that has a strategy outlined in detail in a document entitled *The EU’s Central Asia Strategy*. This policy was adopted in 2007, although to date it has not proved its efficacy or achieved any notable results.

- Secondly, the EU has a clear preference, both conceptually and practically, for “soft power” as opposed to the use of force as a traditional geopolitical instrument. This is true of Brussels’ foreign policy in Central Asia and elsewhere.

The European political community is convinced that sustainable democratic and secular regimes in Central Asia and the Southern Caucasus will create a kind of buffer zone to protect Europe from the unstable regions of the Muslim world. On the whole, however, European political analysts remain undecided as to whether the EU needs Central Asia and, if it does, to what extent. The

EU members themselves, however, never hesitate in supporting their companies operating in Central Asia (particularly in the energy sector) to ensure that there is a steady flow of oil and gas from this fuel-rich region [2].

EU Strategy in Central Asia: A Security Issue

In the first half of 2007, when Germany assumed the rotating chairmanship of the Council of Europe, Berlin was convinced that the EU’s strategy in Central Asia needed to be revised. In June 2007, the Council of Europe adopted a new EU Central Asian Strategy (drafted mainly by the Germans) which revealed with unprecedented clarity the strengths and weaknesses of European Central Asian policy.

The EU and Central Asia: Strategy for a New Partnership was published on May 31, 2007, covering the 2007-2013 period, and specified the aims the EU was to pursue in the region:

- stability and prosperity for all countries;
- poverty reduction and higher living standards in the context of the Millennium Development Goals;
- regional cooperation between the Central Asian states and with the EU to promote interstate energy, transport, environment, and education initiatives [3].

The EU identified the following strategic and practical goals:

- The threat of Islamic radicalism should be addressed as a matter of priority and the region’s countries (Uzbekistan in particular) should be assisted in strengthening their law-enforcement structures and radically reforming their security systems.
- Afghanistan and its role in Central Asia’s economies and security should be studied carefully, and transcontinental trade should be developed in all areas (not solely between Russian and Europe).

- Turkey should become a vitally important link in helping Europe to influence the processes under way in Central Asia, which means that cooperation with Ankara should be stepped up.

- Cooperation with the reformers in the Central Asian governments and parliaments should be strengthened.

European experts have come to the conclusion that the EU's Central Asian strategy might ultimately fail; however, there is a commonly shared view in Brussels that it is too early to assess its results: progress and mutual trust will require time and patience [4].

In fact, the EU has achieved none of the strategic aims it formulated back in the 1990s: it did not reduce poverty or overcome opposition to the reforms, nor did it accomplish anything in the sphere of human rights and democracy. Its energy interests remain as vulnerable as ever.

Neither has progress been detected in the security sphere. European analysts are convinced that the time has come for the EU to abandon its image of a "toothless tiger" and show itself as a serious force to be reckoned with. Europe should demonstrate more confidence in the energy sphere and more realism with respect to democracy [5]. It is commonly claimed that the EU should coordinate its strategy with other international actors, such as NATO and the OSCE [6].

This is the result of there being no coordinated conceptual approach to the EU's Central Asian strategy, at least among the larger powers. Germany, apparently with its own interests in mind (which Berlin presents as shared European policy), has attempted more than once to draft the EU's strategic aims into something resembling a coordinated policy.

In 2010, leading EU experts in Central Asia prepared certain general strategic recommendations and a number of specific technical recommendations [7].

The strategic recommendations for EU-Central Asia cooperation included the following:

- A possible revision of the strategy would be more appropriate in 2011 when the new External Action Service is in place.

- The EU has genuine security concerns with respect to Central Asia: specifically, ensuring en-

ergy security through diversification of sources and linkages with Afghanistan. Contrary to the opinion of some experts, this does not represent a conflict between the EU's interests and its values, as long as legitimate interests are pursued in a principled manner. However, Central Asia presents a real challenge in this regard, since present standards of governance in the region are very far from adhering to such principles. This presents the EU with a choice: it must either overlook its principles in this case or make a special effort to apply its principled approach in a pragmatic way, accepting the limits of what can be achieved in this difficult political environment.

- Kazakhstan deserves special mention as a leading country in the region that has chosen to respond to the EU's strategy by adopting its own "Path to Europe." Kazakhstan's European orientation, and the country's chairmanship of the OSCE in 2010, are part of a multi-vectoral foreign policy, and represent an important opportunity for political and economic convergence with Europe, including closer relations with the Council of Europe. These strategic intentions have been announced, and the EU has responded by agreeing to work towards a new treaty-level agreement with Kazakhstan. If this succeeds, it could have a positive effect throughout Central Asia, representing an achievement of strategic importance. In particular, it could promote a breakthrough in the EU's relations with Uzbekistan.

- The EU's concept of regional cooperation in Central Asia needs revision. However, the potential benefits of such a revision should not be overstated with respect to cooperation with neighbors external to the region (Eastern Europe, Russia, China, and South Asia) or in those areas where the EU has several major interests (e.g., in energy, transport, and security). The EU is working on wider regionalism through projects linking Central Asia with its Eastern Partnership initiative. Wider regional cooperation initiatives such as these could help open up landlocked Central Asia, and enable the EU to contribute to a wider "EurAsia strategy" consolidating and going beyond the regional aspects of the EU's current neighborhood policy. This wider Eurasian dimension, involving all the major powers of the Eurasian landmass would satisfy the increasingly apparent need to manipulate the dynamics of

the new multi-polar world into an ordered global system. These considerations are far from being focused on Central Asia alone, but the region will inevitably be at the hub of many issues of political and economic significance.

The technical recommendations identified in 2010 were as follows:

- The EU intends to increase its diplomatic presence in Central Asia; with the impetus of the new Lisbon Treaty this needs to be done decisively, with adequately staffed EU delegations in all five states.

- A structured system has been set up in the human rights field both at official and civil society levels. But this needs carefully to be improved, without which it risks becoming little more than a token political routine for both sides. The interaction between official dialog and civil society organizations could be strengthened, with civil society bodies invited to monitor annually any progress in the field of human rights.

- It is important to develop fully those initiatives that promote the rule of law, especially given the absence of an explicit democratization agenda with respect to Central Asia.

- The sanctions on Uzbekistan after the Andijan events in 2005 did not yield substantial change and have now been lifted to facilitate engagement with the regime. Should the EU resort to such measures in Central Asia (or elsewhere) in the future, efforts must be disciplined and unified, i.e., when a decision is taken this should be backed loyally by all countries, otherwise the measures and the EU itself will be discredited.

However, the Commission should now evaluate the preliminary results of the Erasmus Mundus program in the region, which does not seem to be adequately adapted to Central Asian realities, and undertake a broader education strategy review for Central Asia. The EU should also consider other projects with a view to branding the EU more clearly as a promoter of several high-quality and independent education and research institutions, and as a supporter of reform of basic education systems.

- In the area of water management and hydroelectric power, there is a robust case for major investment in upstream states that could also bring huge benefits for downstream states and avert the real risks of interstate conflict over water. The EU,

which has failed to outline its position clearly in relation to water conflicts and methods for their resolution, should be more explicit about the desirability of large-scale investment in projects from which the region's countries would profit to a great extent [8].

- The EU could help to establish a technical and economic case for investment in expanding hydroelectric capacity that could offer benefits both to upstream and downstream states, outline the mechanisms for regional cooperation that would assure equitable implementation, and raise these issues at the highest political level in alliance with major multilateral organizations.

- The EU should make available a special grant-allocating trust fund to this end to enable the World Bank to draw up scenarios and cost-benefit calculations in collaboration with the UN Regional Center for Preventive Diplomacy for Central Asia and the Asian Development Bank. In any case there is significant opportunity for "no regrets" investments in improved water management, modest-sized hydroelectric facilities, and renewable solar and wind energy.

In the field of energy policy, the EU is conducting wide-ranging energy talks with Kazakhstan and Turkmenistan. The EU has a non-binding memorandum of understanding with Turkmenistan that envisages the purchase of gas, in accordance with the EU's Southern Corridor scheme to use a trans-Caspian link to diversify its gas supplies. While the EU has been debating various pipeline options for years, China has acted speedily in constructing oil and gas pipelines across Central Asia. This is a classic example of how the EU and its member states must negotiate and take decisions much more quickly on elements of its common energy policy, or be left behind by the rest of the world [9].

- In the field of transport, the corridors and axes that currently extend eastwards from Europe through or around Central Asia have become partly obsolete and need to connect with the new trans-continental Eurasian routes running east-west and north-south. The EU, in particular the Commission's transport department and the European Investment Bank, should communicate to the Asian Development Bank's Central Asia Regional Economic Cooperation Program (CAREC) their willingness to enter into discussions to optimize

the coherence of EU and CAREC transport corridors that do or could link Central and Eastern Asia with Europe. In addition there is a new US initiative (Northern Distribution Network) to develop supply routes from the Baltic and Caspian Sea ports to Afghanistan via Central Asia. Since China, Russia, and the US all have major stakes in these transport corridors, the case for explicit coordination is evident.

So far, the EU has appeared indifferent to the steadily increasing flow of Chinese commodities and growing Chinese investment in Central Asian infrastructure, which clearly call for revised transportation policies in the region. If rationalized, the routes could be unified in a Central Trans-Eurasian Corridor which will cross Russia and Ukraine in the south and intersect with the North-South corridor in strategically important Western Kazakhstan. The European Commission and the European Investment Bank should open consultations with the CAREC Program and the corresponding international institutions. Cooperation with the US-developed Northern Distribution Network also looks promising.

Security and stability in Central Asia can be described as major preoccupations of the EU, yet most EU projects are unrelated to these issues. The main contribution to combating common security threats has been made by regional border management programs (BOMCA) and the CADAP program to combat the trafficking of hard drugs. Managed until recently by UNDP offices, these programs have been fairly effective and have met with general approval. CADAP is being transferred to the European Aid Agency, which is expected to improve the EU's profile as a partner. The BOMCA model might be applied to other aspects of security in Central Asia to enhance effectiveness and the good governance of the police and security forces, at least in Kazakhstan, Kyrgyzstan, and Tajikistan; cooperation with similar programs in Afghanistan should be extended.

Cooperation with the OSCE and through the active involvement of key EU member states is also possible; both sides should coordinate their actions as extensively as possible. Europe should also adjust its governance structure.

As for EU financial assistance, Brussels should consider focusing on fewer priority areas, given

the impossibility of guaranteeing a real impact on all seven EU strategic priorities by spending 719 million euro over seven years under the Development Cooperation Instrument (DCI). The EU does differentiate its priorities by country, but difficult issues remain which cast doubt on their genuine effectiveness, beyond "ticking the boxes." Experts support current moves to accord higher priority to educational programs.

Assistance is most needed in Kyrgyzstan and Tajikistan. The EU has some impact on the dire conditions in these countries through its sectoral budget support programs. The economic crisis might, in combination with other security-related factors, even destabilize Tajikistan, a prospect which would seem to justify the EU's new social-policy-orientated program.

The EU has every interest in fostering donor coordination on the ground. Assistance allocated to energy-rich and rapidly developing Kazakhstan should be mainly confined to education and support to civil society, while Astana is in a position to buy into European expertise to help shape its own policies. Turkmenistan and Uzbekistan are only partially receptive to EU assistance initiatives, and here the EU would do well to focus on education for the time being.

In the near future the EU is to double its assistance to Central Asian countries; this means that the efficacy of recent European programs in the region should be assessed. The grants to oil-rich Kazakhstan and Turkmenistan should be cut; educational programs should receive greater attention. An expansion of aid to Uzbekistan should not be contemplated until the country has demonstrated greater interest in cooperating with the EU.

In the interests of transparency and accountability, the EU should create a database allowing monitoring reports to be made available through the Commission's website. There is also a case for separating the administration of project evaluation from project operations to further guarantee objective analysis. The European Parliament should strengthen its oversight role in scrutinizing EU Commission assistance to Central Asia.

The administration of funds for civil society projects should be simplified. European analysts agree that the EU's failure in this regard is due to its strategic interests being expressed in such

general terms that they lack clear meaning. The EU relies on a vast and varied set of regulatory acts and technical procedures such as so-called “instruments of action.” The experts insist that the EU is not sufficiently equipped to be a tough security actor and thus characterizes its foreign policy as an effort to contribute to the development of a regulatory, rules-based world order with strong emphasis on human rights, international law, regional cooperation, and multilateral institutions.

It is commonly believed that Central Asia is in fact the only region in the world that embodies the interests of all the major powers—Russia, China, South Asia, and Europe, together with the ubiquitous presence of the United States.

Differentiated Approach to the Central Asian Countries

The EU and Kazakhstan

Brussels is convinced that Kazakhstan and the EU have substantial opportunities to deepen their bilateral relationship, with the aim of ensuring that the political and social progress of this rich country keeps pace with its rapid economic development and secures its place in an enlightened model of international relations [10].

European experts think that the workings of the state system of power in Kazakhstan are complex and have identified different factions apparently pursuing different goals. However, the leadership itself is pursuing a staunch modernization strategy; its multi-vectoral foreign policy includes a European vector and the clear wish not to be overly dependent on its two big neighbors, Russia and China [11].

The keystones of Kazakhstan’s European policy are the “Path to Europe” white paper adopted early in 2009 and its OSCE presidency for the year 2010. The “Path to Europe” is an action plan reminiscent of those produced by the EU [12].

The EU and Kazakhstan envisage the negotiation of a new agreement that would replace the existing Partnership and Cooperation Agreement (PCA). The content of the new agreement could be much more developed than the PCA and could be modeled upon the Advanced Agreements of the European Neighborhood Policy/Eastern Partnership. One such Agreement has been completed in

the case of Morocco and is well advanced in the case of Ukraine [13].

The main feature of these new agreements is that they are able to incorporate the whole range of EU competences, combining those stipulated when the PCAs were negotiated with those relating to justice, home affairs, and foreign and security policy. However, trade policy content will be limited by the fact that Kazakhstan is now joining the Customs Union with Russia and Belarus, which excludes the possibility of a free trade agreement with the EU unless concluded by all three Customs Union countries.

The EU might also consider how closely Kazakhstan could be associated with or even brought into the Eastern Partnership. There are two options here. The first, which could be pursued immediately, would be to invite Kazakhstan to join in the work of the Eastern Partnership’s regional-multilateral working groups. The second more ambitious option would be to invite Kazakhstan to join the Eastern Partnership fully.

Overall, the EU intends to encourage Kazakhstan “to aim as high as it wants to in terms even ultimately of Council of Europe membership” based on genuine political freedoms and greater adherence to human rights conventions, and to gain observer status at the Parliamentary Assembly. The education sector deserves priority support from the EU beyond existing programs such as Tempus, which is nevertheless well placed to help Kazakhstan align its higher education system with the Bologna regulations. Besides granting scholarships, the European Commission should do more to promote the European institutions’ greater involvement in the education process at the newly opened technical university in Astana.

In its human rights dialog with Kazakhstan, the EU is determined to insist upon the country: strengthening the judicial authorization of arrest (approval of arrest warrants); no longer interfering in the legal professions; observing detainees’ rights during pre-trial stages of prosecution; decriminalizing slander and insult; further developing legislation on freedom of assembly; bringing legislation on freedom of association into line with international standards; promoting the freedom of expression; liberalizing the regulation of the media; and strengthening the office of Ombudsman [14].

The EU and Kyrgyzstan

European experts generally assess Kyrgyzstan's economy as being quite weak, except in Bishkek itself. When Kazakhstan and Russia joined the Customs Union, commodity exports from Kyrgyzstan dropped and heavy investment in the hydropower sector has not improved the situation. The revolution of 2005, which replaced one ruling clan with another, further restricted political freedom [15].

Within its human rights dialog with Kyrgyzstan, the EU is insistent on cessation of harassment and persecution of opposition members; liberalization of laws on the freedom of assembly; cessation of government harassment of human rights groups and activists; independent investigation of allegations of deaths and injuries resulting from torture in police custody; cessation of violence against journalists and guarantees of their safety; and cessation of government intimidation of NGOs [16].

The EU and Tajikistan

Tajikistan may be regarded as a fragile but not as a failed state. This very poor country suffers the grave hardships of extreme poverty compounded by regular power outages in winter, despite the country's huge hydroelectric potential. Tajikistan is also highly vulnerable to the spillover of the war and chaos in Afghanistan, where ethnic Tajiks account for 35% of the total population [17].

The European Commission and Germany together account for the bulk of aid from Europe. The EU's aid is targeted at alleviating poverty and avoiding state collapse, with sustained budget support for social welfare programs. This is a controversial program which has both supporters and detractors; the latter argue that, given current levels of corruption, all efforts to assist the country will be in vain.

There are certain opportunities for civil society, which makes the EU's human rights dialog potentially meaningful, even though there are signs that existing civil liberties are under threat. One of the EU's projects could involve supporting political dialog with the Islamists.

The government's main economic priority is the completion of the Rogun dam, for which it is

seeking a consortium of international investors. This could be linked to investment in high-voltage power lines into South Asia, through Afghanistan into Pakistan and India. While this project is extremely ambitious, it deserves EU support since it offers potential gains both for the economy and for regional links to South Asia.

The EU agenda for human rights dialog with Tajikistan includes open access to prisons for civil society organizations and the Red Cross; ratification of the Optional Protocols to the Convention against Torture and the Convention on Discrimination against Women; de-criminalization of defamation; discontinuation of the use of child labor in the cotton fields; an article on torture being added to the Criminal Code; reform of the system of free legal aid to the low-income population; and compensation for forced displacement of people for the state's needs [18].

The EU and Turkmenistan

European experts have pointed out that the current president, the second since independence, has made some positive moves—albeit somewhat limited ones—compared to his notorious predecessor [19]. The population now benefits from freedom of movement within Turkmenistan; the former president's idiosyncratic education policy of reducing schooling from eleven to nine years and university from three to two years have been reversed.

Turkmenistan remains an authoritarian state with no opportunity for political opposition, media freedom, or NGOs concerned with political and human rights issues. The only NGOs operating are those assisting vulnerable families and citizens' advice bureaux. Experienced observers say that Turkmenistan's people are only too aware of the rules governing them and of what they can and cannot achieve, and this not only restricts the emergence of political debate or opposition—it may even eliminate them altogether.

Overall, Turkmenistan entered the 21st century still largely cut off from the rest of the world and having wasted huge amounts of its natural resource wealth on grandiose constructions in the capital city. In these circumstances, the potential for the EU to develop its relations with Turkmenistan is severely limited, even though an interim agreement

on trade policy is now in force and human rights dialog has been set in motion [20].

The first step in establishing the EU's credibility must be a fully accredited diplomatic delegation in Turkmenistan. The present Europa House exercises some of the functions of a diplomatic mission on a small scale and without diplomatic accreditation.

With regard to aid, the most plausible activity at this stage is to provide scholarships for students to study in universities outside the country. However, in 2009 the Turkmen authorities refused to allow Turkmen students to travel abroad for the beginning of the new academic year. Those who had left early were forced to return to Ashgabat after the security services put pressure on their families. They have also been blacklisted.

The main strategic question at this stage is whether the EU will become a large-scale buyer of Turkmen gas, which would be transported across the Caspian Sea to Baku. This is a relatively propitious moment to make such a proposal, since an explosion in the gas pipeline to Russia in April 2009 meant demand from Russia was suddenly reduced. Although the pipeline has now been repaired and a new commercial agreement was signed with Moscow in January 2010, the incident has made Turkmenistan increasingly interested in pursuing a multi-vector gas export policy.

China has built and inaugurated its gas pipeline from Turkmenistan, with transit across Uzbekistan and Kazakhstan, which could carry 40-50 bcm of gas per year when fully operational. Supplies through a pipeline to Iran are now likely to increase from 8 to 14 bcm annually [21].

An internal West-East pipeline has been put up for tender. This pipeline would take gas west to the Caspian coast, and thence either northwards along the Caspian coast to connect with the Russian network, or across the Caspian to connect with the Nabucco. The gas fields to be developed are deep down and will need foreign technology; therefore Turkmenistan may be obliged to change its restrictive policy on foreign investment.

The EU agenda for human rights dialog with Turkmenistan includes ending the practice of collective punishment (family members of prisoners should be released); ending the practice of recruiting prisoners for coercive labor that is hazardous to their health; creating conditions to allow the culture

and traditions of national minorities to flourish; allowing an independent mass media to operate (state censorship should be outlawed); guaranteed opportunities for independent public organizations; revision of the NGO law; an end to the persecution of dissidents and civic activists; freedom to enter and leave the country (notably for students); and establishing standards for economic transparency relating to the use of energy revenues [22].

The EU and Uzbekistan

The lifting in October 2009 by EU foreign ministers of the remaining arms embargo imposed after the 2005 Andijan events was a controversial decision. The EU hopes that this will be taken as encouragement for progressive reforms, whereas independent human rights NGOs protest that this will give the wrong message to the country's rulers. However, the decision was made to end the sanctions, and this logically marks the transition to a more active mode of engagement and the need to work out how to make this effective.

The next step envisaged is to open a full EU delegation in Tashkent, which should incorporate an active public information unit to ensure the EU is better known and understood.

Brussels is still convinced that Uzbekistan remains an extremely difficult environment to work in, exemplified by the omnipresent security service personnel at internal border checkpoints in every region. However Uzbekistan strives to become a leading player in the region and to regain international prestige as the most populous and geographically central state. This can only be achieved if there is greater freedom of movement for people and commerce across its borders, and after extensive reform to liberalize internal commerce and agriculture. The EU is able to advocate for these goals in its political dialog and also to try to persuade Uzbekistan to adopt a more constructive and progressive attitude toward regional cooperation, particularly with regard to shared water resources. The EU has set up several cross-border or regional technical assistance projects in the field of water management, which Uzbekistan is currently blocking or refusing to participate in.

The state is investing heavily in infrastructure and education. Its industry depends on protection-

ist measures (car manufacturers, for example, are protected by 200 percent import tariffs) although there is free trade within the CIS, from which Uzbek industries have evidently profited. There is a new rail link inside Uzbekistan that extends to Termez on the border with Afghanistan and then links with routes to Iran (down to the port of Bandar Abbas). Uzbekistan is trying to open its economy to South Asia, and this fits in with the revision of its transcontinental transport corridor strategy.

European analysts have pointed out that there are almost no EU projects operating in Uzbekistan at present. The exception to this is an EU-funded (UNDP-operated) rural living standards project, which was reviewed favorably for getting to the grass roots of poverty reduction. Given the extreme difficulties of operating actively within Uzbekistan, efforts could nevertheless focus plausibly on education. For example, the British Council's offices in Tashkent are a beacon of learning activity for Uzbek students, as is the German cultural center next door to it. In spite of the regime's repression, the private Westminster University flourishes in Tashkent [23].

In the human rights sphere, the EU is demanding the release of human rights campaigners and prisoners of conscience; liberalization of accreditation and operation of NGOs; guaranteed freedom of speech and opportunities for an independent media; the implementation of conventions against child labor; alignment of election processes with OSCE commitments; cooperation with UN special rapporteurs on human rights issues; abolition of restrictions on free travel into and out of the country; an end to the fabrication of "terrorist threats" to justify imprisoning religious leaders; independent investigation of allegations of torture in prisons and cruel punishment of offenders; adoption of a law to permit independent journalism in all areas (economic, political, cultural); liberalization of laws to allow international cooperation between civil activists and organizations; and legislation to regulate law-enforcement bodies (police) [24].

From Central Asia to Eurasia

The EU has revised its approach to Central Asia by considering the region in a Eurasian context. The EU, seeking to foster regional cooperation

between the five Central Asian states, is allocating 30 percent of its budget to regional projects. But although the EU's approach to Central Asia presumes in favor of regional cooperation, the prospects for such cooperation are far from clear. Has the regional dimension of the EU's Central Asia strategy been adequately conceived for the 21st century? This question must surely be addressed in the context of the great and growing regional role of China and India.

The EU has developed the regional dimension of its Central Asia Strategy in its political dialog with all five Central Asian states. Meetings with the countries' foreign ministers are being held to discuss broad political and security issues, and there have been rounds of sector-specific dialog on education, water, the environment, and the rule of law, though these were sporadic and took place over a very short period between 2008 and 2010. So far, there have been no quantifiable results from these activities; indeed, there are some sharply contradictory developments happening outside these meetings (e.g., the current breakdown of the regional electricity grid). The EU, however, seeks to promote a gradual shift of approach among the Central Asian participants towards regional cooperation.

The limitations of Central Asian regionalism are evident, and this is reflected in a shift in EU spending, reducing the bias towards regional programs and increasing the focus on bilateral ones.

At the same time, there is also a case for adopting a revised design for regional cooperation, which might be called "external" rather than "internal" regionalism. External regionalism would involve cooperation with neighbors outside the region, whereas internal regionalism is restricted to the five Central Asian states. Given its modest population size, Central Asia will reap limited rewards from regional cooperation if this is not part of a wider economic openness. While cross-border regional cooperation is intrinsic to certain activities, such as border management, transport corridors and, above all, water management, in all three cases, links with neighbors external to the region are often equally vital, giving such activities a transcontinental rather than merely cross-border significance. For example, border management is largely concerned with drug trafficking, since Central Asia is the

transit route between Afghanistan and Europe, Russia and China.

The European Commission is seeking to develop links between the Eastern Partnership and Central Asia through regional projects that connect the two regions, especially in the energy, transport, and environment sectors. However, what is lacking is a framework for wider Eurasian cooperation projects in which the EU's activities in Central Asia would also link to Russia, China or South Asia, or combinations thereof.

The political priorities of the region's states may also reflect this wider outlook. Kazakhstan's "Path to Europe" program—part of its modernization drive—looks strategically westwards in order to avoid exclusive dependence on Russia and China. Turkmenistan, whilst retaining a closed and repressive political system, has nevertheless made the commissioning of gas pipelines its development priority; these pipelines could reach into Russia, China, Iran, and potentially across the Caspian Sea to Europe, if the EU were to make a credible and substantial offer.

Kyrgyzstan's economy is now substantially dependent on the transit trade in Chinese goods flowing to Kazakhstan and Russia. Tajikistan and Uzbekistan are opening up to the south with transport corridors through Afghanistan, Iran, and Pakistan to the Gulf and Indian Ocean.

The urgent need to find a political solution to the conflict in Afghanistan has important longer-term implications for the EU's relations with Russia, China, and India. The EU has already acknowledged this by grouping Central Asia with South Asia, rather than with the former Soviet Union, in its new approach to aid administration.

Some analysts claim that, rather than merely linking Central Asia to South Asia, the EU should adopt a wider Eurasian policy. In this context, Central Asia is a uniquely landlocked region sitting amidst the "Big Four" of Eurasia: Russia, China, India, and the EU. Today, the EU must take into account the emergence of a new multi-polar world with new geopolitical players (or old players with new images), i.e., Russia, China, India, and the EU itself. The new geopolitical order calls for new approaches and creates new strategic challenges, especially with regard to maintaining order and the spirit of cooperation.

The regional dimension of EU foreign policy is already reflected in the Eastern Partnership, Northern Dimension, Union for the Mediterranean, Black Sea Synergy, and now the Central Asia strategy. Each of these initiatives has its rationale.

What is missing, however, is an overarching Eurasian dimension to the adaptation of cooperation initiatives spanning several regions and reaching into the wider Eurasian landmass. Such ventures would be adapted to the needs of the emerging multi-polar world and would, *inter alia*, constitute a more constructive overture towards Russia than the Eastern Partnership, the launch of which was seen as an extension of the EU's desire to segment the post-Soviet space in its policies.

European analysts are convinced that the present "internal" regionalism of the Central Asian strategy should continue to facilitate dialog with and between the five states. But, they say, the bigger issues should be tackled in the context of "external" regionalism which itself reflects a wider Eurasian strategy.

Central Asia and the Security Problems of the European Union

The EU is exploring how its Central Asia strategy might fit into a global concept of EU foreign policy. The EU already has relations with most of the world's regions, including sub-Saharan Africa, Southeast Asia, Latin America, and its own European neighborhood. It also has bilateral strategic partnerships with China, India, and Russia.

Brussels is looking for ways and means to consolidate these trends and partnerships into a single strategic model in which Central Asia would have its own niche.

The European strategists are aware that the region is sparsely populated. However, due to its geographic location, it is an important and special case—a focal point for virtually all the world's global actors at a time when a new world order is in the making.

European analysts have concluded that the world is entering a new multi-polar epoch, in which the EU may take its place alongside the emerging or re-emerging major powers of China, India, Russia, and Brazil. Europe intends to contribute to a stable regulatory world order; indeed this has become an

inalienable tenet of EU policy as declared by the Lisbon Treaty.

Other actors are inclined to use force to a much greater extent than the EU. This is certainly the case in Central Asia, where the actual political environment is very far from replicating Europe's staunch protection of human rights and democracy. Russia and China are now the most prominent external actors for Central Asia, with Russia pursuing an ultra-realist policy, and China, though very present economically, abstaining from any kind of regulatory influence beyond a general doctrine of political non-interference.

In its Central Asian policy Brussels proceeds from the assumption that the region does not threaten the EU; there are three factors, however, which might indirectly affect the EU as well as other actors.

The first of these is the insecurity of energy supplies. Central Asia can contribute to the expansion and diversification of supplies of oil (from Kazakhstan in particular) and gas (especially from Turkmenistan). The exploitation of energy resources can be controlled by the regulation of environmental sustainability, corporate governance, and income distribution. Diversification of oil and gas supplies dilutes the monopolistic concentration of energy sources, which in principle is desirable both as a facet of economic policy and because it reduces the risk of energy supplies being used as a method of geopolitical manipulation, which certainly typifies Russia's current policies.

The second threat comes from al-Qae'da and Talibanization. Central Asia is adjacent to the war in Afghanistan, which is being fought to protect Europe and the world from the terrorist threat of al-Qae'da. Supplies for NATO forces are being logistically routed through Central Asia. These routes have to be maintained and can therefore hardly be criticized as being an unprincipled pursuit of interests. Central Asia is not, at least for the time being, subject to the spillover of Talibanization seen in Pakistan, but there is a danger that Islamic radicalization will spread in Central Asia, and Europe is therefore inclined to advocate dialog with moderate Islamist movements, and their inclusion in the political process.

The third indirect threat to stability is drug trafficking. Central Asia is part of the route for

drug supplies from Afghanistan to Europe, which is a matter of serious concern for Europe's public health and its society. The EU supports a sustained effort to combat drug trading and addiction in Central Asia and should explore ways to extend this through effective cooperation with Russia and Eastern Europe [25].

The values-based agenda discernible in official documents is long and complex. Political values can be discussed, but for countries faced with huge development challenges, priorities most often begin with poverty reduction, food security, economic development, and environmental security. The EU's aid instruments address several points on this agenda, but their scale is modest compared to the massive investments now being made by China, particularly in economic infrastructure.

The EU's efforts therefore must be given a very distinct profile, grants for social and educational programs being cases in point. Expanding educational programs could prove the most effective and durable way to introduce European civil, professional, and cultural values and standards into Central Asia.

It is evident that the EU is making a substantial effort to help Central Asian states improve their highly problematic human rights situations. This activity is legitimized by the common principles enshrined in the Universal Declaration of Human Rights of 1948, to which all Central Asian and EU states have subscribed, and the willingness of the Central Asian states to enter into a human rights dialog with the EU.

The EU is well placed to engage with these issues, since the human rights conventions of the Council of Europe, to which all the EU member states adhere, are based on the Universal Declaration and further developed through the jurisprudence of the European Court of Human Rights. It is notable that none of Central Asia's other major external partners is willing or able to engage in a human rights dialog with Central Asian states, certainly not Russia or China, or even the US at present.

Unlike human rights, democracy is not legally codified internationally. There is ongoing debate as to how long it may take Central Asia to make significant progress in this regard, i.e., whether democracy is a medium- or long-term prospect. The EU is cautious in pushing for Western-style

democracy in the political and cultural contexts of Central Asia. The EU's most effective contribution at this stage may be in helping to create a rules-bound context conducive to political change in Central Asia. As well as revamping domestic legal systems this would entail the entrenchment of European and international law in the bilateral relations the EU establishes with the Central Asian republics. The EU is well placed to achieve this, given that its foreign policies are typically carried out through contractual relations with third states. The Partnership and Cooperation Agreements with the Central Asian states would be the vehicle for such adjustments, since these agreements can be progressively renewed and extended, as is planned with Kazakhstan in the first instance.

European analysts believe that Central Asian regional cooperation should be supported where it can clearly deliver benefits, but that the EU should not attempt to transplant its own experience of regional integration on Central Asian soil. The Central Asian region is too small, heterogeneous, and hemmed in by its very big neighbors for intra-regional cooperation to become a main driver of progress, as it has been in Europe. The quest for a modern Central Asian regional identity should be viewed sympathetically, since this might naturally lead to the establishment of authentic regulatory foundations. The development of regional policy dialogs between the EU and the five states together could help to foster this process.

On the other hand, the concept of regionalism which the EU is advocating for Central Asia could be pursued in a more outward-looking or "extroverted" way, alongside the quest for intra-regional cooperation. This comes back once again to the issue of transcontinental cooperation around Central Asia or a potential Eurasian dimension to EU policies, and the quest for cooperation between multiple poles.

This new challenge emerges from the demise of the US-dominated uni-polar epoch and the rise of new or re-emerging major powers, almost all of which have a presence in Central Asia. The challenge is an extremely difficult one, given the contrasting foreign political philosophies currently displayed by non-democratic Russia and China on the one hand and the Central Asian states on the other. While Russia and China joined the SCO club,

Central Asian countries reached consensus on a strict doctrine of political non-interference versus the democratic EU, US, Turkey, and India, all of which are inclined to advocate different foreign policy concepts.

According to European analysts, there are at least three policy areas where the EU, Central Asian countries, and other powers (Russia, China, the US, India, etc.) can work together.

Firstly, they might cooperate to combat the common security threats posed by Afghanistan and Pakistan, in particular in the form of drugs and radical Islamic terrorism.

Secondly, the problems faced by the regional hydroelectric power nexus might best be resolved by international consortia involving all major players.

Thirdly, the countries could work together to optimize transcontinental transport routes to facilitate trade.

With regard to organizational initiatives, the EU might, if invited, become an observer member of the SCO. Alternatively, the EU meetings with the five Central Asian states could occasionally be enlarged to include Afghanistan, Pakistan, and India. Moreover, since the EU has decided to adopt a Central Asia strategy, it is obliged as a matter of strategic consistency to articulate this in its world view.

* * *

For obvious reasons, the EU is reliant upon Central Asia as a sustainable source of natural resources. In addition, Brussels is convinced that Central Asia will benefit from its regulatory expertise.

On the other hand, the European states (NATO members in particular) play an important role in combating the threats emanating from Afghanistan. The EU does not universally welcome the steadily increasing involvement of the US in Eurasia and has to take Russia's interests into account. Recently, European experts have come to the conclusion that the EU will balance out China's increasing influence in the region, since Russia has stepped aside. These factors should be taken into account in assessing Central Asia's position in relation to the EU.

In the near future, relations between Central Asia and the EU will be affected by geo-economic

and geopolitical factors, such as Washington's new strategy in Central Asia; the unpredictability of the military-strategic outcome in Afghanistan; relations between Russia and the West; the world economic crisis; and the ever increasing importance of energy sources and food security.

This may have either a positive or negative effect on the relations between Europe and Central Asia. Much will depend on the political will of the actors involved in such geopolitical intricacies. One thing is clear: Europe and Central Asia need each other for objective reasons.

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SCO and Central Asia in the Relations between Russia and China

SANAT KUSHKUMBAYEV

Having entered the second decade of its history, the Shanghai Cooperation Organization (SCO) continues to be assessed differently by experts and observers. The SCO remains an important regional instrument for China and Russia.

It is in this context that now and in the near future the SCO will face several questions: What is its potential? What are prospects for the expansion of the SCO? Will these questions continue to be important for future interaction between players on the SCO space?

The SCO and the Global Positioning of Russia and China

Traditionally, statements issued following summits and bilateral meetings between leaders of the SCO member states persistently contain a clear message that the organization is not a bloc and does not pursue unilateralism in international relations and that it rejects hegemony and a unipolar world.

At bilateral meetings the leaders of China and Russia have repeatedly stressed that they do not accept the idea of a “superpower,” interference in internal affairs of other countries under the pretext of human rights and humanitarian issues and imposition of one’s standards on the others. We know that this stance, first of all, implies the USA and NATO.

The 12th summit in Beijing on June 6-7, 2012, was no exception to this. Taking the “Arab Spring” and other events in the Middle East into account, Russia and China again publicly demonstrated a joint position on the international stage. At the same time, the Kremlin understands that

Russia’s positions in the world and neighboring countries have significantly weakened and the country cannot unconditionally position itself as a global player. Ahead of the SCO summit, Russian President Vladimir Putin stressed that “the global agenda cannot be formed and fulfilled ‘behind the backs’ of Russia and China, without taking their interests into account” [1].

With Putin’s return to the Russian presidency, resolute rhetoric has returned to the Kremlin’s policy. Moscow is using all mechanisms, both bilateral Russian-Chinese and multilateral (SCO), in order to maintain short-term cooperation with Beijing.

Various structures with predominantly economic or military-political objectives (the Eurasian Economic Community, the Customs Unions and the CIS Collective Security Treaty Organization) support the status quo of Russian positions. Moscow is maintaining (and, on a number of parameters, increasing) its presence in Central Asia.

Putin stated, “The SCO was created as a structure designed to ensure stability and security on the vast Eurasian space. We regard any attempts of third countries to take any unilateral actions in the region of responsibility of the SCO as counterproductive” [2]. In essence, Moscow is trying to show the USA and NATO that Russia and China are the leaders in Central Asia, a zone of strategic interest to both nations.

It is worth noting that annual final declarations of the heads of state of SCO member states show significant differences from Western approaches to issues of national sovereignty, democracy and human rights. In declarations, in different interpretations, we can see calls “to respect strictly and

consecutively historical traditions and national features of every people, sovereign equality of all states" [3]. Collectivist and/or state-based principles prevail in the values of SCO member states and this explains the different perception of individual rights and values.

In fact, without partnering with China, Russia can no longer maintain its image of a global power, while China's growing economic ambitions might concern Moscow.

China's foreign policy blueprint with its relative flexibility tries to take the various security challenges and threats into account. In its strategy for cooperation within the framework of the SCO, Beijing stresses the development of trade and economic relations because it believes this is the most important objective in solving regional security problems.

Trade and Economic Cooperation

Since obtaining independence Central Asian countries have considered their relations with China as an important aspect of their foreign policies. The important issue of diversifying the region's foreign economic relations could not have been addressed without the all-round development of relations with their eastern neighbor.

This approach was mutual and was considered by Beijing as an important condition in the development of mutually beneficial and equal relations between China and its northwestern neighbors. China's approach, based on the Confucian spirit principle of "a rich neighbor is a good neighbor," generally found understanding in Central Asian countries.

The growing demand for energy resources, as a result of high economic growth, has logically boosted China's foreign policy in the direction of its northwestern neighbors. Moreover, Central Asian countries believe, at the moment there are no major political reasons that are capable of stopping the growing cooperation with China both bilaterally and within the SCO.

China aims to use the SCO to strengthen its economic influence on Central Asia. China has signed treaties with Kyrgyzstan, Tajikistan, Uzbekistan and Kazakhstan in the spheres of trade, industry, building oil and gas pipelines and so on.

During the creation of the SCO in 2003 Chinese President Hu Jintao said, "Military means may ensure a temporary victory but not long-term security" [4]. The Chinese leadership, prioritizing cooperation within the SCO, believes economic cooperation is important in solving regional security problems. At a meeting of foreign ministers from SCO member states in 2004 the Chinese delegation stressed that the eradication of sources of terrorism should help the economy develop and prosper [5].

The SCO has a Business Council, a non-governmental structure uniting businesspeople from the six member states with the aim of expanding economic cooperation within the organization, establishing direct relations and a dialogue between business and financial circles from the member states.

In September 2003 the heads of SCO member states signed a program for multilateral trade and economic cooperation for 20 years and a year later a plan of action for developing cooperation, involving over 100 projects. As a long-term objective, they considered the creation of a free-trade zone within the SCO and a short-term objective—increasing trade in the region.

However, not a single multilateral economic project was conducted in the first decade of the SCO's existence. The launch of a gas pipeline linking Turkmenistan, Uzbekistan, Kazakhstan and China at the end of 2009 was a result of bilateral agreements between China and these countries. In essence, researchers who believe that China is making pragmatic use of the wider umbrella of the SCO in order to develop and ensure bilateral relations with Central Asian countries are correct [6].

Having become a multifunctional structure with a broad range of activities, the SCO still has significant untapped potential.

The SCO lacks a system of efficient coordination of actions and decisions in the energy sphere, in particular between the consumers and suppliers of energy resources. Russia lobbies for one of its initiatives—the creation of an SCO Energy Club, but this has not yet been shaped to every party's satisfaction. Moscow and Beijing have not yet arrived at a consensus on the price of energy resources.

The SCO member states and observer states are major energy producing, consuming and transiting countries. In total, this market accounts for a half of the global population. In this context, Moscow's objectives to create a profitable and regulated market of energy resources in which Russia will occupy key positions are understandable.

We can observe now and make medium-term forecasts that the distance between China's producing and export-based economy and the economies of Russia and Central Asian countries based on exports of raw materials will increase.

It should be noted that it is becoming increasingly clear that Moscow cannot offer Central Asian countries a serious alternative to China's growing potential. At the SCO's Beijing summit Chinese President Hu Jintao again offered \$10bn in loans for economic projects involving members states. We know this offer practically repeated a similar offer made at a SCO summit in Russia's Yekaterinburg in 2009 when the Chinese leader offered \$10bn to the member states for economic projects.

Russia and China failed to agree on a mutually-acceptable agreement on an SCO Development Fund (special account) and Development Bank at the Beijing summit. As part of the Development Fund China intended to allocate this \$10bn to projects within the SCO. Taking into account China's financial capabilities, it is obvious that Russia fears that these financial institutions will become a predominantly Chinese mechanism.

Apart from these initiatives, China voiced its readiness to establish a program to train 1,500 specialists from SCO member states in the next three years and provide 30,000 government grants to students from these countries over the next decade and invite 10,000 teachers and students of Confucius Institutes*.

In the economic sphere Moscow has a more important project—the Customs Union (CU) of

Russia, Kazakhstan and Belarus. The Kremlin regards Kyrgyzstan and Tajikistan as potential members. Putin has already announced that Moscow intends to create a Eurasian Economic Union from the CU by 2015. Judging by this, it is clear that Russia does not actively consider expanding economic cooperation within the SCO.

This aspect has drawn attention from Chinese experts who believe the creation of a CIS free-trade zone hinders China's trade with other SCO member states [7].

This view can be explained by the fact that it is important for China to expand into and become established in Central Asian markets in order to be an influential player in the region in the sphere of hydrocarbons exploration and transportation [8].

Central Asian countries increasingly need to develop trade and economic relations with China. At the moment, China, like Russia, is a key foreign trade partner for all regional countries. China has invested over \$1bn in Tajikistan, overtaking Russia. The growth rates of China's penetration into other Central Asian countries are also unprecedented. China is now one of the most important importers of energy for Turkmenistan, Uzbekistan and Kazakhstan.

In June 2012 as a result of bilateral accords reached at the SCO summit in Beijing, Uzbekistan and China signed over 40 trade and economic, investment and financial treaties and contracts to the tune of \$5.2bn [9].

China has also expressed interest in the establishment of a free-trade zone, but Russia believes this issue is not relevant, proposing that China is only aiming at this idea. Moscow also tries to avoid direct competition with Beijing in the trade and economic sphere in Central Asian countries, although this issue has already become a critical matter.

Although the leaders of SCO member states insist that the atmosphere of the "Shanghai

* In this regard an interesting opinion has been advanced by Chinese analyst Pan Guang who believes that the balance of interests of global powers in the region is also based on the civilizational foundation of four civilizations—Islam, the Slavic civilizations, Confucianism and Hinduism. He believes that the USA's growing presence in Central Asia is leading to an increase in pro-American and pro-Western values that will inevitably influence SCO member states' cultural links "which are traditionally focused on the Great Silk Road from China to Russia and to Central Asia." Cf: Пан Гуан. Шанхайская организация сотрудничества в контексте международной антитеррористической кампании // Центральная Азия и Кавказ. 2003. № 3. С. 58.

spirit,” which is characterized by mutual trust, mutual benefit, equality, cooperation and so on, is firmly established in the organization, they cannot conceal that there are latent competition and contradictions between its members, specifically Russia and China.

SCO and Afghan Issue

The SCO is not a military-political alliance and measures taken by the member states in the sphere of international security aim to coordinate the fight against nontraditional challenges and threats. These objects are closely linked to the problem of countering the growing illegal traffic of narcotics.

Bearing in mind that the bulk of opiates produced in the world originate in Afghanistan, the core of the objectives is in a set of problems linked to this country. Illegal supplies of precursors are another important aspect of activities of crossborder drug syndicates, because the large-scale traffic of heroin from Afghanistan is possible only with the corresponding level of imports of chemical precursors to the country.

The SCO-Afghanistan Contact Group is maintaining cooperation on a multilateral basis, including with observer states. The Afghan leadership regularly takes part in meetings of heads of state and government of SCO member states.

At the June 2012 summit in Beijing, Afghanistan was admitted to the SCO as an observer state. Will this become a springboard for increasing the SCO's role in solving Afghanistan's problems? It is unlikely because the SCO does not yet act as a single player in the region. SCO member states cooperate with Afghanistan mostly on a bilateral basis. Obviously, this will continue to be the case in the near future.

China is becoming an increasingly important economic player in Afghanistan. Through the SCO and bilateral cooperation Beijing intends to help stabilize the situation in Afghanistan and strengthen its regional positions. Spokesman for China's Ministry of Foreign Affairs Lu Weimin said at the Beijing summit, “We hope to enhance cooperation with Afghanistan in such areas as resource exploration, infrastructure building, energy and human resources” [10].

Prospects for SCO Expansion

The founding documents provide for different levels of participation in the organization: dialogue partners, observer states and full members. The SCO is an open structure and other countries' membership of this organization implies that they share principles and obligations within the SCO.

Afghanistan was granted the status of observer, while Turkey became a dialogue partner at the SCO summit in Beijing in June 2012. At the moment, the SCO has five observer states—India, Pakistan, Iran, Afghanistan and Mongolia—and three countries—Sri Lanka, Belarus and Turkey—have the status of dialogue partners.

India, Pakistan and Iran have expressed their intention to become members of the SCO. Despite the fact that China and Russia have not rejected the possibility, both countries are not yet ready for it.

Ahead of the June summit in Beijing, Russian Minister of Foreign Affairs Sergey Lavrov diplomatically said in an interview with China's Xinhua news agency that “the admission into the ranks of our organizations of such countries as, for instance, India and Pakistan, which are observer states at the moment, will significantly strengthen the potential of the SCO and boost its international authority” [11].

However, we should bear in mind that the “Shanghai process” was founded on the solution of border issues and that the member states have solved border and territorial problems. India and Pakistan are two nuclear powers that are in rivalry with one another and have a set of territorial problems, which could become a serious challenge for the SCO in the event of these countries' admission. Although the immediacy of the territorial conflicts between China and India has now been reduced and bilateral economic relations have unprecedentedly increased, Beijing and New Delhi remain competitors in the global energy markets.

The decision on membership is taken by consensus between all member states. Moreover, in 2011 the SCO adopted a memorandum on obligations of an applicant state, which requires that an applicant country should be free of UN sanctions in order to obtain the status of SCO member state. This provision has not allowed Iran to aspire for

membership of the SCO, but as an observer Tehran regularly takes part in SCO summits.

The SCO is a forum that legitimizes China's presence in Central Asia. In this context, obviously, Beijing will not have interest in the SCO's expansion in the near future, in order to prevent the formalization of the presence of other players who are potential rivals in the SCO space. The organization allows Beijing and Moscow the opportunity to unofficially share influence on Central Asia. Moscow has so far has greater influence in the security sphere, while Beijing is becoming a leading economic player.

Chinese analysts believe that Central Asia is Beijing's strategic rearguard and the chief principle and objective of China's policy in Central Asia pursue the following aims: China aims to preserve the regional countries' loyalty and has taken steps to prevent them from falling under control of a group of superpowers or of any of the individual countries [12].

Chinese experts also rightly think that the heart of the SCO space is Central Asia [13]. Therefore, China does not need to create additional complications for its cooperation through the organization's expansion by the inclusion of regional powers such as India and Pakistan and to compete against these countries.

Beijing and Moscow would enthusiastically welcome Mongolia's application, but Ulaanbaatar is in no rush to apply for membership of the SCO, fearing greater dependence on its neighbors, China in particular. That is why Mongolia is trying to balance between SCO leaders and to keep its distance.

The SCO appears as an organization whose members are in a short-term alliance but do not yet have clear joint aims. Member countries differently understand its long-term aims and

objectives. Many documents adopted in the security and economic spheres and expected to be implemented until 2015 and 2020 are general and advisory.

For Putin's administration the SCO remains an instrument of macro-regional and global geopolitical positioning, a platform where Moscow's imperial ambitions can be voiced and find moderate support. In the sphere of Central Asia's security, Russia occupies leading positions, while in the economic sphere it is not capable of efficiently competing against China anymore.

As a result, the impression is given that the Kremlin is trying to avoid large-scale economic cooperation within the SCO, fearing the loss of leading positions in regional geopolitics, too, following the economic sphere. It is not by accident that Moscow prioritizes security issues in the organization, while China stresses the trade and economic component*.

Russia, led by Putin, will in the near future start a new stage of cooperation with China, led by a new generation of leaders. In the meantime, Moscow will also face a new stage of economic rivalry**.

The reality is that a key player in the SCO is China. This giant's active participation and role remain the main intrigue that attracts interest in the organization's activities from other countries.

Undoubtedly, the SCO will retain the possibility of becoming an important mechanism of multilateral cooperation in the future, bringing South Asian, Asia-Pacific and Middle Eastern countries into its fold. The epicenter of the SCO space is Central Asia, which, in turn, is becoming a key element in a new community of security and cooperation.

At the same time, in its future development the SCO will need to overcome a number of existing and possible challenges.

* The SCO summit in Beijing was also marked by another event: closer familiarization of Russian participants in the summit with the successors of the Hu Jintao–Wen Jiabao tandem, Vice-Premier Li Keqiang and Xi Jinping who are expected to occupy high posts in autumn 2012. In essence, they will inherit the same issues of development the SCO is now facing.

** An article published in Russia's influential *Kommersant* newspaper ahead of the SCO summit in Beijing eloquently titled "Shanghai Competition Organization. Russia Manages to Slow down Implementation of Projects Proposed by Beijing" is remarkable. The article's authors complained that it was increasingly harder for Russia to fight China's growing influence in Central Asia, which reflected the widespread opinion of the Russian establishment. Cf: Габуев Александр, Черненко Елена. Шанхайская организация соперничества. России удалось притормозить реализацию предложенных Пекином проектов // Коммерсантъ. 6 июня 2012 г. № 101

Firstly, political and economic cooperation between SCO member countries is not yet balanced. Relations between the interests of China and Russia and the purpose of the SCO, i.e. China in Central Asia, in case of Russia's unconditional prioritization of the Customs Union and CSTO remain unclear.

Secondly, despite the SCO entering its second decade of existence differences in defining priority spheres for the SCO have not yet been solved. Moscow, as was noted, believes the organization's paramount objective is cooperation in the sphere of international security and fighting new challenges and threats, while Beijing focuses on

issues more comfortable to it—developing and expanding trade and economic cooperation. As a result, the two major member states of the SCO will have to balance between cooperation and competition.

The third issue is the expansion of the SCO. The organization is being presented not like a military-political bloc but with an open structure and its agenda does not envision the admission of new members. However, without solving the issue of expansion the SCO will not be able to yield positive results. Failure to do so will result in the organization facing the risk of becoming even more amorphous.

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The Contribution of Ethnic Koreans in Promoting Bilateral Cultural Relations between Kazakhstan and Korea

GERMAN KIM

T Introduction

oday the world is moving inexorably along the path of globalization, such that a state's power and influence is no longer determined only by its natural resources, advanced technologies and military power but also by its demographic and human potential, including that of its diaspora. The diaspora and its role in international relations has been a topic of discussion and study for politicians, scholars and journalists for several decades [1]. Here we refer specifically to the role of the diaspora in relations between a specific country and a population's historical motherland.

The Republic of Kazakhstan is a multiethnic state. Among the ten biggest ethnic minorities in Kazakhstan are the Koreans, who, under the Constitution of the Republic, enjoy the same rights and responsibilities as all other citizens of the country.

It is generally thought that the history of Kazakh Koreans began with the deportation of 1937. However, the census data of 1897, 1926, and 1929 show that small groups of Koreans already lived on Kazakh territory during the period of the Russian Empire. Korean settlers founded their first *kolkhoz* (collective farm) "Kazakhstanskiy Ris" (Kazakh Rice) in Kzylorda Oblast in 1929.

In fact, the ties between the Great Steppe and the Korean Peninsula have existed since ancient

times. This is confirmed by the similarity of ancient archeological cultures, the Proto- Altaic proximity of the Turkic and Korean languages, likenesses in the shamanistic beliefs in Kazakhstan and Korea and by anthropological kinship. Zhibek Zholy (the Silk Road), which connected the East and the West for many centuries, was the means of contact between ancient Korea and the territory of modern Kazakhstan through the lands of the Celestial Empire. When the caravans ceased to travel the Great Silk Road, those ancient ties were broken, but they have been revived in the current era of world history. Twenty years have passed since diplomatic relations were established between Kazakhstan and the Republic of Korea. As soon as the two countries began cooperating, Kazakh Koreans began to play an active role in the development of bilateral relations in different spheres: the economy, culture, science, etc [2]. A new phase in the strategic partnership between Kazakhstan and Korea has necessitated greater involvement of the Korean diaspora in strengthening and expanding contacts between the countries, particularly in the sphere of culture.

What contribution can ethnic Koreans make to the promotion of traditional, popular and contemporary Korean culture in Kazakhstan? Do they have the means and the influence to succeed in this? What are the obstacles to and prospects for promoting the "Korean wave"? These are just some of the questions addressed in this narrative.

The Ethnic-Cultural Image of the Modern Korean Diaspora in Kazakhstan

After the collapse of the Soviet Union, the Koreans, unlike many other minority populations that chose to emigrate from Kazakhstan, preferred to stay on and adapt to the new circumstances of the sovereign republic, which was now committed to democratizing its socio-political system and establishing a market economy and multi-vector international relations [3].

About 2.5% of the Koreans in Kazakhstan were deported in 1937. So for the majority of Koreans, Kazakhstan is the land where they were born, raised and educated and where they became an integral part of this multinational republic. Nevertheless Koreans have another historical motherland—Korea itself—which has been divided by historical circumstances into two states.

According to data from the second national census of Kazakhstan in 2009, there are 103,000 Koreans in the country. They form one of the ten largest ethnoses in Kazakhstan and live mainly (85%) in five oblasts: Almaty, Zhambyl, Karaganda, Kzylorda and South Kazakhstan and in the city of Almaty. A high degree of urbanization is characteristic of Koreans; at least 80% live in big cities (Almaty, Astana and the oblast centers). Living in a multi-ethnic environment, with an urbanized way of life and a common language (Russian), has meant young people are increasingly entering inter-ethnic marriages; a growing number of children are born into families of mixed nationality and raised in a multi-cultural environment.

According to the 1999 census, about 30% of all Koreans, and 38% of those aged 15 and older, were economically active. For the country as a whole these indicators were 27.9% and 39.1% respectively. The lower second indicator for Koreans might be explained by the fact that in the 15-24 age group, among Koreans, there is a considerable number of schoolchildren and students [4].

Koreans in Kazakhstan are often accomplished entrepreneurs—many being owners of small and medium-size companies—and among them are heads of state departments and institutions. Generally, statistics point to the fact that at least two thirds of Kazakhstan's Koreans working in management or who are specialists in their field

occupy leading positions in their places of work. If we distribute the employed Korean population by occupation, significant numbers work in the services sector, housing and utilities, and trade (17.5%); agriculture (12.2%); and industry, construction, transport and the communications sectors (7.6%) [5].

Changes in the social structure, professional composition and the financial and property status of Koreans reflect a common trend that is characteristic of the entire post-Soviet population. Among the Korean ethnographic group, as in society as a whole, we observe three numerically asymmetrical social strata: the well-off, middle class and low-income populations.

During the post-Soviet period Koreans have achieved considerable success in business, thanks not only to the legal and socioeconomic conditions from which they benefit equally with the rest of the population but for other reasons too [6]. Korean businesspeople now occupy leading positions in the following sectors of the Kazakh economy:

- finance and banking;
- construction;
- retailing and trade;
- production and sale of home electronics;
- medical and educational services;
- consulting; and
- leisure and restaurants.

Both in the Kazakh SSR and the sovereign Republic of Kazakhstan Koreans have been represented in state bodies of power, becoming prominent figures in the political life of the country. Currently Yury Chwe is a senator of the Kazakh Parliament and Roman Kim is a deputy of the Majilis—the lower chamber of the Parliament. In 2007 Kazakhstan held central and local government elections and Koreans were well represented at all levels. In total, 20 Koreans were elected as deputies. It should be noted that five deputies elected to local authorities were branch chairpersons of the Association of Koreans of Kazakhstan (AKK); almost all the rest played an active part in the activities of Korean ethno-cultural organizations and were members of their presidiums and boards.

Kazakhstan has a professional Korean musical comedy theatre, which is now celebrating its 90th anniversary, and which is still financed from the

state budget. Neither Russia nor Uzbekistan, where the Korean diaspora is greater in number, can boast such a theatre. A weekly Korean newspaper *Koryo Ilbo* is published in Kazakhstan and, unlike its predecessors *Lenin Kichi* and *Senbong*, three-quarters of it is in Russian. Korean TV and radio programs have been broadcast in Kazakhstan for a long time, and the Republican Union of Writers has a section for Korean writers. Thus, it can be asserted without exaggeration that all aspects of Korean culture have professional representation in Kazakhstan.

The descendants of immigrants who have lived outside their historical ethnic homeland for a long time tend to assimilate, which involves their adaptation to the dominant ethnic environment. Gradual loss of native language, customs, and ethnic culture eventually lead to feelings of ethnic belonging being lost. This process is usually complete once several generations have passed. However, a diaspora will not disappear as long as its members describe themselves according to an antithetical “we and they,” the latter being understood as all other people, including the ethnos’ nucleus from which their ancestors once broke away [7].

Kazakh Koreans have synthesized their own definitive cultural gene pool incorporating elements of Korean, Russian, European and Kazakh cultures [8]. For modern Koreans in Kazakhstan the following are typical:

- a high degree of change of their ethno-cultural gene pool;
- this process is taking place in a multi-ethnic environment;
- they have adapted to cultures that are significantly different to traditional Korean culture;
- they have moved beyond the confines of mono-ethnic consciousness;
- they display a high degree of acculturation bordering on assimilation; and
- these processes are dynamic and intensive.

Language, as an objective component and criterion of ethnicity, is a dynamic phenomenon, undergoing significant change over time. Ancestors of the Korean immigrants to Russia’s Far East (and, hence, those now living in Central Asia and Russia) hailed from the North Hamgyong Province, to which they migrated from southern parts of the peninsula during the fifteenth and six-

teenth centuries. Long isolation from developing literary languages, their absorption of elements of the southern dialects, their preservation and finally Russian-language influences, have led to the linguistic phenomenon that has become known as *Koryo-mar* [9]. *Koryo-mar* is used neither in written form, in TV or radio broadcasting, Korean theatre, or in the Korean newspaper *Koryo Ilbo*, and it is not taught in schools—it is dying out. The complete eradication of the native language of Kazakh Koreans is now inevitable, and this is evidence of so-called partial assimilation at least.

The case for loss of ethnic self-consciousness and full assimilation is not as clearly defined. As sociological surveys show, the degree to which ethnic (diasporic) self-consciousness is preserved is high not only among the children of Korean families but also among children in inter-ethnic families [10].

In independent and sovereign Kazakhstan dozens of Korean associations, unions, and centers have been established and officially registered. The main priorities for these associations are the renewal of the Korean language, national customs and traditions; the study of Korean history; the development of traditional Korean culture, arts, and literature; strengthening friendship with other local ethnic groups; and the development of cultural and economic ties with their historical motherland. The associations have organized Korean language instruction programs and festivals of ethnic culture and art, including exhibitions by Korean artists, and published books on the history of *Koryo-saram* [11].

The Association of Koreans of Kazakhstan (AKK)—a public organization that brings together the Korean diaspora—plays a very important role in the dialog between Kazakhstan and Korea. The AKK has already done a great deal to preserve and develop ethnic culture, centers of national culture, mass media and closer cooperation with the Embassy of the Republic of Korea (Astana), the Consulate General (Almaty), the Korean Center of Education, representative offices of KOICA, KOTRA, and the Association of South Korean Citizens [12]. The AKK has also cooperated fruitfully with the Kazakh section of the Committee for the Peaceful Unification of Korea, its members being representatives of the ethnic Korean

community and citizens of South Korea living in Kazakhstan*.

The Role of the Korean Diaspora in Promoting Cultural Ties between Kazakhstan and Korea

The position of ethnic Koreans has always been discussed during Kazakh-Korean summits. South Korean officials have often expressed their gratitude to President Nazarbayev for his warm attitude towards and concern for Kazakh Koreans. In a speech to the Assembly of People of Kazakhstan in 2006 President Nazarbayev said, "Recently I met the South Korean Prime Minister. During our meeting she thanked me for supporting Koreans in Kazakhstan. I replied that she had no need to thank me, since they were not her Koreans but our own citizens." He also noted, "We value the talent, hard work and decency of our citizens of Korean origin. They play an important role as the bridge for interstate relations between Korea and Kazakhstan, one that strengthens our friendship and mutual trust, and contributes to widening business opportunities" [13].

In turn the Republic of Korea's former Ambassador in Kazakhstan Tae Suk Won said, "We strive to maintain good relations with the Korean diaspora in Kazakhstan. Koreans here have a specific character—although they are ethnically close to us, they are citizens of Kazakhstan. We believe that the Korean diaspora can serve as a solid bridge between Kazakhstan and Korea in the continued development of friendly relations" [14].

The Republic of Korea began to pursue specific policies regarding overseas Koreans about ten years ago. To this end, a special government foundation—the Overseas Korean Foundation (OKF)—was established in 1997, operating under the auspices of the South Korean Ministry of Foreign Affairs [15]. In December 2005 the Korean

government adopted a program to support ethnic Koreans in CIS countries.

Since diplomatic relations between the two countries were established, the Koreans in Kazakhstan have actively participated in the development of bilateral ties in various spheres: i.e., the economy, culture, education, science, etc.

In 1991, reflecting the presence of the sizeable Korean diaspora in Kazakhstan, the South Korean Center of Education opened in Almaty. This center now plays a very important role in the life of the Korean diaspora and other people in the city. Thousands of students and hundreds of teachers have taken language courses at the center. Alongside its educational activities the center promotes Korean national art, disseminates knowledge of the history and culture of the Republic of Korea, and holds various cultural events. The center has branches in many regional centers, large cities and other places with a concentrated Korean population [16].

The Center of Korean Culture opened in Astana with similar aims. It attracts hundreds of people interested in Korean culture, including those who love Korean films and K-pop.

While choosing Kazakhstan as their motherland, ethnic Koreans have contributed to the establishment of important Korean educational and cultural institutions, backed by the Kazakh government, which promote mutual understanding and bring the peoples of the two countries closer.

In recent years South Korea and the AKK have organized many concerts, exhibitions, theatre performances, fashion shows and other cultural events in Kazakhstan. The AKK has also held a number of festivals of Korean culture and art, with thousands of people taking part. The Embassy of the Republic of Korea and the OKF have always supported these cultural events.

It is more than ten years since Almaty and other Kazakh cities began to see the proliferation of South Korean restaurants specializing in dishes

* The achievements of the AKK as one of the well-organized and structured Korean public organizations can be summarized as follows. Firstly, it has managed to consolidate and unite different elements of the Korean diaspora in order to strengthen inter-ethnic concord. The center and regions are more closely and strongly connected and the organization has established interaction between businesspeople, researchers and intelligentsia. Secondly, all regional and national Korean organizations identified as their priority the revival of national culture and language. Thirdly, district, city and regional centers and branches have stepped up efforts to develop the Korean movement and awaken ethnic self-awareness. Fourthly, the AKK has helped to improve the business and political activity of the Korean diaspora. Finally, it has helped to strengthen ties with the historical motherland: in 2010-2011, for the first time ever, the OKF presented the AKK with three modern greenhouses with a total area of 4,500 sq m and a total value of \$750,000. This project will help the AKK to begin self-financing its operations.

such as *yukkejang*, *bulgogi*, *kimpab*, *jeyuk bokkeum* and other less familiar to local Koreans. More recently, karaoke salons have become popular among young Kazakhs. Local Koreans have since learned how to cook South Korean dishes and join in with karaoke. It is now ethnic Koreans who are the owners of Korean restaurants and entertainment establishments and who thus promote Korean traditional popular culture among the Kazakh people.

Bilateral relations between the Republic of Kazakhstan and the Republic of Korea are entering a new strategic phase which will strengthen and increase cooperation in all spheres and interstate ties [17]. This partnership will promote more extensive humanitarian exchange and closer cooperation in the fields of education, culture, art, sports, etc. Rather than focusing on the differences between the Kazakh and Korean people, the time has come to talk about what unites them and makes their bonds stronger. Kazakhs and South Koreans should get to know each other better, recognize the similarity in their outlooks, people, philosophy, mentality, ethnic psychology, customs and traditions. Ethnic Koreans are among them in visible and less visible ways.

The Korean diaspora of Kazakhstan can and should act as mediator between the two states, since ethnic Koreans have grown up with Kazakhs and Kazakhstan's other ethnic populations and each perceive the others as brothers. At the same time the motherland of Kazakhstan and its citizens should view ethnic Koreans not only as a diasporic instrument for achieving their aims, or as "younger brothers," but as equal partners, related by blood yet—for a variety of reasons—different.

Key Issues and Prospects for Cooperation between the Diaspora and its Historical Motherland

The problems in the promotion of Korean culture in Kazakhstan are objective and subjective. This duality is created by internal issues specific to Kazakhstan and others that are specific to South Korea.

The objective aspect of these problems is that the economy is a greater priority than culture for both countries, which is why economic relations usually dominate. In Kazakhstan, as well as in

Korea, culture is financed only from funds that are left over.

One of the obstacles to improving relationships between the local ethnic Koreans in Kazakhstan and their historical motherland is the language barrier. There is a subjective aspect to the way both sides address the issue of language learning. For example, the Department of Korean Studies at the Kazakh National University has more than 100 students and undergraduates and only four of them are ethnic Koreans. On the other hand, there are many South Korean businessmen and heads of subsidiary companies, who have lived in Kazakhstan for several years, yet who still do not speak either Russian or Kazakh. Although language is extremely important for communication, it still plays only an instrumental role. There are many more barriers in relations between local Koreans and their ethnic core due to certain differences in identity, self-awareness, mentality and culture.

The cultural ties between the two countries are important not only to government and private companies. Genuine communication between ordinary people is also very important. The more Kazakhs who are able to visit Korea, and vice versa, the greater and sooner their commercial and entrepreneurial success will be. Nowadays Kazakhstan's tour operators do offer medical trips and holidays in Korea, but these are still expensive compared to the tourism opportunities offered by Turkey and Thailand. Air travel to Korea is also much more expensive. Up to now, moreover, Kazakhstan has had little to offer South Korean tourists. In this respect Kazakhstan lacks the attractions of neighboring Uzbekistan, where Koreans come to play golf.

One legacy of the Soviet past are the Friendship Societies linking Kazakhstan with other countries. Most of these are formal associations, and there is a need to create new, less formal bodies to connect people from different walks of life who love both countries and have the potential to promote friendship between the two nations in the spheres in which they have authority and influence; in other words, an effective network organization. One example of this is the South Korean missionary church which has been able to create a network in Kazakhstan, although the churches' success has not yet attracted the attention of researchers.

It is important to bear in mind the positive image of the two countries and nations. South Korean businesses have a strong presence in Kazakhstan. Big businesses could invest not only to mutual economic advantage, but also to support social cultural, educational and humanitarian projects. This would recognize the importance not only of entering a country's commercial arena, but also of the need to integrate in order to generate intangible dividends and create a positive image—both of which are vital for strategic partnership.

Kazakhstan, for example, has sufficient financial resources to open and maintain a Kazakh cultural center in Seoul to which the Korean diaspora could donate books, exhibits and other materials.

From this point of view, the younger generation of Koreans in Kazakhstan could do more to promote Korean culture on the web. The most popular Internet portals and websites about Korea and Korean culture are created and moderated in Moscow and Tashkent. The creators of websites about Korean pop culture are usually young people of non-Korean ethnicity. However, this is a gap that will soon be filled by the Youth Movement of Koreans in Kazakhstan, which intends to include the Internet in its program of activities. For several years the Korean Center of Education has been providing IT courses for two dozen young Koreans annually.

For South Korea the phenomenon of *Hallyu* (Korean wave)—a term that in essence refers to various aspects of the country's popular culture—has become a multi-dimensional aspect of state policy, ideology, business and the Korean national image. *Hallyu*, which originally consisted of films, TV serials, dramas, pop music and variety art, now includes foreign tourism, fashion, jewelry, haberdashery, souvenirs and traditional food including the Korean cultural brand *kimchi* and many more with the label *made in Korea*. Over the last ten years the Korean wave has experienced setbacks in its development generally and in specific parts of the world. The reasons for these have been both domestic (within Korea) and external (beyond Korea's borders). They included the global economic crisis and the policy of limiting Korean cultural expansion which has been pursued by certain countries. This raises the question of what will happen if the Korean wave ends. What should be done to prevent this? These

questions should be answered while the wave is still riding high.

Exponents of South Korean popular culture should take into consideration the regional specificity of Central Asia in order to avoid “cultural conflict” [18], which could affect the image of Korea and its relations with countries with a dominant Muslim population. It is feasible, however, for South Koreans and local ethnic Koreans in Kazakhstan to explore opportunities for joint ventures for the production and promotion of TV dramas, given the number of talented scriptwriters, film directors, camera crews, and actors within these communities.

Last but not least, Koreans should innovatively exploit the potential and resources of the Korean diaspora in Kazakhstan as a vital tool in bilateral relations. For example, special programs and projects could be created as part of the OKF activities aimed at supporting overseas Koreans, or the countries could set up a specialized commission or other association.

There are many peripheral issues which could be discussed here at length, but the focus must be to define how the Korean diaspora can act more effectively as a bridge, a function both sides are keen to develop. How should the diaspora's relations with the historical motherland and its citizens in Kazakhstan be built? Today there is no magic solution to all of these questions. It is clear only that the relations between Kazakhstan and South Korea are entering a new stage involving the dynamic growth of quantitative indicators and transferral to a scientific, structured and systematized basis. What is more, these cooperation plans should be worked out not by each country separately but in collaboration.

Certainly, Kazakh Koreans will continue to do their best in order not only to play the role of a “living bridge” of mutual understanding, friendship and cooperation between Kazakhstan and Korea but also to act as important participants in humanitarian and intercultural exchanges and in business relationships between the two countries.

Recently public diplomacy [19] has been one of the key priorities of Korea's foreign policy; this includes not only Embassy and Consulate General officials but also representatives of mass media, business, science, education, culture and art, lead-

ers of NGOs, etc. Active involvement in the public diplomacy of non-governmental structures with the accompanying transfer of a significant proportion of related communications to the Internet

has become the “new public diplomacy,” aimed at promoting intercultural dialog and creating an atmosphere of trust and cooperation between the societies of different countries [20].

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Exhausting Opportunities of Extensive Growth as a Factor of Potential Macroeconomic Destabilization

VYACHESLAV DODONOV

The stability and sustainable growth of Kazakhstan's economy in the last fifteen years were mainly backed by increasing production in mining sectors, primarily oil and gas, including the growing prices and the continuous increase of production volumes. Oil production grew by almost 300%,

from 20.5 million metric tons in 1995 to 80 million tons in 2011. Another important factor in economic growth was the surge in oil prices (Figure 1), which increased by 600% from 1995 to 2012 (from \$17.5 to \$125). These two factors—increased oil production and growing oil prices—caused an increase in the dollar value of Kazakhstan's oil by approximately 28 times.

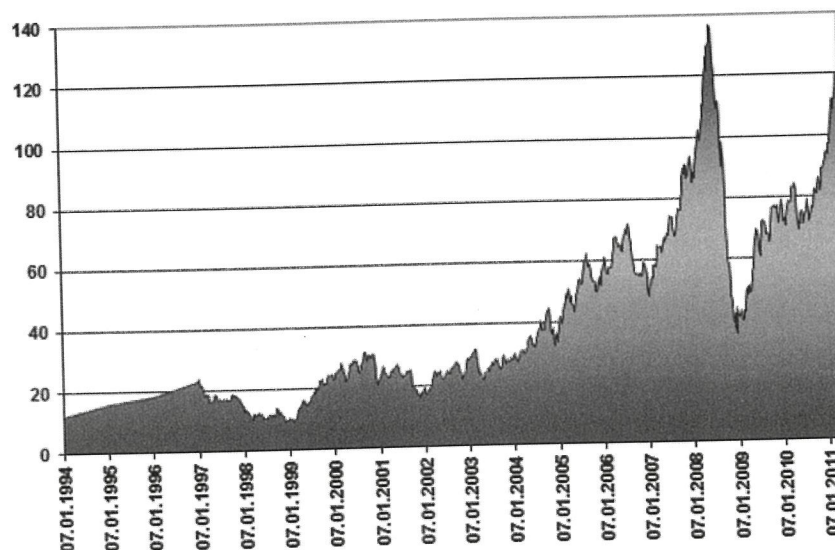


Figure 1. World Brent oil spot prices, USD per barrel [1]

Kazakhstan's GDP (measured in USD) in the same period increased eleven-fold, from \$16.6bn to \$178bn. This means that a 10% increase in the price

of Kazakh oil triggered an average increase of approximately 3% in the country's GDP. The oil factor and, in particular, its price component, underpinned

the growth of all key macroeconomic indicators, including industrial production, GDP, exports, and budget revenues. Figure 2 shows the correlation between exports, GDP and world oil prices, confirming that oil prices have significantly influenced the growth of key macroeconomic indicators.

In the mid-2000s another significant growth factor emerged in addition to oil prices—the rapid growth in lending activities by second-tier banks which boosted overall demand, especially in the construction and services sectors. However, the crisis has neutralized this factor and from 2008 oil has once again become the only actual growth factor in the Kazakh economy. At present, public spending on economic development programs is acquiring an increasing role in addition to oil. Yet, it should be taken into account that this spending is only possible against the backdrop of high and continuously growing oil prices, which determine the formation of the state budget and other state resources. In particular, oil prices and the respective export revenues and taxes directly influence

important indicators of public finance including the international reserves of the National Bank and the assets of the National Fund (Figure 3).

The above charts demonstrate that national reserves are also highly dependent on world oil prices, which suggests that the economic development programs implemented with public funds also depend strongly on oil production. Therefore, most of Kazakhstan's key economic indicators are still closely tied to the situation on the global oil market—this is proven by a very high correlation between the price of oil and these indicators (Table 1).

This means that Kazakhstan's economic development model can be described as an extensive growth model based on the growing production of raw materials in the very favorable external environment of a stable growth in oil prices over the last seventeen years. However this model is about to exhaust its potential because of the limited growth opportunities presented by its two main factors—production volumes and world prices.

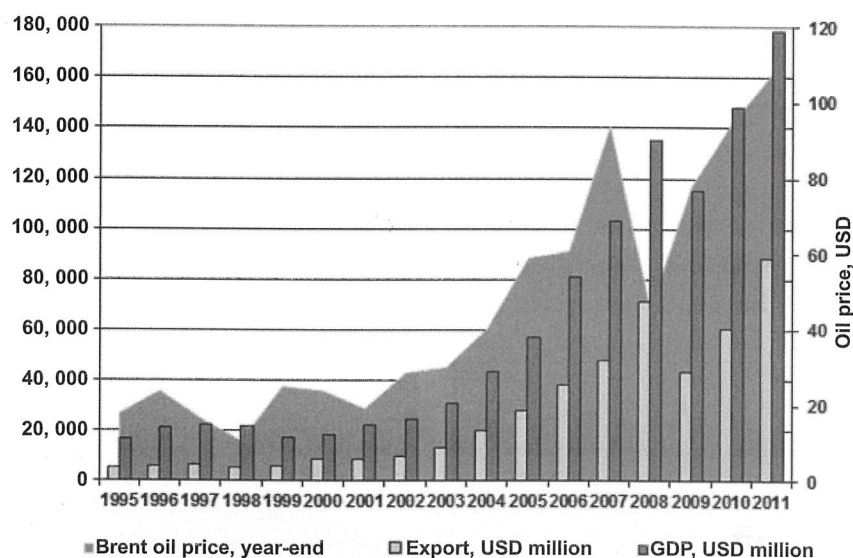


Figure 2. Comparison of changes in oil prices, exports and Kazakhstan's GDP in 1995-2011 [2]

Table 1. Correlation ratios between world oil prices and Kazakhstan's key macroeconomic indicators in 1995-2011

	GDP	Exports	International reserves of the National Bank	Assets of the National Fund
Brent oil price	0.90	0.87	0.92	0.88

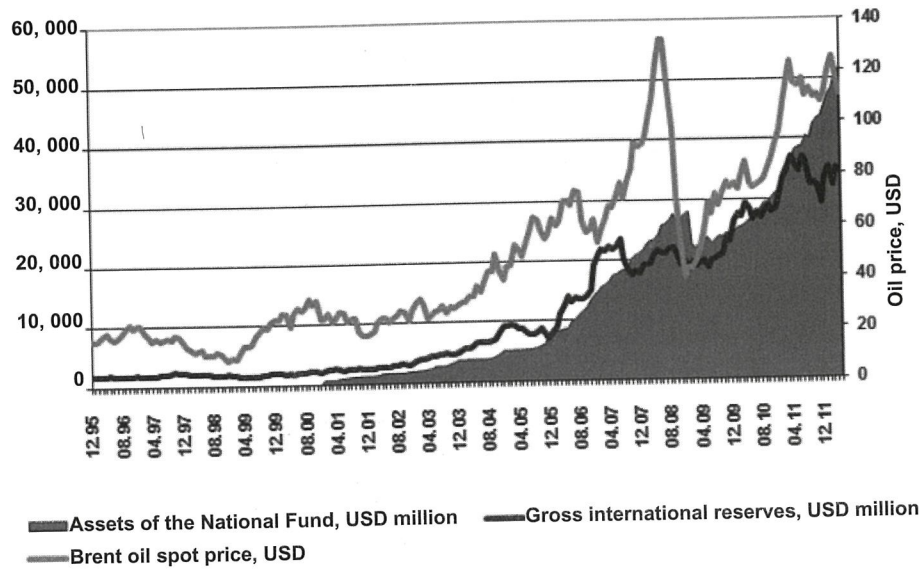


Figure 3. Comparison of oil prices, National Bank's reserves and National Fund's assets [3]

Most plans and forecasts, including those included in governmental programs, expect oil production to grow intensively in the medium term. In particular, the State Program for Boosted Industrial and Innovation Development of the Republic of Kazakhstan for 2010-2014 envisages that "in 2014 oil production will reach 85 million metric tons [4]". The Ministry of Oil and Gas forecasts production to grow to 130 million tons by 2020. However, at present these forecasts have not proven to be realistic—from 2009, there have only been insignificant increases in oil production (Figure 4).

In 2009 production stood at 76.5 million metric tons, in 2010 79.7 million tons, in 2011 80 mil-

lion tons, and in 2012 the Ministry of Oil and Gas forecasts it to reach 81 million tons. This means that oil production increased by a mere 5% over four years. Even if production growth speeds up and reaches 85 million tons by 2014, as expected by the State Program for Boosted Industrial and Innovation Development, this growth will be moderate compared to that in the period from the late 1990s to the late 2000s and will only amount to 6.5% (on 2009) against almost 200% recorded in 1998-2009. This actually means that one of the factors of quick economic growth—the increase of oil production—is no longer applicable to Kazakhstan.

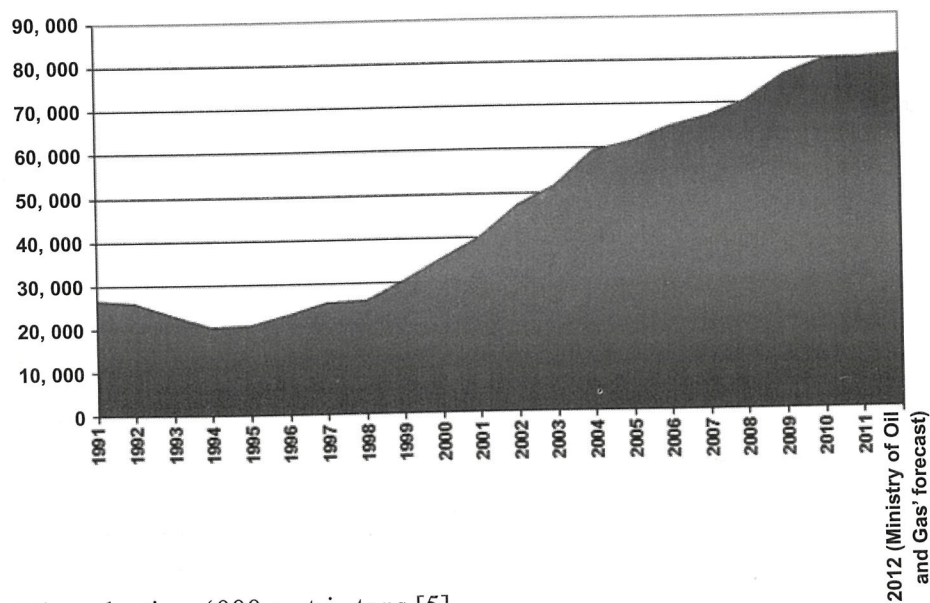


Figure 4. Oil production, '000 metric tons [5]

Another key sector of Kazakhstan's economy—metallurgy (which accounts for 41% of production by processing sectors and 12.1% of Kazakhstan's exports)—also demonstrates lower growth in the production of many articles [6] (Table 2).

Table 2. Production of main types of metallurgical products in 2001-2011, metric tons [7]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Iron ores, sintered and non-sintered, '000 metric tons	15,886	17,675	19,281	20,303	19,471	22,263	23,834	21,486	22,281	24,016	24,736
Iron ore pellets, '000 metric tons	6,107	7,308	8,849	9,447	7,494	8,473	8,572	6,952	6,182	8,150	7,803
Copper ores, '000 metric tons	34,872	36,703	34,887	30,383	34,067	34,082	31,266	32,566	30,594	32,039	34,396
Chrome ores, '000 metric tons	2,046	2,370	2,928	3,287	516	4,264	4,590	4,207	4,678	5,092	5,059
Ferroalloys, '000 metric tons	1,130	1,235	1,401	1,447	1,530	1,614	1,703	1,590	1,469	1,702	1668
Flat rolled products, '000 metric tons	3,888	4,018	3,838	4,040	3,105	3,000	3,441	2,826	2,990	2,900	3108
Unprocessed aluminum; aluminum oxide, '000 metric tons	1,231	1,387	1,420	1,468	1,505	1,515	1,556	1,714	1,735	1,867	1919
Unprocessed lead, metric tons	158,722	162,175	133,178	157,016	135,446	115,974	117,641	105,766	80,994	103,400	111518
Unprocessed zinc, metric tons	277,073	286,454	294,566	316,731	357,090	364,821	358,226	365,572	327,873	318,858	319847
Unprocessed alloy-free refined copper, metric tons	425,670	452,989	432,511	445,268	418,356	427,723	406,091	398,411	312,767	323,368	338524

From the second half of the 2000s, production of iron and copper ores, ferroalloys, flat rolled products and lead has been growing at negligible rates. Production of other items, including refined copper and zinc, is declining. This suggests that in some areas of metallurgy the peak of production

has already passed. The situation in geological prospecting does not imply that these indicators will increase in the future. Kurmangazy Iskaziyeu, Deputy Chairman of the Board for Geology and Promising Projects at Kazmunaigaz, stated at a meeting of the Kazenergy Association's Coordi-

nation Council discussing the development of the oil and gas sector that the known reserves of all main solid minerals were decreasing at an annual rate between 0.5% and 1.7% and of deposits under development between 7% and 8%. "As a result, the country's actual copper reserves may become fully depleted within 25 years, lead and zinc 17 years, and gold 30 years, while there are practically no prospects of discovering new large and unique deposits," he stated [8].

The second growth factor for Kazakhstan's economy in the 2000s—the constant growth in world prices—will also lose its significance in the next ten years, at least compared to what happened during the last fifteen years. Without even taking into account the increasingly frequent financial crises and turbulence in the global economy, it is impossible to expect a similar surge in oil prices in the next ten or, moreover, twenty years because this would mean that they will reach almost \$600 by 2020 and approximately \$3,000 by 2030, or a 400% increase over ten years, as it happened in 2001-2011.

The realistic scenario of the situation in world commodity markets suggests, in our opinion, that oil prices will stabilize at approximately \$100 per barrel (+/- \$20) in the short term (one to two years) and then gradually go down. In addition, it should be noted that if the reform of the global financial system aimed at preventing situations similar to the 2008-2009 crisis really happens, it will negatively affect world commodity markets. One of the main reasons for the global financial turbulence is speculative liquidity, which has achieved a grand scale in the last ten years, and changes of its flows cause failures in financial markets. If the reform to limit the scale of this liquidity (the return of the distinction between lending and investment activities, restrictions on the issue of derivatives and opportunities for margin trading, etc.) is carried out, it will result in a sharp decrease in the volume of money in global markets, including the commodity markets, and, subsequently, a fall in commodity prices. This scenario is probable for a period of up to ten years and this is another reason to expect that the prices of Kazakhstan's exports will stop growing and will even fall in the long run.

Exhausting these two factors in Kazakhstan's extensive economic growth will have, in our

opinion, very negative consequences, including the following:

1. The cessation of GDP growth at the high rates of about 10% recorded in the 2000s. If oil prices stabilize, this will slow growth to 3-4%, which will be backed by non-oil factors (lending activities of banks and public spending), however if oil prices stabilize or fall for more than three years these factors will also be exhausted because of the limited inflow of export revenues and this may cause economic growth to stagnate near a zero rate;

2. Stabilized and reduced budget revenues, which are closely tied to world oil prices and grew during the 2000s in proportion to their growth (Figure 5). A reduction in budget revenues, while its expenditures remain as they were planned during the period of growing oil prices, will result in an increase in budget deficit. The current national budget for 2012-2014 [9] envisages a continuous growth in both revenues and spending. Revenues are expected to increase from 4,346 billion tenge in 2011 to 5,311 in 2014 (up 22.2%) and expenditures from 5,170 billion tenge to 5,884 billion tenge (13.8%). However if world oil prices stabilize or fall, which is quite possible during the period, it will be difficult to deal with budget spending and this will require either sequestration or additional transfers from the National Fund, which in turn will reduce its assets;

3. A sharp worsening of the balance of payments. The positive values of Kazakhstan's current account and balance of payments are primarily due to exports (Figure 6), which depend almost fully on oil prices (as it is evident from the comparison of exports in Figure 6 with the above charts showing world oil prices). In addition, for the current account and balance of payments to remain positive, world oil prices need not only to remain high but must grow in a continuous fashion. The stabilization of exports (let alone a fall as it happened in 2008) at a certain level for a long time causes the current account to drift into negative values. This happened in 2005-early 2006, 2006-early 2007 and in 2010 as shown by the comparison of exports and current account indicators in Figure 6.

The balance of payments, whether positive or negative, is financed from the reserves of the National Bank (for this reason this indicator is

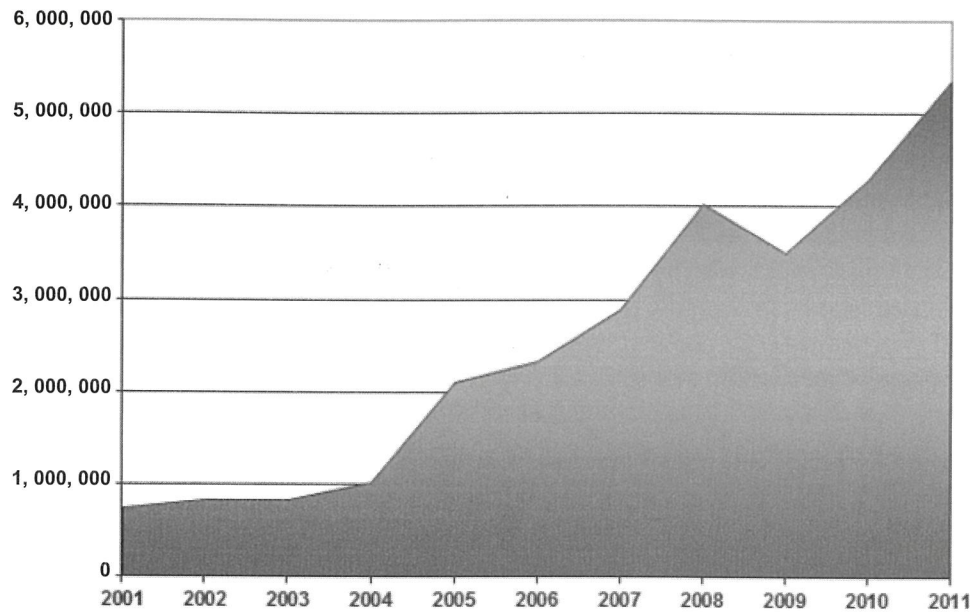


Figure 5. Kazakhstan's budget revenues in 2001-2011, million tenge, according to the official website of the Ministry of Finance [9]

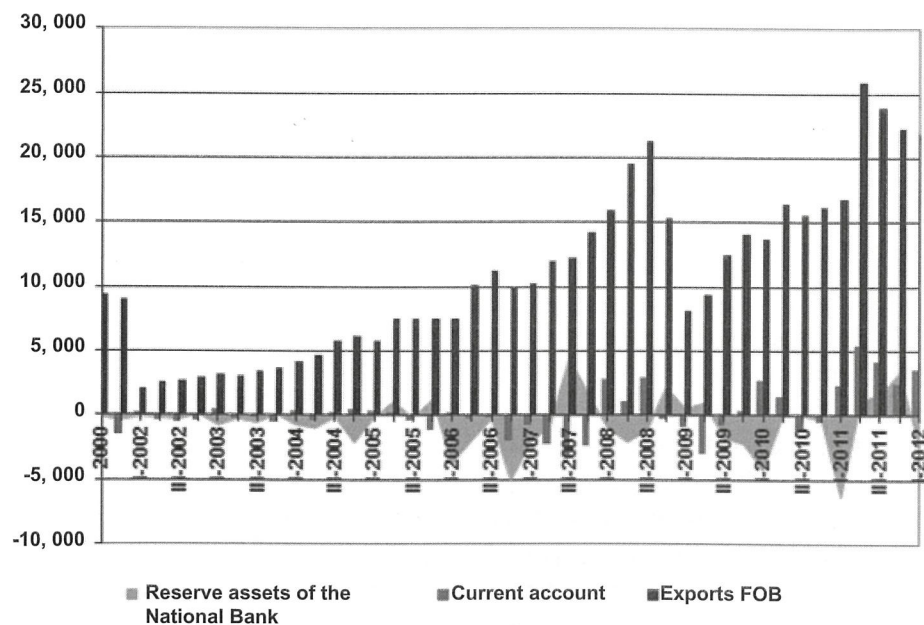


Figure 6. Quarterly figures of exports, current account and reserves of the National Bank of Kazakhstan [10]

also shown in Figure 6): when the overall balance is positive the National Bank's reserves increase accordingly and when it is negative the reserves

decrease, with the respective consequences for public finance and economic security as a whole.

The reasons that the overall balance and current account regularly drift into negative values while Kazakhstan's exports remain very high and its balance of trade stably positive is that the two significant items of the balance of payments—the services balance and the balance on investment income—are stably negative and the capital and financial transactions account, which reflects international investment flows, is unstable (Figure 7).

The negative services balance and balance on investment income can be explained by the fact that many major subsoil users are foreign companies (or companies with foreign participation), which repatriate profits abroad (and this is reflected in the balance on investment income) and hire their foreign partners to provide services (and this influences the services balance). The higher oil prices, exports and subsoil users' revenues, the higher

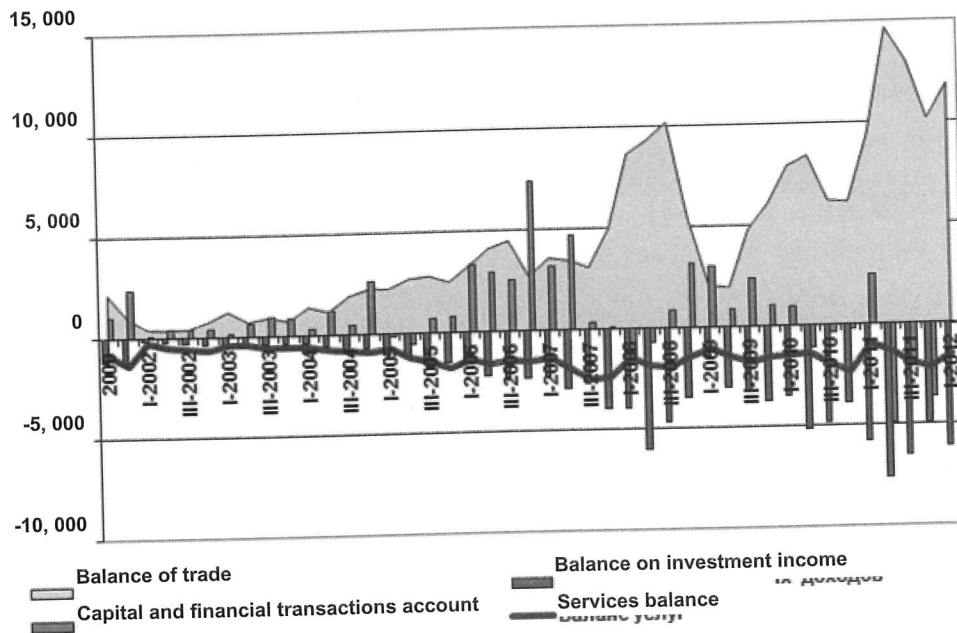


Figure 7. Quarterly figures of key components of Kazakhstan's balance of payments [11]

export of these revenues, which is why even high oil prices do not guarantee a positive balance of payments and current account. In a stable situation when prices are growing these figures remain positive, but any long-term decrease in prices or their stagnation worsen the third important component—the capital account, which comprises foreign investment and intercompany debt repayments. International investment flows in raw-material economies, including Kazakhstan, depend to a significant extent on export prices and when these prices go down, foreign investment also decreases or even flows outward, resulting in a worsened capital account with a negative impact on the balance of payments as a whole.

Figure 7 shows that the capital account became negative in the second quarter of 2011 and it has remained negative ever since. This reflects a decrease in oil and metal prices and a reduction

in overall exports and balance of trade. From the second to fourth quarter of 2011, when the capital account had the largest negative value in the last ten years, the overall balance reached a negative value of over \$6bn and the National Bank's reserves decreased by the same amount over those three quarters. From April to December 2011 the National Bank's international reserves decreased by \$7.7bn or 21%. This reduction demonstrates the role of oil as it happened against the backdrop of a decrease in Brent oil prices from \$123 to \$107. At present (second quarter of 2012), another decrease in oil prices is causing a further reduction in international reserves and this situation will recur each time oil prices stop increasing. The role of the price factor will become more dominant with the decrease in oil production and exports—while in the 2000s price fluctuations were compensated by the growth in oil exports this is no longer the case.

A worsened balance of payments means a destabilized macroeconomic situation with respect to foreign exchange rates: a negative balance implies one of the two alternatives—a loss of international reserves or currency depreciation. As a rule both things happen at the same time because in the first place the National Bank will try to maintain the tenge through interventions, however if pressure is exerted on the exchange rate for a long time it sooner or later needs to be released. As a result, if oil prices stabilize and oil production ceases to demonstrate noticeable growth, it is inevitable that the national currency rate will fall. This factor will contribute to the development of negative trends such as increased inflation on imported goods, a reduction in the population's income, an increase in the costs of servicing foreign debt, the outflow of capital, and the destabilization of the financial sphere.

Therefore, exhausting the opportunities of extensive growth for Kazakhstan's economy, which was based on growing oil production and increasing

oil prices, will result in a number of serious macroeconomic problems, from a slowdown in GDP growth to a reduction in the population's income. As for when these problems should be expected, the first signs such as a slowdown in GDP growth and industrial production and the worsening of certain indicators of the balance of payments will become visible as early as the end of this year. The intensity of the possible economic slowdown will be determined to a significant extent by the speed of the development of new fields, primarily Kashagan, the commissioning of which will make it possible to prolong the extensive growth due to increased oil production and exports. However, even with this factor in mind, the opportunities to develop the economy on the basis of oil alone will be exhausted in ten to fifteen years, therefore, a new strategy for economic growth is acutely needed and this needs to be based on the concept of intensive development and an increase in projects and sectors with high added value and performance.

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The Shipment of Hydrocarbons: Environmental and Economic Aspects

BELA SYRLYBAYEVA

The fuel and energy complex is one of the major polluters of the environment. The peculiarity of this sector is that at all stages of its activities it is impossible to avoid a negative impact on the environment and significant changes in the natural conditions it produces. The stages of the exploration, development and operation of hydrocarbon fields are accompanied by the growing manmade impact on the landscape and territory: ground layers are shifted, soil horizons are transformed, and the beds of surface and subsoil water flows are changed which intensifies marsh formation and soil degradation and changes the habitat of the flora and fauna. Furthermore, fuel and energy enterprises' activities are accompanied by emissions of large amounts of greenhouse gases and toxic compounds. Accidents during transportation pollute sizeable areas with petroleum products and highly mineralized waters. Significant environmental risks also emerge during the transportation of hydrocarbons by rail, road and water transport.

Kazakhstan's hydrocarbon resources, which are concentrated in its western regions and onshore and offshore areas of the Caspian Sea, are mostly shipped to domestic and foreign markets by networks of pipelines, rail and by tankers to Azerbaijani and Iranian ports.

Since independence was obtained in 1991 the oil and gas output in the former Soviet republics—Ka-

zakhstan, Russia, Azerbaijan and Turkmenistan—has been growing steadily, making the problem of supplying the commodity to foreign consumers increasingly acute with each passing year. In addition to increasing the capacity of the existing routes, specific projects to build new pipelines across the Caspian Sea and along its coast are being drafted.

The desire of the Caspian-littoral countries to feature in global markets and expand their export potential is understandable. The environmental risks accompanying trans-Caspian projects are also obvious. The risks stem from a considerable "breakdown potential" that inevitably accompanies a complex system of oil and gas transportation and the level of risk considerably increases in the seismic and landlocked conditions of the Caspian basin.

Statistics suggest that pipelines are one of the safest modes of transport. This conclusion is based on human casualties and injuries but does not take into account environmental damage. Despite this claim, the scale of the industry's impact on the natural systems is vast: the construction of a pipeline degrades the farming land and destroys historical and natural reserves. Oil spills caused by breakdowns and incorrect use are the main causes of contamination of water sources, agricultural produce, public land and housing estates, damage to the habitat of the flora and fauna and their death, not forgetting major manmade disasters: explosions and fires, often with human casualties*.

* Violations of environmental protection legislation, obsolete technologies and industrial accidents have resulted in the pollution of about 200,000 ha of land in western Kazakhstan, mostly along the Caspian Sea shore.

Oil spills in water sources are particularly hazardous*. Although American researches state that 63% of oil pollutions are generated naturally, i.e. appear in water by naturally penetrating the seabed, any such accident has an immediate impact on the environment.

Many of these phenomena become irreversible, however they still could be prevented from happening in the first place. Industry statistics show that the main causes of accidents on pipelines are:

- corrosive damage to pipes and shutoff and control valves;
- violations of standards and rules for construction works and repairs, including deviations from the original design;
- violations of technical requirements during the production of pipes and equipment;
- errors by operational and repair personnel;
- external physical (forcible) impact on pipelines, including illegal hookups leading to leaks, acts of terrorism, sabotage and so on.

Estimates imply that about 75% of all leaks from pipelines may be prevented by operators and regulators and that only 25% are caused by a force majeure that is hard to predict and prevent: weather conditions, earthquakes, mudslides, malicious acts by individuals and so on.

The irony is that oil and petroleum products are relatively cheap to freight and operators incur much larger losses due to decreases in transit capacities when pipelines are suspended for scheduled or unscheduled repairs than from direct oil leaks and spills. Only strict legislation and sizeable fines and other sanctions for environmental damage can force operators to conduct strict monitoring of the condition pipelines are in and to install quality systems to detect leaks.

It is worth noting that land reclamation and measures to clean up water sources are very expensive and often cannot be fully funded by the guilty party even when it is possible to establish what was to blame. That is why these costs are usually transferred to local budgets.

As a result, efforts by legislative, executive and regulatory bodies, operating companies and the public should be concentrated on the prevention of accidents through the creation of a comprehensive set of measures that takes foreign experience into account.

The high costs of cleanup make it feasible to adopt mechanisms of insurance and create emergency funds for areas likely to be affected.

In order to reduce the likelihood of breakdowns, the requirements for the reliability of pipelines should be constantly increased. This primarily concerns the monitoring of processes surrounding the natural physical wear and tear of pipes, installations and equipment and of their scheduled replacement, as well as strict adherence to the latest technology in pipe-casting and laying pipelines.

It is necessary to apply the latest technologies** and regularly renew the anticorrosion coating of pipelines, thoroughly examine the terrain they cut through and analyze the territories for geodynamic risks relating to endogenous and exogenous issues. Fleets of specialized vehicles and equipment should also be constantly renewed and the best technological solutions to eliminate the consequences of manmade disasters should be acquired and adopted***.

Efficient systems to detect leaks are vital in order to improve the reliability of pipelines. Devising these systems should be a priority not only for transport companies but also for specialized research establishments and should be supported by the government.

In order to regulate this sphere the relevant normative documents—technical regulations****—should be drafted and adopted and they should specify the requirements set for systems that detect pipeline leaks, selection mechanisms and application methods and identify responsibility for accidents.

Toughening environmental requirements in Kazakhstan have already led to progressive companies that own pipelines and the operators of pipeline

* Estimates suggest that a metric ton of oil pollutes up to 12 km of the sea's surface.

** International experience shows that flexible pipelines of reinforced plastic with an unlimited term of use are the most efficient

*** An efficient way of fighting oil spills is the use of biotechnologies: special microorganisms oxidize petroleum products, decaying them and rendering harmless

**** Kazakhstan now makes use of Russian standards and regulations that have been subsequently approved in Kazakhstan.

networks voluntarily adopting up-to-date systems to monitor the condition of pipelines*, involving a wide range of methods—from patrolling (including aerial patrols) by specialists to the monitoring of pipeline facilities via satellite**.

Unfortunately, this conscientious approach is not widespread among subsoil operators. In practice it is precisely on environmental protection measures where companies try to make savings. In many cases, the heightened breakdown potential is formed at the initial stages—the design and construction of pipelines and other facilities to extract, refine and transport hydrocarbons.

Specialists say that the big problem has been the quality of transport construction. Rules and criteria governing the selection of contractors need to be overhauled. This problem is relevant not only to small projects but also to major projects. For example, a paramount factor defining the reliability of the construction and use of pipelines and other facilities is control over the quality of work carried out. Obviously, this function should be assumed by the owner of the facility, but in reality the situation is different: quality control and often the necessary technical monitoring are placed in the hands of general contractors, which naturally distorts the very reason for performing control measures and results in the structures conducting the control and quality checks dependent on and vulnerable to those being measured.

Another important safety factor is the cost of controlling the quality of work. This expenditure does not constitute more than 3% of the total project costs but some owners' irresponsibility and pursuit of super profits result in savings being demanded on these costs. This practice drives reputable companies with a high level of responsibility and professionalism working in line with international standards out of the market and replaces them with small semiprofessional structures that are ready to implement projects at rates imposed on them because of cost-savings on technologies, equipment, materials and the

qualifications of their staff. These firms compromise the notions of professional ethics and responsibility in their pursuit of preserving beneficial contractual relations with their client, which does not only lead to poor quality work and the formation of significant breakdown potential but also reduces the overall level of quality control across the market as a whole. Globally, it loses its competitiveness. As a result, the country's reputation suffers and reputable companies lose incentives to invest.

Experience shows that oil pipelines are a relatively cheap way of transporting oil—the construction costs are recovered within two to three years. The mode of operation of a pipeline is barely influenced by weather conditions and the human factor is also minimized. As a result, the pipeline mode of transport is economically profitable, and in some conditions is even indispensable. However, according to transport statistics, the bulk of international oil shipments are still performed by oil tankers***.

In recent years the sea transport market in the Caspian Sea has been expanding, with increasingly fierce competition for future volumes. Each littoral country is putting effort into the creation and development of its own fleet of tankers and corresponding port infrastructure.

However, the main condition for the competitiveness of a tanker shipment in harsh weather conditions and the continuing uncertainty around the legal status of the Caspian Sea is not volumes of oil shipped but rather guarantees of the security of the shipment and the preservation of the quality of petroleum products shipped.

Tanker shipments contain considerable environmental risks and are associated with a number of hazards. Many seaways are congested which increases the breakdown potential and reduces the manageability and reliability of shipments. Fierce competition for freight and the pursuit of ever-cheaper shipments pushes tanker owners to reduce ship crews by automating ship management. To this

* Kazmunaigas is implementing a comprehensive environmental program in 2006-2015 which aims to monitor the Kazakh sector of the Caspian Sea and detect oil slicks using satellites, as well as prevent and eliminate consequences of oil and petroleum product spills. The company named the creation of an efficient system for environmental monitoring as a priority.

** Distant methods using satellites make it possible to take pictures in a multispectral range, including using laser and radar technology.

*** Up to 80% of global oil output is now transported by sea.

end, the technology used to build tankers is in turn simplified—something that is extremely dangerous for oil tankers*. Unfortunately, breakdowns on oil vessels and platforms take place with appalling frequency and are always accompanied by pollution of the sea and coastal areas and the large-scale demise of flora and fauna.

Environmentalists estimate that 30% of sea and ocean surfaces are now covered with a film of oil. At the same time, there are presently no efficient ways of eliminating large-scale oil spills and we can see this demonstrated in the operation to fight the consequences of the explosion on BP's oil platform in the Gulf of Mexico in 2010. An oil spill region always becomes an environmental disaster zone. The oily film that covers the water surface damages the exchange of heat and gas between the air and the sea, killing the phytoplankton and zooplankton that are the basis of the food pyramid, which in turn destroys the food source for schools of fish and sea mammals, reducing their numbers and increasing disease. In the enclosed water body of the Caspian Sea any accident may have fatal consequences.

In November 2010 at a summit in Baku, the presidents of the five Caspian-littoral countries defined the preservation of biodiversity and environmental balance in the Caspian Sea as a priority, but these sentiments obviously contradict many commercial projects, including the construction of trans-Caspian pipelines under the sea and through protected areas in the Caspian basin.

Guarantees for the environmental safety of future oil and gas pipelines cannot be given at the present level of technological development. There are no absolutely safe methods of extracting and transporting hydrocarbons, especially in an enclosed sea located in a seismic zone. Aside from risks of major leaks, the acoustic vibrations created by undersea pipelines present a significant threat. This may affect the natural migration routes of the sturgeon and their reproductive health.

However, we have to be realistic and understand that for at least three out of the five littoral countries oil and gas are major export items and a source

of budget revenue. That is why it is obvious that Kazakhstan, Azerbaijan and Turkmenistan will not abandon their ambitious oil and gas projects and will continue to increase their export and transit potential, compete in the global commodity markets and become involved in rivalry for favorable transit routes and profitable trade channels.

Having said that, an imminent conflict of economic interests should by no means create a threat to the region's environmental security.

Any route to supply Caspian hydrocarbons to the global markets in the interests of third parties should undergo thorough environmental expert examination by all the littoral countries and, if in doubt, it should be rejected rather than accepted. We are not able to agree with the position of some littoral countries, in particular Turkmenistan, which has stated that "the construction of an undersea pipeline in the Caspian Sea should be conducted with the approval of only those states on whose sectors of the seabed the pipeline will be built**." The Caspian Sea is an indivisible and very fragile ecosystem, which is why a situation in which one country benefits and one country loses from third party actions should not be allowed. The price of the mistake will be too high. The dialog between the countries should achieve a balance between the development of natural resources and the preservation of the Caspian Sea's unique ecosystem.

Obviously, the range of the existing environmental problems is very wide and many of them bear a crossborder nature, and are often even global in nature, and cannot be solved nationally. That is why the Caspian states should abandon rivalry in favor of efficient cooperation in all spheres of regional security: military-political, energy, economic, environmental, socio-humanitarian and so on. This has to become a domestic and foreign policy priority for these countries.

We believe that cooperation in ensuring environmental security is particularly important, especially in the sphere of the prevention and elimination of the consequences of natural and manmade disasters.

* Tankers with even larger deadweights of over 300 meters ship over 100,000 metric tons of oil at once. Without double hulls and other improvements, they may fail to withstand water pressure and spill oil.

** Turkmen President Gurbanguly Berdymukhamedov's official statement at the Caspian summit in Baku in November 2010.

Because of the potential growth in tanker fleets and pipeline networks the Caspian-littoral states should closely cooperate in the development of emergency rescue structures and systems to protect the sea and coast from possible spills of oil and petroleum products.

A comprehensive approach to ensuring environmental security should include:

- risk assessment;
- programs for mobilization and elimination of emergency situations;
- the necessary equipment; and
- personnel training.

This approach will make it possible to minimize damage from accidents and ensure the maximum return from investment in equipment needed for both scheduled cleanups of polluted sectors and for use in emergency situations.

In order to improve the environmental situation and prevent accidents during the transportation of hydrocarbons the Caspian-littoral states should take the following actions:

- conduct mandatory and regular tests on oil and gas pipelines, including tests of forward pressure in pipes;
- systematically conduct aerial and satellite monitoring of pipelines;
- take measures to protect pipelines from corrosion (treatment with special compounds and so on);
- based on data collected, develop a constantly updated electronic environmental map;
- maintain the instant preparedness of rescue tugboats and other specialized vessels and equipment to assist damaged tankers;
- conduct regular drills to maintain the preparedness of special subunits to fight large-scale oil spills and other accidents;
- in mining contracts mandatorily include provisions on the responsibility for violations of environmental protection legislation;
- sign contracts with owners of transport and logistics facilities on the joint fight against the consequences of spills of oil and petroleum products;
- certify all vessels involved in the shipment of oil and petroleum products;
- prohibit vessels that do not meet safety requirements from entering the sea;
- harmonize methodologies to define the state of the Caspian ecosystem used in all the regional

countries, which should help overcome conflicts, and draft a common road map for the solution of environmental problems;

- direct the work of permanent working groups and scientists from Caspian-littoral countries to assess and monitor the current state of the Caspian environment, in order that they draft proposals on the preservation of the region's biological resources;
- harmonize environmental legislations across the Caspian Five through interparliamentary dialog;
- thoroughly monitor climate change;
- conduct scrupulous environmental expert examination of every project to extract and ship hydrocarbons in a pentilateral format;
- adopt strict control over the activities of national and multinational companies regarding their compliance with environmental legislation and social and tax obligations; and
- consider the establishment of supranational institutions to protect the Caspian environment and improve the environmental situation in hydrocarbon exploration and transportation zones and to provide mutual assistance during natural and manmade disasters, as well as eliminating the consequences of these, and also to assist the population of the region.

Undoubtedly, these measures would slow the process of the adoption of managerial decisions on the exploration, refining and shipment of hydrocarbons. In the current extremely dangerous environmental situation these measures and the inevitable economic losses should be regarded as justified.

The intraregional investment basis should be strengthened and a favorable investment climate should be created for the regional partners. This may be achieved through the creation of special financial institutions (banks and funds along the lines of Eurasian Development Bank, set up by Russia and Kazakhstan), the main objective of which will be to fund and insure joint projects that pass all-round expert examination and to support measures to preserve the environment and biodiversity in the region.

In order to fully tap the region's export potential, policy coordinated by the countries should as much as possible aim to develop the most economically feasible yet environmentally safest routes for the transportation of Caspian energy resources, recon-

struct the existing routes and build new transport corridors that meet intraregional interests.

It is also feasible to establish a permanent supranational body (council or assembly) designed to protect the region's interests and security on the international stage and to prevent militarization in the Caspian Sea and conflicts between the littoral states.

As a result, the need for a coordinated and comprehensive approach involving all five countries to the problems caused by economic activities in the region is absolutely obvious. The protection of the Caspian Sea should not be a one-off exercise, but permanent and with long-term aims. Environmental protection policy in the Caspian Sea should be common to all countries; otherwise it will simply mask the plundering of the sea. To this end, the governments, extractive companies and the general public of the Caspian Five should combine their efforts to raise the environmental protection standards and technological requirements for any economic activity in the Caspian Sea to a level that makes it possible to reduce emissions and keep pollution to a minimum.

This is why it is extremely important for Kazakhstan to:

- draft and adopt technical regulations on the safety of pipelines for the transportation of oil and gas;
- adopt a new national program for the prevention of oil spills and response to these in the sea and lakes in Kazakhstan, which in turn should become the applied guidelines in the event of an accident;
- create a reserve fund to cover the financial responsibility for oil spills, taking international experience into account. Oil and sea shipment companies' ports operating in the Kazakh sector of the Caspian Sea should found this fund, which should be involved in environmental protection research, satellite monitoring and aerial photography that can detect oil slicks in the sea, the creation of training

programs for their personnel, the development of an oil-spill response and so on;

- increase civil defense forces in the country's western region, hold regular training courses for specialists on the prevention and elimination of oil spills, possible fires, manmade disasters in oil and gas extraction and transport facilities;

- adopt measures to increase the level and quality of training in the transport construction sphere, including fostering the notions of business ethics, professional duty, social responsibility and environmental literacy;

- increase control over the technical state of transportation methods involved in shipping oil, gas and products by sea and land;

- adopt a single tariff policy for controlling the quality of work (including control over materials violating and not violating the controls);

- increase government control over the construction of oil and gas facilities; and

- create a Kazakh association of companies responsible for controlling quality to closely support the currently disconnected organizations, help coordinate their activities and bring national legislation in line with international standards.

It is obvious that at the moment environmental protection issues relating to the extraction and shipment of oil require government regulation. The government agencies' objective should be help form conditions for the use of natural resources under which the producers' interests would prompt them to act in the interests of the state and the sustainable development of society.

Thus, the safety of pipelines is a financial, environmental and social issue, beyond individual enterprises and the sector and is an important problem for the state to address and demands an immediate solution. Moreover, in the unique environmental and climatic conditions of the Caspian Sea this problem cannot be solved within a given nation and so it necessitates close regional integration and cooperation.

Kazakhstan and Modern Integration Processes in the Economy of the Arab World

DARIYA MUKHAMEDZHANOVA

The Arab world is a modern center of economic and political confrontation of regional and global forces in the fight for control over its economic resources.

The events known as the Arab Spring have resulted in the emergence of new aspects of regional and international cooperation and the changing role of regional movers and shakers.

An important trend in the transformation of the Arab world is the union of Arab countries guided by the principle of an “Arab solution to Arab problems.” The foundation for political and economic integration at present should become and is becoming, in our opinion, the understanding of civilizational commonality of Arab states, the uniqueness, integrity and significance of this commonality for ensuring regional stability and processes of qualitative transformation of the global community.

The experience of economic interaction, the cultural-civilizational aspect and a search for philosophical and religious sources of societal development may, we believe, become crucial factors for the expansion of cooperation and strategic partnerships between Arab countries and Central Asia and in ensuring regional economic security.

Global and Regional Consequences of the Transformation of the Arab World

The Arab world [1] now is in a state of political and economic transformation, and this is influencing the quality of the region’s socioeconomic development. The peculiarity of the present situation in the Arab world reflects the incompleteness of transformation processes.

Reformatting the Arab world, as a result of intra-regional protest movements, has led, nevertheless, to the involvement of a wide range of countries from outside the region in regional events and to a change in the global understanding of the region and its regional and global prospects.

The internationalization of domestic conflicts in countries engulfed by the Arab Spring has *de facto* taken place. At the global level the concept of international relations is changing, while at the regional level Arab organizations are becoming active.

New trends in the Arab region are prompted by:

- the emergence of a new regional ideology. The ideology of “neo-Pan-Arabism” has emerged in the Arab world as a uniting idea, to a greater extent, based on traditionalist views of Islamic revival which have preserved nationalist nature and, to a lesser extent, aimed at liberalizing public relation*;

* Previous Pan-Arabism was based on nationalist, leftwing and socialist ideas.

- new approaches to the assessment of actions by subjects of global governance and to the legitimacy of foreign powers' involvement in regional process in the globalizing world. The Arab events are absolutely different in terms of actors, declared aims and results*, but a common result of the opposition's confrontation with the existing regimes in Tunisia, Egypt, Libya and Syria was the need to change the provisions of international law under the conditions where foreign powers' military intervention has a destabilizing role;

- a boost in activities of Arab regional unions as new subjects of regional and global governance. Socioeconomic differentiation in Arab society is not the basic and only cause of its political and economic transformation, but it was the efficiency of applying a universal international approach** to solving economic processes based on recommendations by global institutions that made regional organizations become active: the League of Arab States (Arab League) and the Cooperation Council for the Arab States of the Gulf (Gulf Cooperation Council).

Economic Integration of Arab Countries: Current Peculiarities

The Arab region occupies an important place in the global economy, as it is a major global exporter of energy. Arab countries impact on the global economy sharply jumped in the first half

of the 1970s when, as a result of a multifold increase in the price of crude oil, they managed to accumulate sizeable gold and foreign exchange reserves.

The possession of energy resources is becoming, on the one hand, the main condition for the Arab world's entry to the global market and, on the other, one of the main reasons for the reintegration of the space made up of oil-exporting (capital-surplus) and resource-scarce (poor) countries.

Obviously, in these conditions prospects for the sustainable development of the Arab world are formed under the influence of two components of regional stability:

- the energy factor as the basis of the regional economy, defining its global significance;
- inter-Arab economic relations as the basis of regional stability and political weight in the international community.

Differences in economic system, models of political systems and ideological policy in Arab countries do not make it possible to consider the region as a single socioeconomic system and attach an unclear character to regional economic integration processes.

Nevertheless, economic prospects of the Arab world are conditioned by:

- the level of global extraction and reserves of oil and gas (Figure 1);

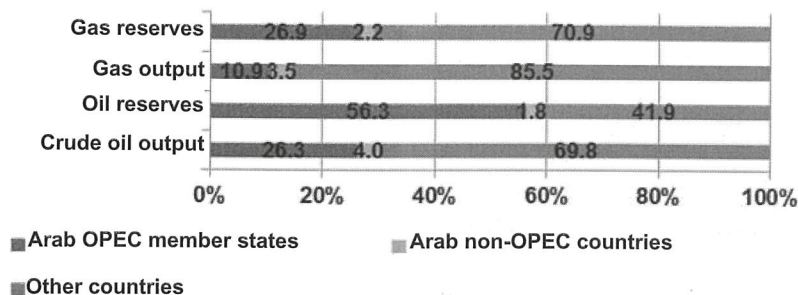


Figure 1. The Arab world's share in the global extraction and reserves of oil and gas in 2009 [2]

* Libya witnessed a tribal rebellion, in Bahrain it was an uprising by a discriminated religious group, in other states it was a protest movement for redistributing economic resources amid inter-denominational or other conflicts.

** Attempts to increase economic growth in the Arab world have been made for over 30 years and have been marked by some countries' desire to adopt IMF recommendations. Tunisia, Egypt, Jordan, Syria, Lebanon and Morocco followed this path.

- high population growth rate. The population of Arab countries has increased by over 25.4% since 2000 against 12.7% globally (Figure 2);
- the strategic geographical location of the Arab world;
- the existence of a solvent consumer market;
- investment opportunities in oil-extracting countries.

The main result of the processes that are taking place in the Arab world is, we believe, a growth in the influence of regional countries on the solution of regional economic problems.

At the moment economic integration processes in the Arab world are initiated by regional structures: the Arab League, which is the only regionwide integration organization, and the Gulf Cooperation Council, which unites the Arab states of the Persian Gulf*.

The Arab League has failed to implement planned steps to ensure economic integration in the region**. The main result of the Arab League's activities should be considered the creation of the Greater Arab Free Trade Area (GAFTA), which involves 18 regional states that have been trading with one another, duty-free since 2005. Over the next decade the completion of the project

to create a free-trade zone and the next stage of integration are most likely to happen, while the creation of a Pan-Arab common market is the least likely.

The main reasons for the inefficiency of integration with the Arab League are:

- the differing nature and level of involvement of oil-exporting countries and resource-scarce countries of the region in the global market and different levels of Arab countries' contributions to the region's macroeconomic development and global trade. The Gulf Cooperation Council member states account for 70% of the total trade between Arab countries (Figure 3);

- economic discrepancies in Arab countries, socio-economic differences and small local markets. The Gulf Cooperation Council member states, with 12.2% of the total population, account for 47.1% of GDP (Figure 4). Therefore, GDP per capita (PPP) in Arab countries ranges from \$100 to \$60,000. The region accounts for 5.2% of the global population but it produces only 2.5% of the global GDP. The region's countries account for 4.8% of global trade, 3.9% of global imports and 5.8% of global exports;

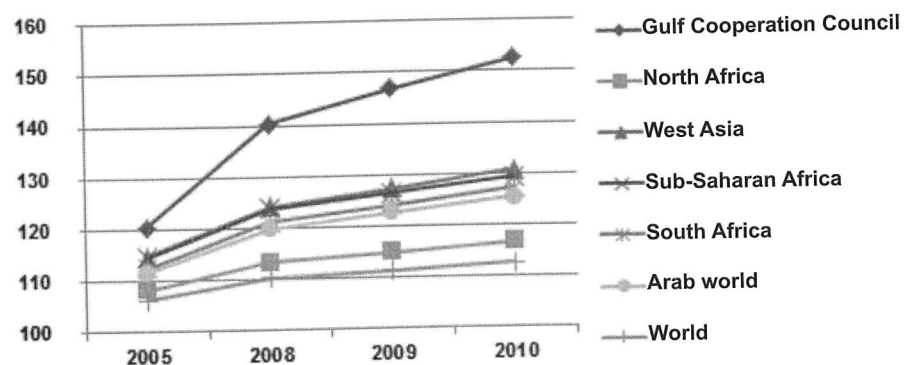


Figure 2. Dynamics of population growth in the world and Arab countries by region in 2005-2010; 2000=100% [3]

* The Arab League was set up in Cairo in 1945. A number of member states coordinate their work through the Gulf Cooperation Council and the Arab Maghreb Union. The former was set up in 1981 and unites six oil-producing Gulf Arab countries—Bahrain, Qatar, Kuwait, the UAE, Oman and Saudi Arabia. The latter was set up by Algeria, Morocco, Mauritania, Libya and Tunisia in 1989 but it was practically been frozen since 1994. In addition to these countries, the Arab League includes Egypt (North Africa) and West Asian Arab countries—Jordan, Lebanon, Syria, Yemen and Iraq, and Sudan (East Africa). In addition to Arab countries, the Arab League includes Djibouti, the Comoros Islands and Somali where the Arab population accounts for 1-3%, plus the Palestinian Autonomy.

** In 1964 a treaty on the creation of a common market was signed, bypassing a free-trade zone and a customs union. In 1995 a decision was passed to create the Great Arab Free Trade Area (GAFTA).

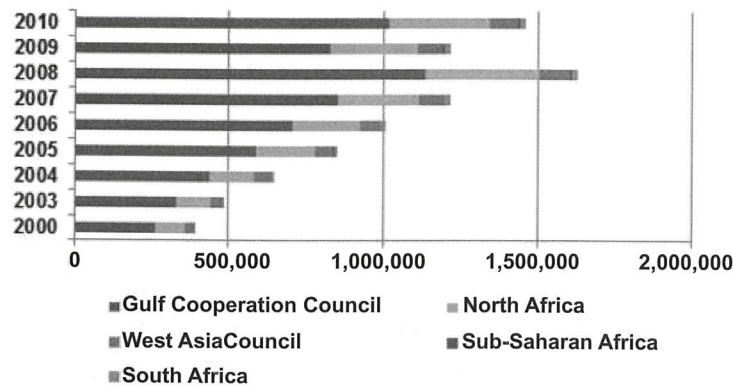


Figure 3. Trade in the Arab world by region in 2000-2010, million USD [4]

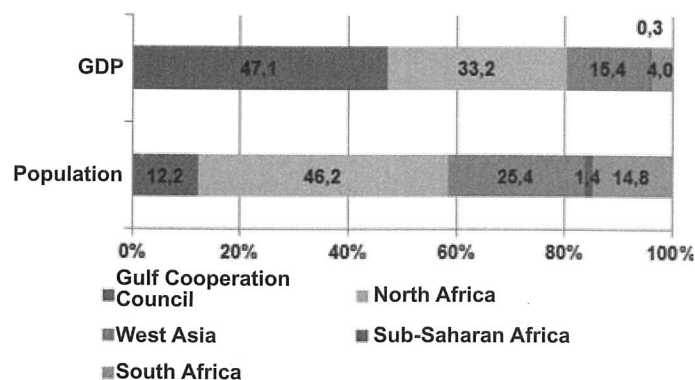


Figure 4. GDP and population of the Arab world by region in 2010, % [5]

- a weak financial base for regional integration, the lack of a policy to attract foreign investment to the region and an inability to offer promising sectors for investment. For instance, the World Bank estimates that foreign capital flow to Middle Eastern and North African countries will fall between 2009 and 2013 (Figure 5);

- orientation on out-of-region trade and economic relations. Arab countries account for less than 6% of Arab exports and 4.3% of imports (Figure 6);

- the poor development of infrastructure;

- the continuing intraregional conflicts, and the political and economic differences between some regional countries and regional leaders;

- economic consequences of Middle Eastern confrontation and Arab Spring events*.

The problems in trying to create a common market as part of the Arab League, as well as the high level of Persian Gulf countries' involvement in the global economy, determine the present state of integration in the Arab world, linked to a shift of the integration vector from regionwide to sub-regional level [6].

A key result achieved by the Gulf Cooperation Council is the establishment of a Customs Union**. At present, the processing sector and services tend to be those operating at the Custom Union market level.

Generally, regional integration in the Persian Gulf is characterized by the incompleteness of economic integration processes amid conflicts in the Arab world and the high level of foreign players' involvement in the regional economy.

* Unemployment ranges between 14% and 20% in Arab countries and over 35 million people live below the poverty line. According to various estimates, about 37,000 people have died in the violence in Libya, Syria, Yemen, Egypt, Tunisia and Bahrain and economic damage has totaled \$55.9bn. <http://ria.ru>

** The creation of the Customs Union began in 2003.

The share of the Persian Gulf countries in the total trade of the Gulf Cooperation Council member states is almost an eighth of the share of out-of-region countries (Figure 7).

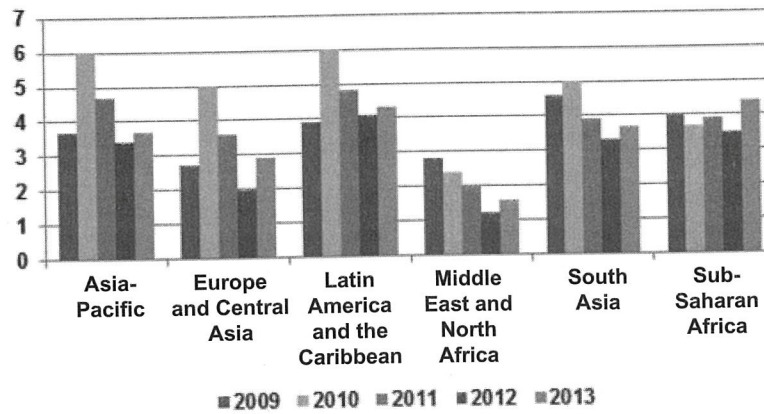


Figure 5. Forecasts for foreign capital flow to developing countries, % [7]

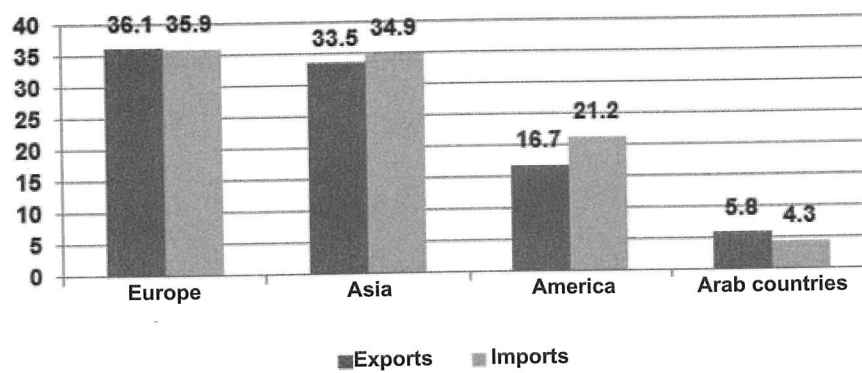


Figure 6. Arab exports and imports by region in 2010, % [8]

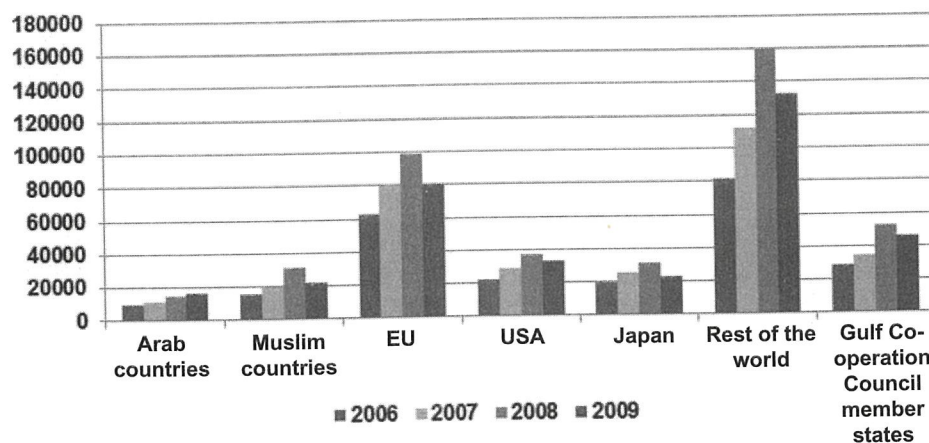


Figure 7. The Gulf Cooperation Council's foreign trade by region in 2006-2009, million USD [9]

The Gulf Cooperation Council member states' economies depend on exports of mineral resources. Exports account for 72% of these countries' total foreign trade and exports of mineral resources account for 74.2% of these countries'

total exports (Figure 8). Saudi Arabia accounts for about half of the Gulf Arab exports of oil and gas (45.5%) and the UAE is the second largest exporter (20.6% of total exports) (Figures 8 and 9).

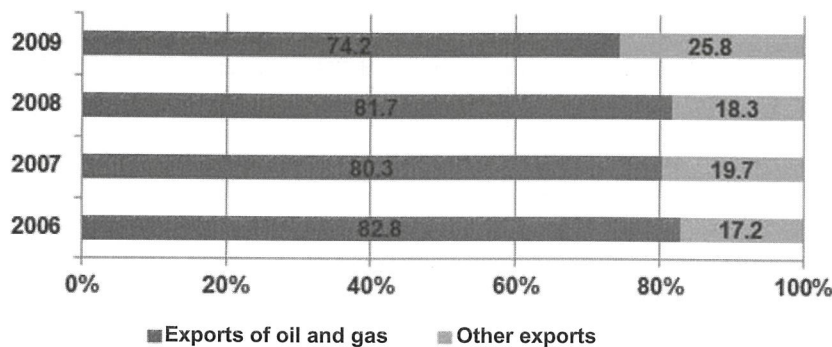


Figure 8. The structure of Gulf Cooperation Council exports in 2006-2009, % [10]

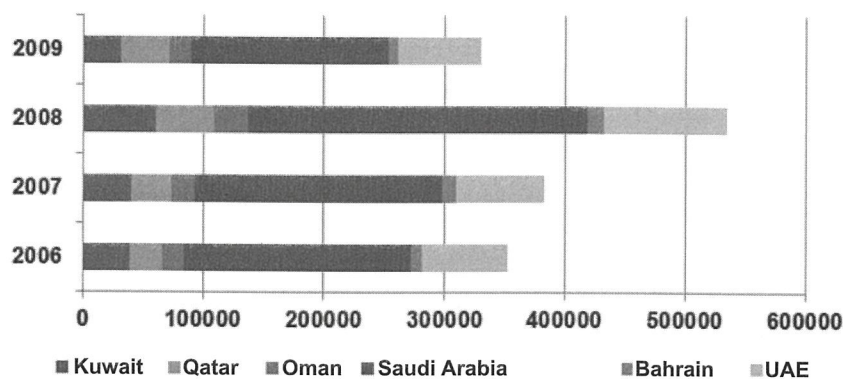


Figure 9. Exports of oil and gas by country in 2006-2009, million USD [11]

Saudi Arabia has the largest economy among the council's member states, accounting for 60% of their combined economy. In terms of foreign trade, along with Saudi Arabia, the UAE is the other leader among the member states. These two countries make up 75% of the Persian Gulf Arab countries' foreign trade (Figure 10).

Apart from dependence on exports of mineral resources and orientation on foreign trade with EU countries and the USA, the Gulf Cooperation Council's regional integration model is distinguished by:

- Gulf Arab monarchies' growing interest in regional economic stability and the development of the Arab world, especially after Arab Spring events;

- reflecting the Muslim vector of cooperation in foreign trade policy and a relatively high share of involvement in the economies of Arab and Muslim countries. Arab and Muslim countries, including the Gulf Cooperation Council member states, account for 24% of foreign trade, 52% of exports and 17% of imports of the Gulf Cooperation Council member states (Figures 11 and 12);

- the fragmented nature of the Arab economic space and influence the Gulf Cooperation Council countries exert on the formation of the economic development model of the Arab world and on regional macroeconomic dynamics (Figures 13 and 14).

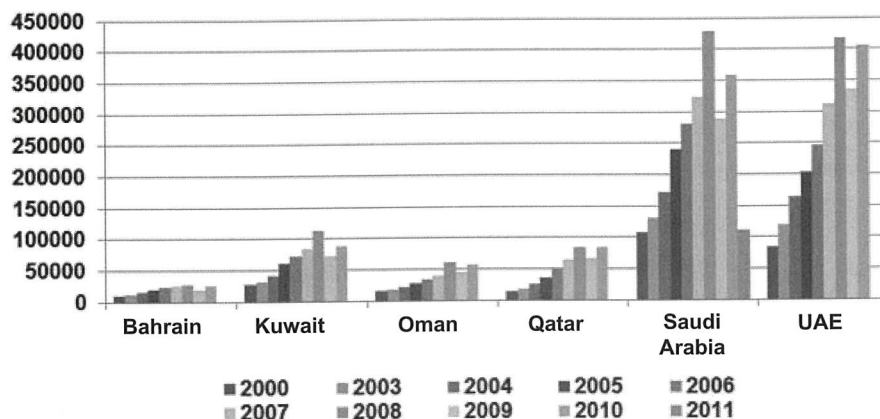


Figure 10. Foreign trade of the Gulf Cooperation Council member states in 2000-2010, million USD [12]

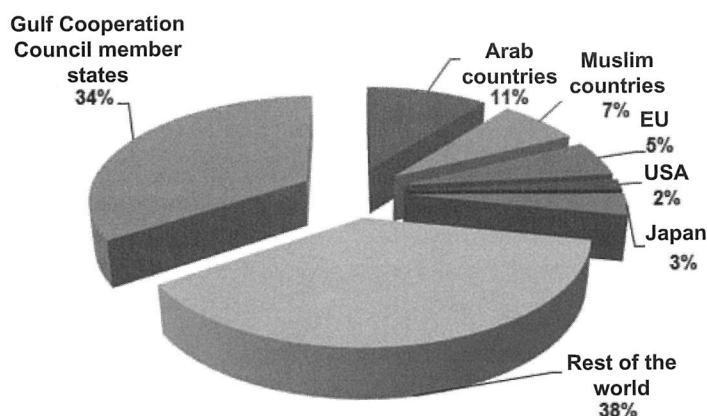


Figure 11. Gulf Cooperation Council exports by region in 2009, % [13]

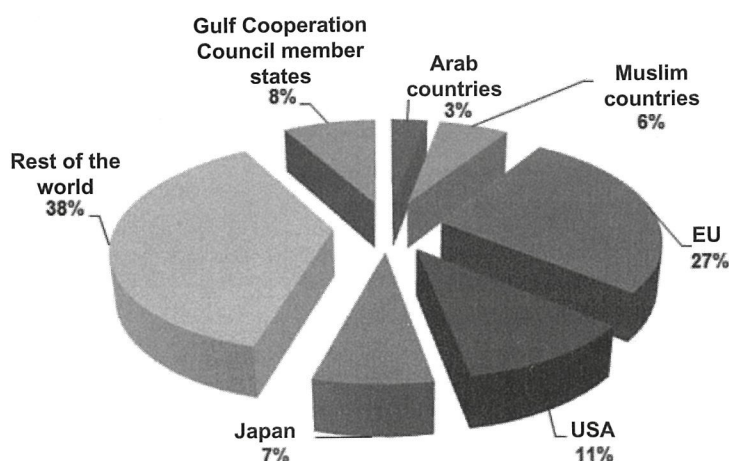


Figure 12. Gulf Cooperation Council imports by region in 2009, % [14]

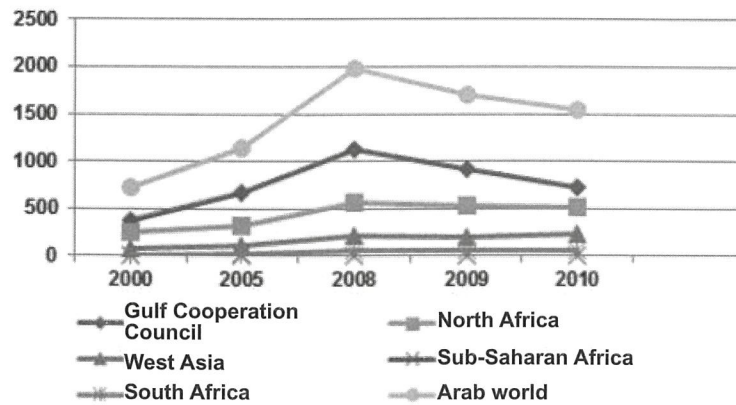


Figure 13. GDP dynamics of the Arab world by region in 2000-2010, million USD [15]

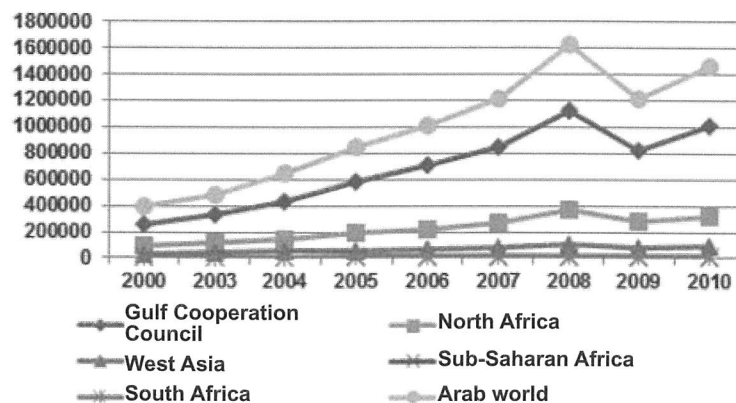


Figure 14. Trade dynamics of the Arab world in 2000-2010, million USD [16]

The peculiarities of inter-country political and economic relations in the Arab world condition, we believe, the specifics of and problems facing regional economic integration:

- Arab monarchies are becoming chief regulators of economic stability in the region, enjoying the benefits of the economy of scale and vast reserves of mineral resources and showing the ability to adapt to change;

- a key factor in the economic development of the Arab region is the reserves of mineral resources in the Gulf countries. On the one hand, the similar structure of their economies reduced incentives for intraregional economic cooperation; on the other it is becoming the main factor strengthening regional integration in the era of globalization;

- Middle Eastern people would like to unite Islam with democracy. Iranian experts believe that in

the Middle East there are no contradictions between Islam and democracy [17]. The role of political Islam is also growing as a major international topic;

- economic cooperation in the past few years has been developing in the situation of the changing Arab world, while the incompleteness of this process necessitates foreign powers' involvement in ensuring regional stability;

- a desire to limit Western influence helps the influence of non-Arab regional leaders interested in avoiding a negative turn of events grow;

- amid economic destabilization in the Arab world, the political stabilization and the growing economic potential in Turkey and Iran are the main factors in expanding cooperation with the Arab world;

- the need is arising to seek a balance of interests between non-Arab regional leaders and Arab coun-

tries and between different models of regional development and integration into the global economy (Turkish, Iranian or Saudi-Wahhabi);

- integration processes are developing slowly but steadily and the influence of regional groups is on the rise but the achievement of the main integration objectives (the creation of a common market and the adoption of a single currency) are being postponed indefinitely;

- trade and economic cooperation with foreign countries, particularly with the former Soviet republics, faces difficulties amid the incompleteness of the reformatting of the Arab economic

and political space and the existence of different models of political and economic systems in the region's countries.

Kazakhstan's Arab Vector of Economic Cooperation: Problems and Prospects

Economic integration with the Arab world is not a priority for Kazakhstan's current foreign trade policy. The Arab world accounts for less than 0.5% of Kazakhstan's foreign trade (\$454m in 2011), and North African and Gulf Cooperation Council countries make up the bulk of this (Figures 15 and 16).

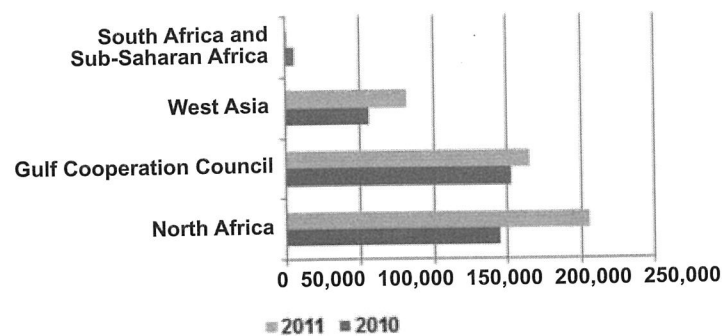


Figure 15. Kazakhstan's trade with Arab world by region in 2010, thousand USD [18]

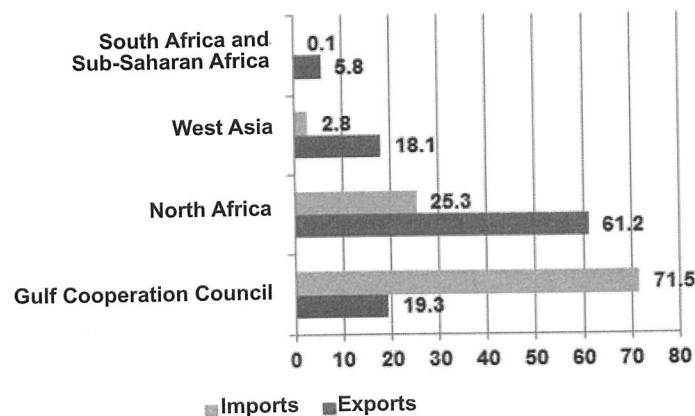


Figure 16. Kazakhstan's exports from and imports to the Arab world by region in 2010-2011, % [19]

North African countries account for most of Kazakhstan's exports to the Arab region (61.2% in 2010-2011), whereas the Gulf Cooperation Council countries supply most of Kazakhstan's imports from the region (71.5% in 2010-2011).

Kazakhstan's chief trade partners in the Arab world are the UAE and Egypt, which accounted for 32.8% and 26.8% of the country's total trade

with the Arab world in 2010-2011 respectively. The UAE is Kazakhstan's main Arab supplier (cars, machinery and equipment and industrial goods) and Egypt is Kazakhstan's main Arab consumer (mostly wheat) (Figure 17).

An integral part of the Arab world's economic integration is integration of the credit and financial sectors of the Gulf Cooperation Council member

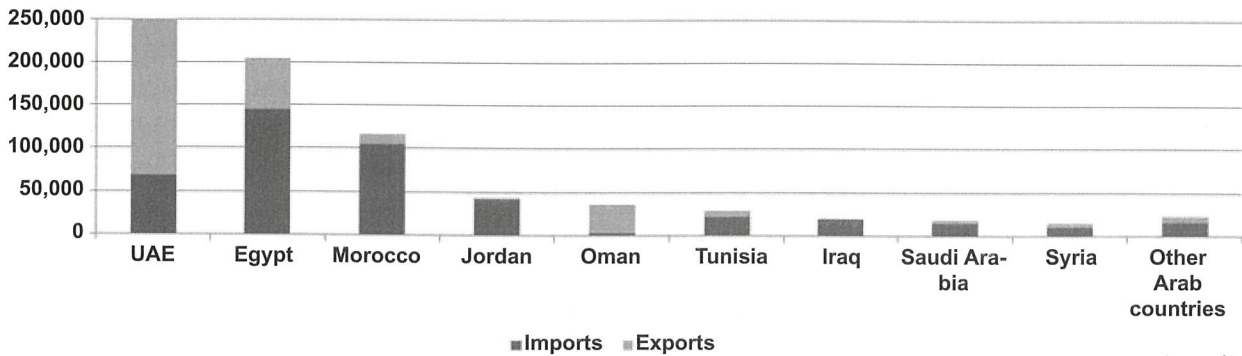


Figure 17. Kazakhstan's trade with the Arab world by country in 2010-2011, thousand USD [20]

states which is being carried out unilaterally, bilaterally and multilaterally*. The region is increasingly playing the role of a financial center of global significance. However, Kazakhstan's economy has not yet managed to become attractive to Arab capital investment. The foreign direct investment in Kazakhstan from the region stood at less than 1% of the total foreign direct investment received between 1993 and 2011.

Kazakhstan's largest Arab investor is the UAE, accounting for almost 90% (Figure 18).

Generally, we can state that Kazakhstan's foreign economic policy has not established an Arab vector of integration cooperation and the country

lacks an economic strategy for interaction with the region.

The need to expand economic relations with Arab countries and to form a program of strategic partnership is prompted by, we believe, the following factors:

- the global role the region plays in the formation of a global energy policy;
- the similar raw materials-based structure of trade between (Gulf) Arab countries and the Customs Union (Kazakhstan and Russia) and the nature of the region's integration into the global market and the similarity of problems in diversifying the manufacturing sector;

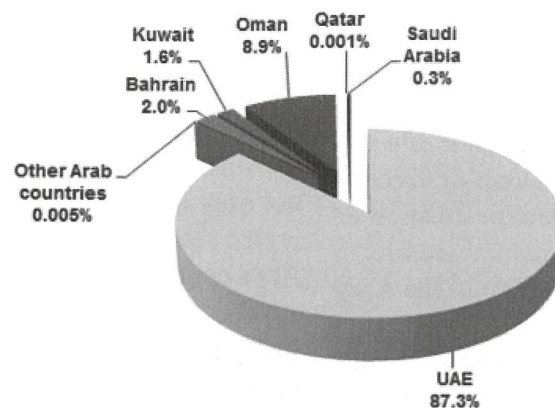


Figure 18. Shares of Arab countries in total foreign direct investment received by Kazakhstan in 1999-2011, % [21]

* Consortia with involvement of private and public capital from Gulf countries, bilateral and multilateral banks and consortia between private banks from one or several Gulf countries are capable of conducting large operations to loan capital-intensive production projects in different sectors and of competing with international banking monopolies. Islamic banking is expanding steadily. Islamic banking was revived in the 1960s by Gulf monarchies and Egypt.

- the growth in the regionalization of the Arab world and the Gulf Cooperation Council's growing role in the regional and global economy;

- the Arab world's importance in ensuring regional economic security in the Middle East and Central Asia (the region continues to witness the fight for economic and political leadership between Sunni states on the Arabian Peninsula and Shia Iran) which may have a negative impact on Central Asian countries;

- the Gulf Cooperation Council's influence on integration between West Asian countries and on the prospects for joint implementation of the "Eurasianism" concept with Kazakhstan.

The main preconditions for expanding Kazakhstan's economic cooperation with Arab countries are:

- a positive experience of political and economic cooperation with leading Arab countries;

- the creation of the Customs Union and Single Economic Space with Russia thus expanding the scale and spheres of cooperation;

- mutual interest in resolving regional and global energy problems and problems of economic security;

- the transit capabilities of Kazakhstan and Central Asia. Arab nations view Central Asian countries in terms of expanding markets for their goods and the use of their transit potential. The Kazakh president's latest New Silk Road initiative envisions the Persian Gulf countries' involvement in resolving the problems facing regional transport infrastructure*;

- an interest in developing cooperation in the food sphere. Kazakhstan regards the quality and safety of Kazakh grain as a crucial factor of competitiveness in the grain markets in Gulf Arab countries and Iran. Qatar has suggested the creation of a new alliance with Kazakhstan on food security**;

We believe that the transformation of the Arab world should result in:

- the formation of a new global economic entity represented by a political and economic union of Arab countries;

- the resolution of economic differentiation in the Arab economic space and the formation of a single socioeconomic system in the Arab world;

- the establishment of the place and role of the Arab socioeconomic system in the global economic structure;

- the formation of a regional integration model of cooperation (centered on the Gulf Cooperation Council);

- the formulation of a foreign economic policy towards non-Arab regional and out-of-region participants in economic processes in the Arab world.

To this end, Kazakhstan should adopt a strategy for economic cooperation with the Arab region, taking account of the need to build new relations with the Arab world amid its reconfiguration and a growth in regional and global economic prospects, as well as the long-term significance of the Arab region in solving problems of stability in Central Asia.

The prospects and aspects of development of Kazakhstan's economic relations with Arab countries are linked to the revision of its economic and foreign trade policy towards these countries, in particular to:

- the development of interregional relations in the Customs Union-Gulf Cooperation Council format (many Arab countries have signed bilateral agreements on a free-trade zone and other forms of cooperation with the USA, the EU, the EFTA, Turkey, Singapore and so on);

- the expansion of investment cooperation and trade with all the Gulf Cooperation Council member states. For example, Saudi Arabia has offered not only to invest its capital in Kazakhstan but it is also ready to help the flow of capital from other Arab countries. Particular significance should be attached to Arab countries' desire to diversify their foreign economic relations. It is worth noting that most Middle Eastern actors are actively moving in this direction. They are now seriously considering

* The Customs Union is expected to become a major logistics hub on the continent by 2020. Railways and roads of the New Silk Road will link Europe with China, Asia-Pacific and the Persian Gulf. Kazakhstan may become a business and transit hub for the entire Central Asia causing international business circles to select Kazakhstan as their main base in the region. The highest security standards, electronic access and mechanisms to set up businesses will be adopted. This will help develop the promising Central Asian region with a population of 60 million people.

** Qatar has suggested Kazakhstan should join a new alliance on food security: "This union will particularly be needed by countries that lack water and have deserts, like Kazakhstan and the Gulf and North African countries. Talks on the union will be held in these countries." www.newskaz.ru

partnership with Russia and Kazakhstan as a beneficial opportunity to reduce their economic dependence on the West. Countries whose economies are not developed exclusively based on energy exports (Egypt, Syria, Lebanon, Tunisia and Morocco) should be considered as promising markets;

- joint involvement in “economic Islam” projects between Arab and CIS countries, in particular Central Asian and Single Economic Space countries;

- the solution of common problems of economic diversification and boosting non-extractive sectors (the following sectors have been significantly revived in Arab countries in the past few years: the construction sector, telecommunications and information technology and banking);

- the joint solution of the problems of alternative energy and peaceful nuclear energy*.

The current stage of Kazakhstan’s international cooperation is defined by its policy on integration within the CIS, which requires a common economic cooperation strategy with member states of the

Customs Union and the Single Economic Space (in the future) towards Arab countries.

Arab trade with the Customs Union and Kazakhstan is insignificant and this does not make it possible to discuss established cooperation trends. Nevertheless, Arab trade with Kazakhstan and the Customs Union (in real terms, Russia) has general characteristics conditioned by Arab countries’ interest in raw materials, but also features differences:

- in the geographic distribution of foreign trade and the choice of regional trade partners. For instance, the Customs Union’s trade with the Gulf Cooperation Council member states and West Asian states is practically equal and stands at about 20% (Figure 19), while the Gulf Cooperation Council member states dominate Kazakhstan’s trade with Arab countries. The Customs Union’s largest Arab trade partners are Egypt (19% of total trade), Algeria (18%) and Syria (13%) (Figure 20). Kazakhstan’s largest Arab trade partner is the UAE (34% of Kazakhstan’s trade with Arab countries in 2010-2011).

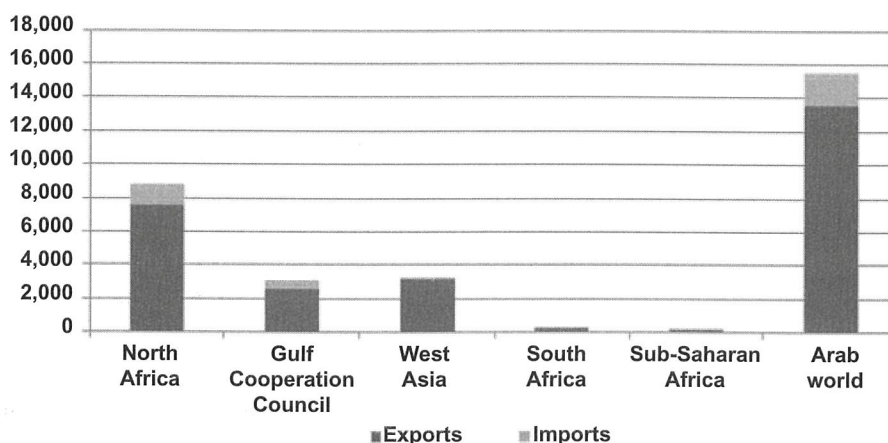


Figure 19. The Customs Union’s trade with the Arab world by region in 2011, billion USD [22]

- there is a difference in export-import policy. In trade with the Customs Union exports to Arab countries account for 87.3% and in trade with Kazakhstan 57.9%;

- the Arab economies’ significance at the present stage of cooperation is higher for Russia than Kazakhstan. The level of Arab countries trade with

the Customs Union is insignificant and it grew from 1.4% in 2010 to 1.7% in 2011. The level of Arab countries in Kazakhstan’s foreign trade is minimal at 0.5% (this trade fell in 2011 compared with the previous year).

It is important for Kazakhstan to use Russia’s (Soviet) positive experience of economic relations

* For example, the UAE does not conceal its desire to develop a peaceful nuclear sphere and does not rule out cooperation in this sphere with other countries with account of project coordination with general plans of the Gulf Cooperation Council.

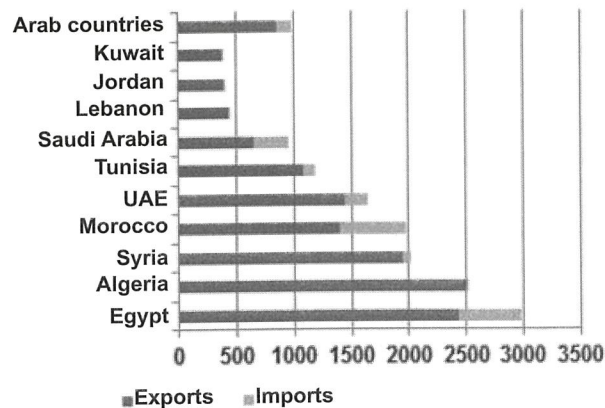


Figure 20. The Customs Union's trade with the Arab world by country in 2011, billion USD [23]

with the Arab countries*. By the time of the breakup of the Soviet Union Arab countries were the USSR's main economic partners in the developing world. However, at present Russia and Kazakhstan are not strategic partners of the Arab world. In turn, the Arab world is not among the Custom Union member states' major foreign trade partners.

Nevertheless, geostrategic economic prospects in the Arab world, as well as the role of ensuring regional security in the Middle East and Central Asia, require a reassessment of the significance of the Arab vector in Kazakhstan's foreign economic policy and of a strategic approach to issues of economic cooperation with the Gulf Cooperation Council countries and new developing markets in those countries in the region that lack energy resources.

The Arab world has remained the "battleground of the Middle Eastern conflict" for the past 60 years and this results in its significance as a major vector of foreign policy for many countries, while its energy resources and their significance have an impact on the global economy and economic policies of global and regional powers.

Today the Arab world is at a new stage of political and economic transformation, one that is character-

ized by the emergence of new trends amid the incompleteness of general change in regional relations.

New trends in the formation of the Arab region are linked to the emergence of a new regional ideology, new approaches to actions by subjects of global governance and the assertion of Arab regional blocs as new subjects of regional and global governance.

The prospects for the sustainability of economic development in the Arab world are being formed under the influence of two components of regional stability: the energy factor as the basis of the regional economy and intra-Arab economic relations as the basis for regional stability.

Differences in economic system, models of political system and ideologies in Arab countries prevent the region from being considered as a single socioeconomic system and this in turn attaches uncertainty to regional economic integration processes. Nevertheless, the main result of the processes that are taking place in the Arab world, we believe, is the growing influence of regional blocs in resolving regional economic problems.

At present, economic integration processes in the Arab world are initiated by regional structures—the Arab League and the Gulf Cooperation Council. The peculiarities of the current stage of integration in the Arab world is linked to a shift

* In 1990-2000, the Middle East was not among Russia's priorities but Arab countries and Russia have always maintained close political, economic and trade relations. In the post-Soviet period Russian and Middle Eastern Muslims have developed spiritual links and the paradigm of Russian-Arab relations has changed. Relations continued with traditionally friendly Arab regimes (Egypt, Algeria, Syria and Iraq) and strategic relations with new partners in the Persian Gulf started to develop steadily. From the point of view of international law Russia's trade and economic relations with these countries are regulated by intergovernmental agreements (which have been signed by practically all states), envisaging mutual provision of the regime of a most favored country.

in the integration vector from common regional to subregional level and to the growing role of the Gulf Cooperation Council. Apart from a dependence on exports of mineral resources and the orientation of economic relations toward EU countries and the USA, the Gulf Cooperation Council's regional economic model is distinguished by:

- the fragmented nature of the economic space;
- the impact of Islamic values in foreign trade policy;
- the Gulf Cooperation Council's influence on the formation of a regional Arab economic model and regional macroeconomic dynamics.

The incompleteness of the transformation of the Arab economic space requires the involvement of foreign power in ensuring regional stability and helps the influence of non-Arab players (Turkey and Iran), as well as those countries cooperating with them politically and economically, grow as these countries show interest in offsetting the negative consequences of the events.

The current stage of regionalization is linked to the acceleration of integration processes but the objectives of creating a common market and adopting a single currency are being putting off indefinitely.

Trade and economic cooperation with foreign countries, in particular with post-Soviet states, is characterized by difficulties because of the unstable situation in the region but the expansion of economic relations with the region is becoming increasingly relevant.

Energy integration with the Arab world is not currently a priority for Kazakhstan's economic policy—less than 0.5% of Kazakhstan's foreign trade is with Arab countries. The region accounted for less than 1% of the total foreign direct investment attracted by Kazakhstan between 1993 and 2011. Generally, we can state that Kazakhstan's foreign economic policy has not developed the

Arab vector of integration cooperation and the country lacks an economic program for developing cooperation with the region.

Kazakhstan needs to expand economic relations with Arab countries because of the regionalization of the Arab world and the Gulf Cooperation Council's influence on the global economy and the region's significance in ensuring economic security in the Middle East and Central Asia (the fight for economic and political leadership in the region may have a negative effect on Central Asian countries).

Kazakhstan also needs to adopt an economic cooperation strategy for the Arab world with account of the need to build new relations amid its ongoing transformation, the dissimilarity of the economic space, the growing global and regional economic prospects and the Arab world's strategic importance in solving problems of Central Asian stability.

Prospects and aspects for developing Kazakhstan's relations with the Arab world are linked to:

- the revision of its trade and economic policy with Arab countries;
- the development of the Customs Union-Gulf Cooperation Council interregional relations;
- the expansion of investment cooperation and trade with all the Gulf Cooperation Council member states and the growing markets of Egypt, Syria, Lebanon, Tunisia and Morocco;
- the joint involvement in "economic Islam" projects for Arab and CIS countries, in particular Central Asia and the Single Economic Space.

The peculiarity of the current stage of Kazakhstan's international cooperation is linked to its integration policy in the CIS, which requires the implementation of a common economic cooperation strategy with the Customs Union and Single Economic Space member states regarding Arab countries.

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ЕЖЕКВАРТАЛЬНОЕ АНАЛИТИЧЕСКОЕ ОБОЗРЕНИЕ
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