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**THE KAZAKHSTAN INSTITUTE  
FOR STRATEGIC STUDIES  
UNDER THE PRESIDENT  
OF THE REPUBLIC OF KAZAKHSTAN**

Quarterly since 2003

Editor-in-Chief  
**Bulat SULTANOV**  
Director of the KazISS  
under the President of the RK

Deputy Editor-in-Chief  
**Leila MUZAPAROVA**

Responsible for publication:  
A. Morozov  
Design & Layout:  
Y. Ignatenko, A. Sadvakasov

Translation by **TANDEM TRANSLATIONS**

**Address:**  
The Kazakhstan Institute  
for Strategic Studies under the President  
of the Republic of Kazakhstan  
87 B Dostyk Ave.  
Almaty 050010, Kazakhstan

Phone: (727) 264-34-04  
Fax: (727) 264-49-95  
E-mail: office@kisi.kz  
www.kisi.kz

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

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

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# CENTRAL ASIA AND PAX IRANICA: COOPERATION AND INTERDEPENDENCE

MURAT LAUMULIN,

*D.Sc. (Political Science), Senior Research Fellow at the Kazakhstan Institute for Strategic Studies (Almaty, Kazakhstan)*

**F**or ten years now, Iran, Afghanistan, and Tajikistan have been establishing a Persian-speaking community in Central Asia. The Turkic republics of Central Asia, Azerbaijan, and Turkey started moving toward a Turkic-speaking community as soon as the Soviet Union ceased to exist. The Persian-speaking countries acquired their chance in the early 2000s when the Taliban, an inveterate opponent of the IRI, was overthrown and Tajikistan ended its civil war.

In fact, the entire region is more or less involved: Tajikistan is a Central Asian state, while the other two are its close neighbors with a long history of belonging to the region at one time or another.

Today, Central Asia, Iran, and Afghanistan have economic interests, security concerns, and geopolitical imperatives in common. Iran, which badly needs a wider Pax Iranica, is the natural driving force behind integration of the Persian-speaking countries, a far from easy mission in the present geopolitical and international context. In Afghanistan, the Persian-speaking communities are dominated by the Pashtoons, the state-forming nation, who are dead set against all attempts to split the country into ethnic units. The U.S.-led occupation authorities, likewise, are firmly opposed to Iran's stronger influence on the Tajik and Hazara minorities.

Tajikistan is a homogenous part of Central Asia; its ties with the region and the post-Soviet expanse are too strong to allow it to completely integrate with the Iranian world. To strengthen its position in both countries, Tehran is contributing to their

large-scale economic, energy, transport, and humanitarian projects.

It should be said that, in the past, the Iranian culture extended to Uzbekistan, Turkmenistan, Azerbaijan, Armenia, Turkey, Iraq, and vast areas in the Middle East, which gives the IRI the opportunity to push its influence westward. With no chance of exploiting the ethnic and linguistic affinity there, Tehran relies on the Shi'a minority, which is rapidly developing into an important political factor in Iraq, Syria, Lebanon, and the Gulf countries.

## Iran—the Center of Pax Iranica

In one way or another, Tehran's foreign policy invariably involves Central Asia. This is true of its relations with Russia, China, Pakistan, India, Turkey, and the South Caucasian states; the Middle East being the only exception.

Many of its problems are caused by its very specific international status and the foreign policies of its leaders, whose nuclear ambitions have isolated the country once more from the rest of the world. In the 1990s, Iran restored its relations with the outside world and, at the turn of the 21st century, more or less successfully reformed its economy. Today it is entering another period of economic stagnation.

In the last two decades, Iran has acquired the status of a regional power and is determined to confirm its regional and global ambitions by building up its military-strategic (missile and nuclear) potential to the detriment of its economic health. The international economic sanctions expected to

trim its nuclear ambitions do nothing for its social and economic sphere.

Its ethnic diversity (there are several large ethnic groups in the country, whereby Persians are no longer in the absolute majority) adds more problems. Ethnic Azeris, whose numbers have increased over recent years, regularly stir up ethnic discontent or even riots in Iranian Azerbaijan. For a long time now, Iran and its political regime have been and remain a target of numerous leftist and nationalist terrorist groups.

In 2004-2005, the United States became resolved to undermine the Iranian regime from the inside, the provocation of ethnic disagreements being one of the means to this end. The recent events which shook the country in the wake of the presidential election looked very much like the Color Revolutions in Eastern Europe and the post-Soviet expanse stirred up by external forces. It seems that similar methods will be applied to Iran: its ruling regime should either be removed or at least weakened to push the country toward neutrality on the international scene and force it to drop its nuclear program.

As the dominant religion and ideology, Islam is the key element of Tehran's foreign policy: Iran is the only Muslim state determined to export the Islamic revolution beyond its borders. Inside the country, the social sphere and economy are based on Islam.

In the last fifteen years, Iranian (Shi'a) nationalism and pragmatism have moved to the fore in Tehran's dealings with the outside world. While Islam remains an important element of the country's foreign policy rhetoric, the Iranian leaders proceed from the country's national interests and are not averse to exploiting the Islamic factor, particularly in the Middle East.

This means that security and stability in Central Asia, the Caucasus, and the Caspian depend on what is going on around Iran; its destabilization or involvement in a large-scale conflict might upset the Central Asian region.

A large-scale military crisis around Iran, as well as its nuclear file, will draw the big geopolitical players (the U.S., Russia, China, Europe, and the Islamic world) into it. This will destabilize the central part of Eurasia and change the military-strategic situation in Afghanistan and Iraq.

The external factor has been and remains an important and even decisive element of Iranian foreign policy. Its basic principles formulated at the dawn of the Iranian revolution—"neither West nor East but Islam," the export of the Islamic revolution, and the priority of the Muslim world on the foreign policy agenda—have somewhat changed. Its new constructive approach to foreign policy ended its international isolation of the first post-revolutionary years. Iran established contacts with the European Union, the Arab world, and Russia.

The Iranian leaders, however, were still worried about the Middle East settlement and destabilization in Iraq, Afghanistan, and the Gulf, where American military forces are stationed. President Ahmadine-jad is resolved to make his country a regional power and a leader of the Muslim world; he speaks about common Islamic values, interests, and global aims to smooth out the traditional disagreements between the Sunni and the Shi'a; he has even moved closer to Saudi Arabia, which is not only America's key ally in the Gulf, but also Iran's traditional rival determined to limit its impact in the region.

China is another very important foreign policy partner: better relations with it mean another ally among the countries with a say in international relations and the opportunity to attract the investments badly needed for development of Iran's economy. In the 1990s, China, which for some time had been officially encouraging nuclear energy production in Iran, retreated under Washington's pressure. It had, however, helped Tehran at the initial stages of its nuclear program. Arms trade opened many doors to the Iranian market for China and greatly advanced bilateral relations. Oil-rich Iran was indispensable for China's dynamic economy and an important part of China's strategic interests.

The Chinese factor plays an important role in Iran's international status undermined by America's mounting pressure. The two countries have moved closer to oppose the United States: Iran needs China as a geopolitical ally, economic partner, and source of strategic technology, while China needs Iran's energy resources. Moreover, seen from Beijing, Iran looks like a strong anti-American outpost on the Central Asian borders. It could, at some point, become part of China's

strategic salient—Xinjiang, Central Asia, the Middle East.

Today, both Iran and China insist that the U.N. should have a greater role to play in reviving Iraq.

China has several reasons to be interested in Iran: Tehran can be used as both a diplomatic instrument in the geopolitical games in the Middle East and Central Asia and an important source of the energy resources needed to feed China's rapidly developing economy, while the country can also help to establish a new route for Chinese exports.

Today, scores of Chinese companies are involved in all sorts of projects in Iran: they are building metros in Iranian cities, railways, and TV networks and are involved in oil and gas production. Still wider contacts might create a new trade route commonly described as the North-South corridor to connect India, Iran, and Russia as an alternative to the Suez.

Today, some people in Iran think that its Chinese agenda can be used to move closer to multilateral cooperation among Tehran, Beijing, Moscow, and Delhi. Both China and Iran are driven by their shared concerns about the United States' unilateral policy; Chinese and Iranian politicians are worried about the American military bases which have already appeared in Iraq, Afghanistan, and Central Asia.

Iran plays one of the key roles in the Middle East, which means that none of the conflicts can be settled without it. Recently, Iran shifted its attention to Turkey and its Islamist leaders; the developments in the region suggest a much wider platform, which can be tentatively described as anti-Arabic.

There is information that Iran is not seeking a nuclear status: it merely wishes to obtain a "virtual nuclear weapon state" status similar to that of Canada and Germany; the three countries are part of the non-proliferation regime. The "virtual nuclear weapon state" status means that the country knows how to enrich uranium and agrees to use the results for peaceful purposes. If Washington and its allies agree to meet Iran halfway, Tehran will abide by the additional protocol which stipulates IAEA control.

This means that Tehran is striving to establish a multipolar world under the U.N. aegis, with Iran and other Muslim states being one of the poles; it

considers Central Asia to be part of the Gulf area and a zone of its vital economic interests. The Islamic Republic consistently insists on energy transportation routes from Central Asia across its territory as the cheapest and, therefore, economically most expedient.

Iran's political and intellectual communities mistrust Russia; the so-called partnership between the two countries is a product of the hostility of the United States and its allies toward Iran. The country, which has an observer status in the SCO, sought full membership and was rejected by Russia and China to avoid America's negative response. Tehran is convinced that the SCO members treat it as their partner; it is involved in decision-making at all stages.

Iran will exploit Russia's contradictions with other countries to promote its own interests and is seeking a regional power status to communicate with the West. On the other hand, it seems that the Kremlin cannot come to any agreement about the Iranian file: sources in the top leadership claim that the Iranian file "is one of Putin's personal responsibilities" and that he has the final say on all issues of importance. Indeed, in the first months of 2010, President Medvedev repeated in public that sanctions were unavoidable, while Prime Minister Putin was much more vague.

Iran's claim to a regional status of any consequence moves the Caucasus and Central Asia into the sphere of its foreign policy interests, even though the northern sector of its interests depends much less on its domestic policy and ideology.

Today, Tehran's long-term interests in the Caspian boil down to involvement in economic, political, cultural, and other contacts in Central Asia and the Caucasus, as well as in the regional system of interdependence, which cannot function without Iran.

Iran is seeking greater involvement in energy resource production and transportation and, therefore, a stronger position in the Caspian; it wants to bring its gas to the European and Asian markets to become the region's transit hub and play a more active role in setting up and operating a united Mid-Eastern electric power system. Its international involvement is expected to remedy the systemic faults of the Iranian fuel and energy complex.

Iran is resolved to keep the extra-regional powers (the United States and Israel in particular) out of the Caucasus; it agrees with Russia, which believes that none of the extra-regional actors should be allowed to meddle in the domestic affairs of the Caucasus, the Caspian, and Central Asia. Recently, Tehran has been building up its military presence in the Caspian Basin in an effort to prevent the United States and Europe from developing strategic cooperation with Azerbaijan and Kazakhstan; it is modernizing its Caspian forces and naval police as part of its Caspian navy. The country's leaders are acting under the pressure of a "foreign irritant" and do not conceal this.

From the very beginning, Iran sided with Russia on the new legal status of the Caspian sea/lake; the sea and its resources should be used jointly by the five littoral states (condominium) with the help of interstate structures and companies entrusted with offshore oil and gas production.

As distinct from its Caspian neighbors, Iran has retained the share of the seabed and subsoil it had during Soviet times because it has never been engaged in offshore oil and gas production or survey. It is much less willing to be involved in squabbles over the Caspian resources than the other Caspian states. Its current situation does not depend on energy production in the Caspian, while in the future it might profit from this lucrative enterprise, a positive, yet not vitally important, factor.

In 2007, Iran began trying to transform the Caspian Five into a new regional economic structure—an organization of the Caspian states in which Iran will play the first fiddle. All the Caspian states hail the idea of the demilitarization of the sea. In the past, the United States tried to help Baku reorganize its naval forces, allegedly to protect the BTC oil pipeline, and invited Ashghabad and Astana to engage in military-technical cooperation in the Caspian.

Geography, which left Iran with a small sector in the southern part of the sea, and geology, which has so far revealed no considerable energy reserves, are two factors which determine Iran's position on Caspian delimitation.

Formally, Tehran refused to recognize the northern agreements by saying that "any changes in the legal regime related to the use of the Caspian Sea's mineral resources should be approved by the five

littoral states," and suggested that each of the states receive an equal part (20 percent) of the sea-bed. This infringes on the interests of Azerbaijan and Turkmenistan, with which Iran should negotiate first in order to arrive at a mutually acceptable decision. In July, 2001, Iran demonstrated its resolution to rebuff all unilateral actions: an Iranian warship and two jets forced Azeri research vessels to leave the area of the Alov, Araz and Sharq oil fields in the Caspian.

Recently, however, Tehran retreated from its implacable position: it is prepared to talk and forget the red lines; it has become interested in some of the Caspian projects. To add weight to its position and strengthen its presence in the Caspian, Iran has launched independent prospecting for gas and oil in the southern part of the sea, particularly in areas to which Azerbaijan might also have a claim. It obviously intends to emulate its neighbors: first claim oil and gas fields and then invite others to the negotiation table; however, unlike its neighbors, it has not yet started this process.

To find out the real volumes of its resources, it will have to move into the deep-water area of its sector, for which it has neither the expertise nor the technology. The National Iranian Oil Company (NIOC), which has two offshore platforms in the Caspian Sea, had to turn to foreign companies. So far, Iran has done nothing to explore and use its offshore oil and gas resources. As time goes on, it will find it much harder to deal with neighbors who have already divided the sea's northern part. The Iranian leaders have accepted the situation and want to cooperate with the other players. They just want to be one of the active participants in the sphere of energy production.

Iran also wants to be actively involved in the transportation of Caspian oil and to increase the amount moved across its territory; it wants to acquire more oil for its modernized and newly built oil refineries in the country's north. Iranian oil could be moved to China across Central Asia, but so far there are neither specific plans nor decisions regarding this.

Swap deals are another, partly realized, alternative for transporting Caspian oil: oil from other littoral states is moved to the Iranian Caspian ports, while Iran sends out equivalent volumes of its oil through its Gulf ports. In the Caspian, it uses

Neka as the main port and Noushahr and Anzali as subsidiaries. In the Persian Gulf, it relies on Kharg Island. Iran has found it hard to attract the Russian and Azeri players in the Caspian market: with many other alternatives at their disposal, they have not shown any interest in the Iranian route up to now.

Iran is still developing its infrastructure, which is expected to provide Iranian companies with a greater role in energy transportation in the Caspian. So far, like its Caspian neighbors, the country does not have enough state-of-the-art tankers, and Tehran is very well aware of the advantage it could gain here. By enhancing its tanker fleet and filling the vacant niche in the market, Iran could satisfy at least some of its energy-related ambitions in the region and also use this advantage as an additional argument for having raw hydrocarbons sent to its ports.

If and when Iran acquires enough state-of-the-art tankers, the NIOC will be able to act as a transit country and a broker for transit of large volumes of oil from the Caspian: so far the other littoral states do not intend to acquire large tanker fleets. This explains why Iran is insisting on the principle of free navigation in the Caspian. This coincides with what Moscow wants, which means that this principle stands a good chance of being approved when the sea's legal status is negotiated.

Iran's position in the gas sphere in the Caspian is explained by its intention to increase its own gas exports and have as much gas as possible transited through its territory. In the past few years it has been concentrating on gas exports: its expanded export capabilities are fortifying its position at the talks on gas transit across third countries.

Today Iran is interested in two international projects that appear to have good prospects: the Iran-Pakistan-India gas pipeline (IPI) and the European Nabucco project. Unrelated to Tehran's interests in Central Asia and the Caucasus, they affect the IPI's aims and position in the region. Until recently, Iran was interested in two other alternatives for transporting its gas to Europe—through Turkey, if the present infrastructure were extended, and through the Southern Caucasus to Ukraine, Poland, and on to Eastern Europe.

Iran's involvement in the South Stream will unite the pipeline systems of Iran, Azerbaijan, and Russia; Iran will not only diversify its export

routes, it will also strengthen its position in the Caucasian gas market and gain access to the region's economic and political life.

On the whole, Tehran's Central Asian policy is absolutely correct and balanced: the pragmatic wing of the Iranian political community knows that culture and revival of the cultural community are a much better vehicle of Iranian influence.

From the very beginning, Iran has been very interested in the Economic Cooperation Organization (ECO) as a way to consolidate the region. A project shared by Iran, Pakistan, and Turkey, it is designed to bring them closer together. Iran, as one of the leaders, is actively participating in implementing the projects in order to raise the relations among the partners to a higher level of mutual trust, add to its political weight in the region, and eliminate some of the problems caused by political isolation.

Tehran insists that the country's common culture and history, shared borders and economic foundations, and ancient trade contacts with the region all bode well for developing cooperation between Iran and the regional states; the pipeline issue is not only of economic but also of strategic importance for Iran.

Its interest in the energy transportation routes in Central Asia and the Southern Caucasus consists of at least three components: first, Iran aspires to become the region's energy transportation hub, which can be described as the most ambitious of its political and economic aims. Its territory offers the shortest and, therefore, most profitable oil and gas export routes between the former Soviet Caspian republics and the world markets. Iranian experts have been talking about this for twenty years now. Second, Tehran is striving to gain access to new energy markets via new oil and gas export routes. Third, Iran wants to provide the oil refineries in the country's north with stable deliveries of oil, gas, and electric power; it aims to gasify some of its regions; and ensure uninterrupted power supply throughout the year. Closely intertwined, the three components should be regarded as a single whole.

Its geographic location makes its interest in energy transportation much more logical and the possibilities of its realization much more numerous than its claims to be involved in mining Caspian mineral resources. In the last 15 years, Iran has been supplying its northern provinces on a regu-

lar basis with oil and gas from Kazakhstan and Turkmenistan.

Its consistent interest in gas exports to the foreign markets is supported by another, no less important, interest to become a transportation hub for energy resources of the entire region. It expects to send oil from nearly all the Caspian countries and gas from Turkmenistan in particular across its territory (thus hoping to eliminate the need for this gas to be transported through the planned Trans-Caspian and Trans-Afghan gas pipelines).

The relations between Iran and Turkmenistan, which are prompted by economic and political expediency, stand apart from Tehran's relations with the other Central Asian capitals. Neither of the two is worried about domestic collisions on the other side of the border, while international isolation adds to their mutual attraction.

As distinct from Iran's relations with the other Caspian neighbors, its relations with Turkmenistan stand on a much firmer foundation of close cooperation in the energy and other spheres. There is the Mashhad-Sarakhs railway which, in 1996, provided Iran with access to previously closed Central Asia. Over 90 percent of Turkmen oil is exported through Iran.

In the late 1990s, they jointly built the Balkanabat-Ali Abad power line to connect their energy systems and, in March 2003, they signed a Memorandum on Cooperation in the Fuel and Energy Sector, under which they are performing a contract on electric power export from Turkmenistan for a period of 10 years. The completed project will allow Iran to import \$140 million-worth of electric power from Turkmenistan every year. Half of the payment will arrive in money form and the other in the form of spare parts, commodities, products, equipment, and services for the industrial facilities and organizations of the Ministry of Power and Industry of Turkmenistan. One kWh of Turkmen electric power costs \$0.02.

Since 1997, Turkmenistan has been exporting up to 6 bcm of gas every year to the north-east

of Iran along the Korpeje-Kurt-Kui gas pipeline, which covers 5 percent of the country's needs. The new Dauletabad-Sarakhs-Hangeran gas pipeline will double the volume, with some of the gas being sent to Turkey on a swap basis. At the same time, Iran obviously wants to decrease its dependence on Turkmen gas or rid itself of this dependence altogether.

In June 2009, the two capitals agreed to increase the volumes of annual gas supplies to 14 bcm and build another pipeline. Before that Russia imported between 30 and 42 bcm of gas from the Dauletabad fields every year. Iran moved in when, in April 2009, Russia reduced the amount of gas it transports from Turkmenistan. Today, Turkmenistan supplies Iran with 8 bcm of gas a year transported from the Korpeje gas fields in the country's west to Kurt-Kui. The additional branch of the Dauletabad-Sarakhs-Hangeran pipeline commissioned in December 2009 will gradually bring the volumes up to 20 bcm.

The failed Transcaspian gas pipeline project increased the chances of Iran's participation in Nabucco; the country will finally be able to realize its ideal scenario: selling its own gas and moving Turkmen gas across its territory.

As an SCO member, Iran will be more actively involved in its energy sphere if it steps up cooperation in this field; this will greatly affect the position of Russia, China, and the Central Asian CIS countries. Involved in the less competitive (from Russia's point of view) Asian market, Iran will not be in a position to reduce the share of Russian gas in the European market. Russia and the other SCO countries will be able to influence Iran's energy policy and, in this way, its behavior in the security and non-proliferation spheres.

It seems that Iran's confrontation with the West (and the United States in particular) will remain at least at the present level, whereas the risk of an armed conflict will rise.

# KAZAKHSTAN AND SOUTH AFRICA LOOKING INTO THE FUTURE

GERMAN KIM,

*Doctor of Historical Sciences, Prof*

*Chief Researcher of the Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan*

# Twenty

years ago, after the collapse

of the Soviet Union, the new established republics were facing historical dilemmas. What is a priority: political or economic reforms, rough power or democracy, sovereignty or democracy? Some countries selected one way and faced various economic and social shocks. Other countries rejected any changes and at present have to start from scratch.

The sovereign independent Kazakhstan, like all other post-Soviet republics, underwent a deep socioeconomic crisis: the recession of industry, hyperinflation, and the decrease of living standards. There were not democratic traditions and experiences in the functioning of democratic institutes. Many post-Soviet republics were facing threats of international conflicts and internal clashes.

President Nursultan Nazarbayev adhered to principle of economic reforms being more important than the political ones, building a strong administrative vertical, when the country had a formally liberal economy.

In autumn 1991, the main political actions in Kazakhstan were aimed at the change of the party-Soviet system, the formation of new political structure and the gaining of real sovereignty. At the same time, the political monopoly of the communist party was liquidated and a multi-party system introduced instead. Human rights and freedoms were expanded. The presidential institute's role

increased in such unstable political and economic situations across all post-Soviet republics.

Elements of democracy in Kazakhstan political system started working in the absence of market economy and private property. That is why, taking into account inter-conditionality of political and economic liberalism, Kazakhstan has taken unprecedented steps in economy: wide-scale privatization was arranged, new tax systems were established, favorable conditions for business and modern bank system were created, etc.

On January 28, 1993, the first Constitution of Jan 28, 1993 the sovereign republic was adopted. The document did not provide for concrete norms of the power's functioning in complicated transitional conditions: neither the presidential or parliamentary form of governing was specified there. The Constitution of 1995 changed the political structure of the republic, showing transference to the presidential form of government. Amendments, made in 1998 strengthened this form.

Political reforms in Kazakhstan are special: in the early 1990s, transference to democracy started in difficult conditions, which had a negative toll on the liberalization of the political system.

Kazakhstan chose the only right way and created a new country, avoiding bloodshed, by constructing economic systems and implementing democratic reforms. Kazakhstan today is a democratic, secular, legal and social state whose highest values are the individual, and his life, rights and freedoms.

Oppositional parties and politicians, and non-state newspapers have always existed in the republic, and the state guaranteed them freedom of

word. It is known that the number of opposition supporters was always small. The reason is that the level of democracy and success of political reforms depends highly on economic situation and the people's welfare. Private property, a main condition of the democratic reforms, has already been created in the republic.

Concurrent to the economic growth, our institutes of democracy have been developing too: including the infrastructure of civil society and a grounds for democratic tradition. Successful economic reforms in Kazakhstan have formed a new model of socioeconomic transformation—the Kazakhstan model of economic reforms. At present, Kazakhstan is looking for a new model of political modernization, aimed at strengthening the democratic institutes and power branches, and balancing the implementation of economic and political reforms.

As for the present, stage political modernization is a priority and special attention is paid to democratic reforms. Stepwise democratization is one of required conditions for competitive state and nation.

President Nursultan Nazarbayev underlined that democratization was the main strategic factor for all political reforms. Political modernization is the main task of the final stage of “Kazakhstan transit” with the principal approaches: the first is that reforms are long-lasting processes, aimed at improvement of the acting political and administrative system. The second is that the changes are harmonized with democratic goals and specific of Kazakhstan political system and socio-cultural aspects. Political modernization is aimed at liquidation of possible discrepancies in society. The third is that the democratic process must not provoke chaos. The balance between democracy and its legitimacy must be observed.

On May 21, 2007, amendments to Kazakhstan Constitution, changing political system, were adopted. Special emphasis was laid on the redistribution of powers and decentralization.

The state management system is being modernized through of the optimal distribution of functions, powers and responsibility among all levels of power. The question is the balanced pros and cons system via the expansion of representative bodies' functions and powers. From now on,

Parliament plays a significant role in control over the Government's activity, and *maslikhats* over *akims*.

Later, the President of Kazakhstan signed the constitutional laws on amendments to the laws on President, Parliament, status of deputies, on Government and elections. The documents were harmonized with the renewed Constitution.

The President decreed the establishment of the National Commission for Democracy and Civil Society, comprising leaders of all parties, opposition, MPs, public figures. The commission's activity was aimed at further modernization of political system. Offers of all political groups were discussed there.

Today political parties' positions in representative bodies, including status and powers of political factions have been strengthened. The chosen algorithm of stepwise political reforms shows Kazakhstan people's priorities and expectations. Kazakhstan's staked its hope on the evolutionary way of the political system's modernization, which has proved its effectiveness.

Apart from the ruling presidential authority, Nur Otan, there are nine small parties legally registered in Kazakhstan, but none are represented in Parliament, and three of them define themselves as opposition. Most of the nine groups look more like political projects than parties. These parties take the position that the incumbent Majlis does not reflect the diversity of political views in Kazakhstan, hence new elections should ensure representation of that spectrum in a multi-party Majlis. The debate at this stage seems to involve the pace and degree of opening up the next Majlis in 2012, and whether it should be two-party or multi-party. However, a strong majority party remains indispensable to an orderly process of political reforms.

### **Diplomatic Relations between the Republic of Kazakhstan and the Republic of South Africa**

As is well-known, from 1958 when on the initiative of the RSA bilateral consular relations with the USSR were terminated, the relations between the UN two states became limited, and by 1961 they had practically stopped altogether. After the General Assembly adopted recommendations on the boycott of trade with South Africa, business

contacts between Soviet and South African organizations were not maintained except through closed contacts with De Biers Corporation. Therefore, the relations between the sovereign republic of Kazakhstan and the Republic of South Africa started from scratch, without any prehistory or experience of bilateral cooperation.

Ambassador Extraordinary and Plenipotentiary of the Republic of Kazakhstan to the United Arab Emirates H.E. Askar Mussinov was appointed Ambassador Extraordinary and Plenipotentiary of the Republic of Kazakhstan to the Republic of South Africa, with residence in Abu Dhabi. In accordance with the plan, Kazakhstan will open new embassies in the Republic of South Africa, Vietnam and Sweden in 2013.

The South African embassy in Kazakhstan was opened in December 2003 in Almaty, and was later relocated to Astana in February 2008. In January 2009, Counsellor Jurgens Young was appointed as Chargé d' Affaires of South Africa in the Republic of Kazakhstan.

**Official visits and meetings.** The President of the Republic of Kazakhstan, Nursultan Nazarbayev, participated in the United Nations (UN) Conference on Environment and Sustainable Development, Earth Summit, held in Johannesburg from August 26 to September 4, 2002. The President of Kazakhstan proposed that global military expenditures be cut by 1 per cent in all States and that those resources should be spent on economic development in the least developed countries. He stressed that developed countries would never have become what they were now without the natural and human resources of developing countries. Therefore, more equitable distribution of incomes and benefits was necessary and urgent. After proclaiming its independence, Kazakhstan had made a real contribution to sustainable development on the global level, he said. It was the first country to voluntarily renounce the fourth largest nuclear weapons arsenal, when it closed the Semipalatinsk nuclear testing site. It had also achieved tangible results in the economic sphere.

On December 5, 2008, the President of the African National Congress, Mr. Jacob Zuma, visited Kazakhstan and held a meeting with the President Nursultan Nazarbayev. During the meeting, Presi-

dent Nazarbayev said that modern South Africa is the most economically stable country in the African continent and that Kazakh businessmen are interested in cooperation with the business community of South Africa.

President Nazarbayev drew the attention of guests to the importance of signing intergovernmental agreements on cooperation in energy and mineral resources, cooperation in trade and economy, promotion and reciprocal protection of investments, and visa free entrance for holders of diplomatic and official passports.

The Ambassador of Kazakhstan to the UAE, H.E. Mussinov participated in the opening session of the Parliament of South Africa, where the President of the Republic of South Africa, Mr. Jacob Zuma, made the annual address and he held a meeting in Cape Town with Ms. Helen Zillah, Premier of Western Cape Province, during which they discussed the issues of establishing bilateral cooperation. H.E. Ambassador Mussinov held meetings with the Minister of Agriculture of Western Cape Province to discuss possible areas of cooperation in the agricultural sector. The South African side expressed interest in studying the experience, and in supporting and developing small agricultural formations.

Ambassador Mussinov also met with Mr. Maite Nkoana-Mashabane, Minister of International Relations and Cooperation of South Africa and Chief Director of the Department of Central and East Asia, and Economic and Regional Organizations of the Department of International Relations and Cooperation of South Africa.

**Intergovernmental contacts.** Consultations between the Ministries of Foreign Affairs of the Republic Kazakhstan and the Republic of South Africa took place on July 23, 2007, in Astana, the agency reports referring to the Ministry of Foreign Affairs of Kazakhstan. Vice Minister of Foreign Affairs, Nurlan Yermekbayev headed the Kazakhstan party, and Deputy Minister of International Relations and Cooperation for Asia and the Near East headed the South African party at the negotiations. During the meeting, the parties discussed the questions of activation of bilateral cooperation between Kazakhstan and South Africa, particular, in the fields of tourism and mining. The South African party informed on the decision to relocate

the embassy from Almaty to Astana up to the end of 2007. The South African leadership requested that the embassy of Kazakhstan be opened in Pretoria. The diplomats agreed upon carrying out of the regular meetings of the ministers of foreign policy departments and their assistants, as well as arranging expansion of bilateral contractual and legal base of the relations

On sep 28, 2010, the first round of intergovernmental political consultations between the Republic of Kazakhstan and the Republic of South Africa was held in Pretoria. The Kazakh delegation was headed by Mr. Sarybai, Deputy Minister of Foreign Affairs, and the South African team by Mr. Ebrahim Ismail Ebrahim, Deputy Minister of International Relations and Cooperation. During the meeting, Mr. Sarybai delivered a message from President Nursultan Nazarbayev addressed to the President of South Africa Mr. Jacob Zuma through the South African side. The parties exchanged views on expanding trade and economic cooperation through bilateral meetings, the formation of business circles, and the implementation of promising investment projects. The Kazakh delegation made a presentation of the investment climate, and the implementation of the program of boosted innovation, industrial development, and tourism potential in Kazakhstan.

This first session of the South-Africa-Kazakhstan inter-governmental consultations marks an important milestone in the development of relations between the two countries and provides us with a concrete opportunity to advance an agenda for mutual cooperation.

Mr. Ebrahim Ismail Ebrahim, Deputy Minister of International Relations, and Cooperation stressed that South Africa and Kazakhstan have much in common, bringing up the fact that both countries have experienced a period of profound transition during the 1990s. Kazakhstan transitioned to a market based economy after the dissolution of the Soviet Union and South Africa has been in a process of transition and transformation to a non-racial democracy. During the consultations, the South African side emphasized strong interest in organizing a state visit for the President of Kazakhstan Nursultan Nazarbayev to South Africa.

Kazakhstan was visited by the Minister of Minerals and Energy of the South African Re-

public (April, 1996), Deputy Minister of Mineral Resources and Energy Susan Shabangu ( March, 2003), business delegation ( April, 2004), and delegation of the Ministry of Defense (November, 2006). Thus, the intergovernmental cooperation between Kazakhstan and the South African Republic is gradually gaining force on the level of separate ministries and diplomatic missions. However, it is necessary to create a contractual and legal foundation for further relations as until now only one document has been signed between the two states—the Protocol on Consultations between the governments of Kazakhstan and South Africa acting through their respective Ministries of Foreign Affairs. The time has come to sign a number of important agreements that will provide the foundation for broader cooperation between the two countries.

**Inter-parliamentarian contacts between the two countries.** With the purpose of experience exchange in November, 2001, a parliamentarian delegation of the Republic of Kazakhstan visited the South African Republic. The delegation was headed by the Deputy Chairman of the Majilis Mukhambet. Kopey. Later in February, 2008, a business delegation visited South Africa followed by a delegation of Majilis of the Parliament in April.

However, taking into consideration the role of inter-parliamentarian relations in international cooperation and the present lack of contacts it is necessary to increase them between the corresponding committees of legislative organs of the two states.

**Inter-party contacts.** The People's Democratic Party Nur Otan has gained considerable experience of cooperation with the ruling parties of foreign countries and is working at strengthening inter-party contacts with the aim of ensuring the dynamic development of inter-state relations. Closer contacts and stronger ties between the Nur Otan party and African National Congress (ANC) is the task of the near future.

### **Prospects for Cooperation between Kazakhstan and South Africa**

The twentieth anniversary of Kazakhstan's independence, which was marked in December, 2011, is a good occasion to reflect on the processes of formation and development of a sovereign state.

The first ten years of Kazakhstan's independence were characterized by numerous economic, social and environmental challenges. Nevertheless, since 1992, Kazakhstan has actively pursued a program of economic reforms designed to establish a free market economy through privatization of state enterprises and economic decentralization. Successful implementation of the reforms resulted in general recognition of Kazakhstan in 2001 as the country with the market economy. Western countries have highly appreciated Kazakhstan's reforms in the areas of currency convertibility, inflation targeting, foreign investment policy, demonopolization and reallocation of resources. Being the most successful reformer in the CIS and based on its strong macroeconomic performance and financial health, Kazakhstan became the first former Soviet republic to repay all of its debt to the International Monetary Fund (IMF) in 2000. Holding significant resources of oil and gas, coal and uranium, Kazakhstan is an important energy player in the world. Kazakhstan has accommodated 8,000 foreign companies (270 of them are companies listed in the Fortune-500) which invested in Kazakhstan economy over \$12.6 bn. of foreign direct investments in 2009. The total volume of foreign investments in the economy of Kazakhstan is about \$150bn.

Kazakhstan has grand plans to become not just a regional, but a global economic force. Since the start of 2006, President Nursultan Nazarbayev has spoken repeatedly about his aim to transform Kazakhstan into one of the "50 most competitive, dynamically developing countries in the world" within the next decade.

Kazakhstan cannot yet influence the process in the global economy, however, the country can respond to some events. Presently, taking into consideration the pessimistic forecasts of the world economic experts, the Government of Kazakhstan is taking measures aimed at maximum protection of the population from possible economic shocks. Thus, the amendments introduced to the draft national budget for 2011 allowed for the increasing of the social, agricultural, housing, utilities, construction and industrialization program expenditures.

The strategy of further economic development of Kazakhstan is directed at solving a number of important tasks.

Among economic priorities the most important action is to restructure the national economy, making the transfer from the dependence on raw materials to the accelerated innovative industrialization.

Secondly, it is necessary to efficiently use the opportunities created by the Customs Union with Russia and Belarus and entering the WTO, either at the same time as in block with those countries or separately.

Thirdly, the country needs to widen cooperation in the sphere of real production, investment programs and trade turn over with the traditional partnerig countries and to search for new mutually advantageous international contacts.

Kazakhstan's program for post-crisis development envisages the realization of a series of steps aimed at the improvement of the business climate, the provision of stability in the financial system and the formation of reliable legal environment which will allow creating a foundation for the future qualitative growth. The economic diversification will be provided due to the development of such priority directions as oil refining and infrastructure of the oil and gas sector; metallurgy and production of finished metal items; chemical, pharmaceutical and defense industry; processing of agricultural goods; construction industry and production of construction materials, as well as energy, transport and telecommunications sectors.

Key priorities of diversification will be implemented under the **State Program of Boosted Industrial-Innovative Development for 2010-2014**.

The strategic program envisages the achievement of the following key indicators of development in the country:

- by 2015 the share of manufacturing in GDP is not less than 12.5%; in 2020 not less than 13%;
- the share of non-oil export in total export is to increase from 10 to 40% by 2015 and to 45% by 2020;
- labor productivity in manufacturing industry is to increase 1.5 times by 2015 and two times by 2020;
- by 2015 labor productivity in agriculture will increase by two times by 2015 and in 2020 by four times;

- the energy intensity of the GDP is to decrease at least by 10% by 2015 and at least by 25% by 2020;

- by 2015 the export potential of agrarian industry will increase from 4 to 8%, 80% of the domestic demand for construction materials will be provided by materials made in Kazakhstan, domestic oil refineries will satisfy in full the demand of the country for fuel;

- during the next five years production and export of metallurgical goods will double, production of chemical goods will increase by three times;

- by 2020, the gross domestic product (GDP) of Kazakhstan is to increase in real expression not less than by a third in comparison with level of 2009;

- average inflation over the decade period will be in the range of 5-8 %;

- by 2020, the assets of the National Fund will constitute at least 30% of the GDP (\$90bn);

- by 2020, the level of unemployment will not exceed 5%.

In 2010, Kazakhstan announced a Business Road Map 2020 which aims at the creation of permanent jobs through business development in the regions of the country. According to the program, local executive bodies, with approval of the Ministry of Economic Development and Trade, are authorized to use allocated budget funds for further subsidization of interest rates on loans, issue of partial loan guarantees, the development of industrial infrastructure, providing service support to small and medium businesses, internships, trainings and social assistance.

**The trilateral Customs Union of Kazakhstan, Russia and Belarus** launched on January 1, 2010, came into force on July of the same year. The Customs Union sets up a market with a population of 170 million. people, an aggregate trade of \$900bn, an aggregate industrial potential of \$600bn., oil reserves of 90 billion. barrels, and agricultural production of \$112 bn. The three countries' current aggregate GDP makes up \$2 trillion, and the establishment of the Customs Union will enable the three countries to have a GDP growth over 15% by 2015.

Kazakhstan's decision to create the Customs Union together with Russia and Belarus was based solely on the country's own economic interests, which include the following factors.

Kazakhstan has the sixth largest mineral reserves in the world and is a major player in the energy markets. A unified customs tariff within the Customs Union would expand the regional market and promote Kazakhstan's exports. Future customs tariff policies within the Customs Union will allow the import of raw materials and equipment under low custom duties within the development of investment projects.

Kazakhstan is the largest land-locked country in the world and much of its foreign trade depends on the routes that go through the territories of neighboring states.

The creation of the Customs Union will allow for the more efficient use of the limited financial resources due to the global economic crisis. It will also provide a rationale for companies to use available resources to increase their production capacity.

**Accession to the WTO** has always been and remains a foreign policy priority for Kazakhstan. Negotiations on the country's WTO accession have been ongoing for more than fifteen years. It is well known that a unified customs territory is an integral step towards that high level of economic integration. Neither in negotiations on the WTO, nor in negotiations on the Customs Union did Kazakhstan ever renounce its interests, and the country considers both processes to be mutually complementary rather than mutually exclusive. Therefore, the processes of Eurasian integration and WTO accession have always been in parallel.

The establishment of the Customs Union doesn't affect negatively the talks on joining the WTO. Being a WTO member does not mean that the country cannot be a member of the Customs Union. The EU for instance is the best example of customs unions and member states being in the WTO as is NAFTA. The three members of the Customs Union announced that they would seek to pursue their WTO memberships individually and simultaneously and in a coordinated way following internal consultations within the working groups. The national economy as well as the market of the Customs Union is considered by the Government as the basis to build a modern, diversified, highly-technological, flexible and competitive economy with a high value-added component. This is the central goal of the National Strategy Kazakh-

stan-2030 and the Strategic Development Plan of Kazakhstan 2020.

Early this year, the Government stated that the accelerated accession to the WTO would be one of the priorities for 2011. Kazakhstan plans to complete negotiations on accession to the WTO before the end of 2012. The Customs Union members have agreed to coordinate together issues related to the Customs Union as the Common external tariff is effective since January 1, 2010. A single unified team including Kazakhstan, Russia and Belarus will be holding multilateral negotiations in Geneva this year to work on compliance of the Customs Union legislation with the WTO standards.

In 2008, the trade turnover between Kazakhstan and South Africa totaled \$29.5 m. (mainly import). During the period from January to May, 2009, the volume of mutual trade reached \$13.46 m. It is next to nothing taking into consideration the possibilities of potential export-import deals. The Republic of South Africa is a gateway for business people from Kazakhstan and Central Asia willing to sign contacts with the dozens of African countries to the south of Sahara. This regional power can transfer necessary technology and goods.

In 1996, the countries of the South African regions formed the Southern African Development Community (SADC). The total territory of these fourteen states comprises 9.4 million sq km with the population of 200 million people. The basis for integration for the SADC countries is the similar structure of their respective economies and foreign trade ties. The integration model for the development of the south of Africa is oriented towards the coordination of trade and the economic and investment cooperation of the countries of the region. It is based on cooperation in the sphere of finance, transportation, mining, processing industry, agriculture, fishing, tourism, small and medium businesses. The main aim is to promote economic development of the member countries.

Among the SADC countries, cooperation with South Africa is developing most actively for Russia. Therefore, proceeding from the fact that Kazakhstan is now in the Customs Union with Russia, we should consider either bilaterally or with three sides participation prospects for future development of trade relations.

There are good prospects for Kazakhstan, Russia and South Africa cooperation in the sphere of atomic energy. The Republic of South Africa announced uranium as "strategically important raw material" for its national economy and is going to introduce limitations for export of uranium. The country is working at its national strategy of nuclear energy. The government of the country announced its decision to concentrate uranium to the nuclear fuel for atomic power stations. The decision was made connection with the recently announced program for the construction of twelve atomic power stations and 24 modular reactors. The total cost of this project is expected to reach of 100 billion. rand (\$15 bn) by 2030. The cooperation between South Africa and Kazakhstan in the sphere of extraction, processing, storage, sale and use of nuclear raw materials can become topical, taking into consideration the initiative of President Nazarbaev for creating the International Bank of Nuclear Fuel on the territory of Kazakhstan.

As is already known, South Africa and Russia recently held a number of negotiations on mutual space exploration. The agreement was signed in the presence of President Vladimir Putin and President Thabo Mbeki by the head of Roscosmos Anatoly Perminov and Minister of Science and Technology of South Africa Mosibudi Mangena. This document is valid for ten years and can be prolonged for ten more years. To realize actual projects, Russia and South Africa will conclude separate agreements and Kazakhstan can participate as a country with the first space harbor of the mankind. It is from Baikonur that manned spacecraft, cargo and other sputniks take off.

Economic cooperation and especially mutual trade between Kazakhstan and South Africa, (which are geographically separated) can be realized mediately, and not only via Russia with all the benefits of the Customs Union, but also via China. Beijing is active in Africa including its southern part, because a dollar invested in the Black Continent makes more profit than in any other continent of the planet.

In 2009, the BRIC countries held their first conference and invited South Africa to join the group, which is now called BRICS, and its share of the world economy is nearly one fifth, population constitutes 40% of the total planet population and

with 18% of the global trade. These countries also possess significant foreign exchange reserves and economies of the countries of the group look quite protected from financial cataclysms. In 2010, the foreign debt of Brazil was only 15% of its GDP, for India it was 20%, China 7%, and Russia 33%. According to some prognosis, by 2013 forecasts economies will surpass developed countries in terms of their share in the world GDP. The BRICS members consider that Western countries dominate in making rules for international financial and trade structures, trying to play a more important role in that process.

Summing up, a conclusion can be made that only after gaining independence and sovereignty by of Kazakhstan and due to the political and social-economic reforms carried out by its leadership which ensured the actual status of an independent

state there appeared real opportunities for establishing relations with South Africa and real prospects for their further development.

Kazakhstan is interested in broadening cooperation with all BRICS countries both on the whole and separately. Therefore, if consensus is achieved among the member states of the group, our cooperation can develop more actively.

Thus, Kazakhstan and South Africa are on the threshold of a new stage in their economic relations, behind is the initial stage when the two countries established diplomatic relations, got to know each other a bit better and started commodities exchange. In the near future, the Embassy of the Republic of Kazakhstan will be opened in the Republic of South Africa and it will give an impetus for broadening economic cooperation between the two countries.

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# National Sovereignty within the European Union: the Case of Hungary

DR. LÁSZLÓ MARÁCZ

**A**fter the collapse of communism, Hungary—being one of the former satellites of the Soviet Union—wanted to return to “Europe.” The first democratically elected government under the leadership of Prime Minister József Antall formulated the goals of Hungarian foreign policy to join the Euro-Atlantic organizations. The Antall government, supported by the Hungarian Parliament, was convinced of the fact that the national security of the country was served the best by joining NATO and that for securing political and economic stability the European Union was the logical choice. During the Cold War, Western Europe had experienced impressive prosperity in the framework of the European Community that was relabeled as the European Union, when the Maastricht Treaty came into being in 1991. The security of Western Europe was guaranteed by the Western defense alliance, NATO. Hence, in the beginning of the 1990s, Hungary saw its future to be realized in the framework of the Euro-Atlantic organizations. The first step towards integration into the Euro-Atlantic structures was the country’s initiation into NATO membership in 1999 at the fiftieth anniversary of the establishment of the North Atlantic Treaty Organization. Together with Poland, and the Czech Republic, Hungary was allowed to become a member of the world’s strongest military alliance. Accession to the European Union took a bit more time and it was only in 2004 that Hungary

was accepted, along with nine other states from Central and Eastern Europe to join the European Union.

What the Hungarians did not fully realize was that the forces of globalization had started to reach Central and Eastern Europe after the end of the Cold War. In fact, with the collapse of the Soviet Union globalization was becoming more intensive. The most important features of globalization are global interconnections compressing time and space. They affected the political, economic, social and cultural “fields,” turning the world into a single global arena. The engines of globalization were often large nation states and transnational organizations, like multinational enterprises, IMF, the World Bank, WTO, G20, and so on. The 1991 Maastricht Treaty turned the European Union into a supranational organization completely in accordance with these globalization drives. In the course of the nineties, especially when the Internet became a global channel of communication, a global public space arose which also made possible the development of a global civil society.

In fact, the small states from the ex-Soviet orbit joined a world of global governance, defined by the post-Bretton Woods regulations and dominated by the United States yielding a number of global regulatory organizations. The small states from Central and Eastern Europe (including Hungary) that had

regained their sovereignty and had hoped to keep it as long as possible after the collapse of communism discovered that global economy and global regulatory processes limited their sovereignty. The question of national sovereignty was closely connected to the issues of national identity and culture. The limitation of the national sovereignty affected the national identity and culture of the states involved. However, it was understandable that after a period of homogenization and suppression of national identity and culture, the small states from Central and Eastern Europe tried to redefine their features of national identity and culture.

Commentators argued that the postcommunist era was characterized by a mixed system of “multilateral cooperation and though inter-state bargaining” (Keohane 1995, 176; Holton 2011, 109). Within this framework, “Sovereignty is less a territorially defined barrier than a bargaining resource for a politics characterized by complex transnational networks” (Keohane 1995, 177; Holton 2011, 109). When preparing for the integration into the Euro-Atlantic, the bargaining power of the former members of the Soviet zone of influence was in fact undermined by the following two factors. Firstly by privatization of the former state properties, and secondly by the regulatory devices set by the European Union. When preparing for accession to the European Union in the late nineties, the states from Central and Eastern Europe were limited by the economic rule-setting of external forces, actors and agencies, who were, by the way, not the outcome of liberal democratic procedures. The small states from the former Soviet area entering the global system had a hard time to deal with the “asymmetries of power” between the external interests and their domestic governance. In fact, it led to a position in which states, like Hungary were being dominated by external influences, reducing sovereignty and drifting away from a position where sovereignty could be defined as a politics of bargaining. The goal of this policy should have been the search for a complementary common interest between national and international interests.

After the 2010 elections, Hungary started to protect its national interests. In terms of Keohane’s analysis, this means taking in a bargaining position in the global field and searching for the possibility

of common of interests with the transnational regulatory and non-governmental bodies. In this paper, the framework of Keohane (1995) will be taken as a point of departure that will provide excellent insight into recent conflicts between the Hungarian government and the European Commission and the left-liberal parties in the European Parliament. The conflicts are rooted in the fact that Hungary switched from a position being exclusively dominated by external interests to the bargaining position in the global field. Before the conflicts can be discussed in more detail it is necessary to introduce the present state of the domestic political situation in Hungary.

### Domestic Political Situation

In April 2010, the Hungarian elections yielded an interesting outcome. After eight years of left-liberal governance it was to be expected that the governing parties, the Hungarian Socialist Party (MSZP), the successor party of the old communist party, and the liberal Union of Free Democrats (SZDSZ) would lose the elections. But the results were remarkable also for the two most important political parties involved, MSZP and the centre-right combination of the Young Democrats (FIDESZ) and the Christian Democratic People’s Party (KDNP). Compared to the 2006 elections that were won by the socialists with 49.22 percent of the votes (yielding 190 of the 386 seats in the Hungarian Parliament) this time the centre-right coalition of FIDESZ-KDNP won the elections. This coalition reached an unprecedented landslide victory increasing the 42.49 percent they had won in 2006 to 68.13 percent and henceforth raising their seats from 164 to 263. The socialists suffered a dramatic defeat. From the 49.22 percent they had won in 2006, only 15.28 percent (59 seats) remained. A dramatic outcome indeed. In fact, never in the modern history of the Hungarian elections had a political party suffered such a devastating defeat as the MSZP in 2010. A decrease of the votes with 34.02 percent is even in European perspective a rather exceptional result.

The main reason for this enormous defeat of the socialist-led coalition was governmental incompetence. Hungary’s socialist Prime Minister, Ferenc

Gyurcsány, admitted after the elections of 2006 that he had manipulated the elections by providing false macroeconomic data. It was stated before the elections that Hungary's budgetary deficit was in accordance with the Union's Stability Pact, i.e. 3 percent of the GDP. In reality, the budget deficit was above ten percent of the GDP, pushing Hungary to the brink of a financial meltdown. The false macroeconomic figures were unknown to the Hungarian electorate but they were known in Brussels, the seat of the European Commission. The Spanish socialist Commissioner for Economic and Monetary Affairs, Joaquín Almunia, was informed about the real macroeconomic figures of Hungary but he kept silent about this for half a year so that the MSZP could win the elections with manipulated statistics. In the autumn of 2006, when the election fraud became known to the Hungarian electorate Budapest faced serious clashes between demonstrators and the Hungarian police when the election fraud became known to the Hungarian electorate. Most tragic were the clashes on October 23, on the commemoration of the fiftieth anniversary of the Hungarian Uprising against communism in 1956. The building of the Hungarian state television was stormed by a mob and PM Ferenc Gyurcsány ordered the Hungarian police to shoot at peaceful demonstrators with rubber bullets. In 2008, Hungary had to turn to the IMF for loans, otherwise the country would have gone bankrupt. The left-liberal government had managed to increase the government deficit in eight years with almost thirty percent from 52.5 percent to 80 percent of Hungary's GDP.

So the 2010 elections toppled the MSZP-led government and reduced the major governing party to a tiny party in the Hungarian Parliament. The FIDESZ-KDNP won not only the absolute majority of the seats in the Hungarian Parliament but also won more than two-third of the seats. The Hungarian constitution contains the clause that it can only be changed in case the government relies on more than two-third's of the seats in Parliament. The FIDESZ-KDNP coalition announced on the night of their election victory in April 2010 that they would certainly modify the Hungarian constitution, which it had promised to do so before the elections. But nobody had reckoned seriously with a FIDESZ-KDNP landslide victory. Suddenly the

way to make major changes in the legal system of Hungary was open.

The FIDESZ-KDNP coalition had not really campaigned before the elections in 2010. It was clear that if the FIDESZ-KDNP government would take power, the government would be led by Viktor Orbán (46) who already was the head of a centre-right government between 1998 and 2002. This would be his second term as Prime Minister of Hungary. Orbán did not communicate much details of his government program before the elections. As opposition leader, he promised his voters that what was required to counter the grave financial crisis, which erupted in 2008 with the collapse of the US Lehman Brothers Bank, was a "strong" state. The new Hungarian government would free Hungary from the impossible position it was maneuvered into by the left-liberal forces. Only a strong Hungarian state could speak for the national interest and strengthen the Hungarian national identity. In the global field, that is what strong states can do: "There are (...) functions that involve the legitimization of particular institutional arrangements. An example of this function is where states possess the capacity to speak for the national interest involving matters of national identity and the cultural identity of the nation" (Holton 2011, 109). Hence, one of the first measures of the Orbán government was to let the banks in Hungary also pay for the crisis, arguing that the crisis could not be carried any longer by the citizens of Hungary alone. A bank tax was introduced, bringing Hungary into conflict with the Western banks that dominate the Hungarian financial markets. Especially the Austrian banks who had been heavily investing in Hungary felt especially victimized by the Hungarian government measures. According to the Orbán government, the foreign banks had to pay three billion euro in taxes contributing to the reduction of the Hungarian budget deficit. A budget deficit under three percent was necessary in order to prepare Hungary's entrance into the Eurozone to fulfill one of the criteria of the Stability Pact on the euro. The second important measure of the Orbán government was that the Hungarian Parliament would draft a new constitution. The text of the old constitution originated from Hungary's Stalinist history. It was drafted in 1949 and dictated by the

Soviet commissioners that were in control of the communist Hungarian leadership. The Hungarian constitution was not really modified in Hungary's post-communist past. Since the collapse of communism there was simply no two-third majority in the Hungarian Parliament to do so. The Orbán government announced that the new constitution would be amended with a number of cardinal laws that require two-third majority to be changed. So far the Hungarian government has adopted besides the new constitution also 365 new laws, in addition to the new constitution. The European Commission has declared that the new Hungarian constitution is not in disagreement with the European Union's *acquis communautaire*. From the 365 laws, that have been investigated by the legal specialists of the European Commission, only three laws, including the law guaranteeing the independence of the Hungarian National Bank, the legislation on the retirement ages of judges, and the legislation on the independence of the office of data protection, have been formulated contrary to the EU Treaties. Here is a clear case of conflicting national and transnational interests. These three laws are being negotiated between the Hungarian government and the European Commission, clearly demonstrating that Hungary has moved from a position dominated by external transnational forces to a position where bargaining is a resource for national sovereignty.

### Transnational Networks

But in the present state of global governance and policy, not only does domestic politics take place but "simultaneously, external interests such as multinational enterprises, international regulatory bodies such as the IMF and the WTO and international non-governmental bodies such as Amnesty International (...) may press for various changes to national policy-making, affecting issues such as control over foreign investment, fiscal policy, or human rights practices" (Holton 2011, 110). In this section, transnational networks affecting Hungarian domestic politics will be discussed in more detail. It was because of these transnational regulatory bodies, like the European Commission and IMF pursuing their own transnational interests in Hungary that the Hungarian government

speaking for the Hungarian state and protecting Hungarian interests clashed.

The Hungarian 2010 elections also brought the collapse of the left-liberal Union of Free Democrats (SZDSZ). The founding members of this political party were recruited from the intellectuals that were fellow travelers of the former communist system. Prominent members of this group were György Konrád, Miklós Haraszti and György Dalos. These intellectuals who made a living by writing about their "heroic" deeds to oppose communism were not able to reach the threshold of five percent in the 2010 elections. The self-appointed intellectual elite of the Hungarian society was not able to collect enough votes to reach the threshold of five percent and have since disappeared from the political scene. These intellectual fellow travelers had supported the Hungarian Socialist Party since the collapse of communism and they joined all the socialist-led governments in the past twenty years, from 1994-1998 and from 2002-2010. A large part of the Hungarian electorate had never really understood why former "dissidents" were ready to establish a government with the former communist party. In any case, in 2010 the fellow travelers' game was over. Starting from the beginning of the eighties under the dictatorship of János Kádár, these intellectuals had travelled around the world and now lost their privileges and positions under the Orbán government. What they could still rely upon was an immense transnational network that could be activated against the Hungarian government. The network included also the three leftist parties in the European Parliament, the socialists, the greens (i.e. the former communists), and the liberals. These parties were cleverly mobilized by the former fellow travelers of Hungary. Another important network is centered around Charles Gati, a Hungarian-American professor of East European Studies at John Hopkins University in Washington, with whom the Hungarian left-liberals have an outstanding relationship. Gati has worked as a high official in the US State Department and at present he is one of the foreign policy advisors of the US Secretary of State, Hillary Clinton. This network of former fellow travelers and American-Hungarian liberals has managed to undermine the relation between the Hungarian government

and the Obama Administration. Foreign Secretary of State, Hillary Clinton, was advised to take a tough stance against the “authoritarian regime” in Budapest. A paradoxical situation arose. While the Secretary of State Clinton criticized the Hungarian government of drifting away from liberal and democratic standards and getting rid of checks and balances in the democratic society, the Pentagon was instructing the Hungarian army in Afghanistan how to fight against the anti-democratic Taliban in the framework of the NATO’s ISAF operation Afghanistan.

The pressure from transnational networks against the policy of the Orbán government, including left and left-liberals networks and political organizations in the European Parliament and the networks of the banks that were frustrated about the “banks having no special privileges policy” from the Orbán government, being afraid that the Hungarian anti-bank virus would spread to other European countries, put pressure on Hungarian financial markets in recent months. All the credit rating agencies downgraded Hungary to the lowest category, to the so-called junk status, suggesting that Hungary is an extremely risky country for foreign investments. As a consequence, the Hungarian currency (the forint) was unable to resist speculation and weakened substantially in the period of January-February of this year. At the same time, the Hungarian government was seeking to revive bailout talks with the IMF to ensure a financial safety net, if the euro crisis worsened and the economy slipped into recession. The dependency on the IMF for a financial safety net has weakened the bargaining position of the Hungarian government with the transnational regulatory bodies. Hungary’s financial situation is complicated by the fact that its National Bank is steered by a board that has been appointed under the former Gyurcsány government.

The Hungarian government wanted to get more control on the Hungarian National Bank and had good reason to do so. The interest rate in Hungary is too high, i.e. seven percent, which is much higher than in the rest of the European Union, certainly in the states of the Eurozone. The high interest rate set by the Hungarian Central Bank makes a quick recov-

ery of Hungarian-owned small and medium-sized enterprises almost impossible as they are unable to compete with the rest of the Union. The European Commission and the financial world press the Hungarian government to guarantee the independence of the Hungarian National Bank, although Hungary is formally not a member of the Eurozone and should be able to control matters of its Hungarian National Bank in agreement with its sovereignty.

Besides putting pressure on the Hungarian government, pressure was put on the European Commission itself by transnational networks. The clearest case of this was the change in position of the Dutch Commissioner for Digital Agenda, Neelie Kroes. At a hearing in the European Parliament of the Hungarian Vice-Prime Minister, Tibor Navracsics, on February 9, she told the Hungarian politician to ask the Venice Committee of the Council of Europe for an opinion on the Hungarian media law and to agree with the point of view of the European Commission on this issue in the future. The law was supposed to be altered only on three technical points in the beginning of 2011, when the Hungarian media law was discussed in Brussels. Commissioner Kroes was satisfied with the modifications of the Hungarian government but now in the heat of the anti-Hungarian attacks her position has altered and she has requested that the whole issue be inspected anew.

Since the conflict with the Hungarian government has erupted, the European Commission has tried to press Hungary. In January, the Commission started three infringement procedures against Hungary. The Commission had cast serious doubt on the integrity of Hungary’s National Bank and National Data Protection Authority as well as the legality of the country’s mandatory early retirement age for its judges. The infringement procedure was followed shortly afterwards by a threat by the Finnish Commissioner for Economic and Financial Affairs, Olli Rehn, to suspend 495 million euro from the Cohesion Fund, meant for supporting weaker regions in Hungary. The alleged reason for this is that Hungary has not have done enough to keep its budget deficit under three percent in recent years. However, it is strange to punish a government for something that it has not committed. The previous socialist governments are responsible for the financial chaos in Hungary

and not the Orbán government that tries to repair the situation. Furthermore, there is the issue of double standards. The household deficit is much higher in 19 of the 27 countries of the European Union and the former socialist regime in Hungary had at certain times more than 10 percent deficit. However, the European Commission did not take any measures in these cases. Note that at the end of 2011, Hungary had reduced its budget deficit to under three percent of its GDP. So there seems to be no rational reason for such a decision. By suspending the transfer of the Cohesion Funds to Hungary, its economic recovery and financial stability will not be supported. The Czech Prime Minister Petr Necas did not support the argumentation of Commissioner Olli Rehn “based only on mere predictions of future developments of Hungary’s government deficit.” Necas called Rehn’s decision “a political pre-decision.”

### **New Fault Lines in Europe**

The bargaining power of the Hungarian government against the international regulatory bodies relies on the success of mobilizing a more than two-third majority of the votes during the 2010 elections. Hence, the opponents of the Hungarian government try to question its present popular support or try to diminish the actual popular support. In reality, however, only a slight drop of voters for the governing FIDESZ-KDNP are registered across all the opinion polls. The popular support for FIDESZ-KDNP has dropped by around 10 percent, even though the Orbán government had taken harsh measures in order to recover the bad financial and economic situation in the country. In the opinion polls, the residue of the leftist oppositional parties are losing even more support. The socialists lost their second position to the extreme-nationalist party Jobbik, which wants to quit the European Union and NATO. Jobbik convinced 14 percent of the electorate passing by the socialists. So with the frontal attacks on Hungary, not only did the popular support of the left-liberals diminish, but clearly the support has increased for the extreme nationalists that mobilize with an anti-European program. In any case, the efforts of the Union to “normalize” the situation in Hungary works, in effect, like a boomerang.

Massive popular support for the Orbán government was demonstrated when, according to the Ministry of Interior, around 400,000 Hungarian citizens marched in the streets of Budapest, from Heroes Square to Kossuth Square, in front of the Hungarian Parliament on a cold Saturday afternoon on January 21. The so-called Peace March was organized by a civic forum to support the government and was the biggest demonstration in Hungary since the collapse of communism. On the signs that the demonstrators brought one could read what the Hungarian citizens really thought about the conflict between the European Commission and their government: “We do not want to be a colony of Europe.” Hungarian citizens understood perfectly what was at stake. Any suggestion that they made a “wrong” choice in the 2010 elections is therefore unfounded. However, this is an exceptional case of popular unity for Hungarian standards and the support was not reported by the Western mainstream media; and when articles mentioned the Peace March, they tried to diminish its popular participation and impact. Even after the so-called Peace March, MEPs continued to create their own world, drifting away from what is really happening in Europe. A Dutch member of the liberal caucus, Sophie in’t Veld, declared in the Dutch television magazine *EenVandaag* that “the popular support for the Orbán government is quickly vanishing now,” just three days after the Peace March on January 24.

The remarkable unity that started with the elections of 2010 gave the Hungarians the possibility to strengthen their national identity and culture. As a consequence, a new Hungarian constitution could be drafted replacing the older constitution of the Stalinist period in 1949. The Hungarian constitution is an amalgam of the two interests; both the national and the transnational interests are represented. In the preamble, some statements are made on the history, culture and identity of Hungary. The title of the constitution is “God bless the Hungarians” that is taken from the first line of the Hungarian anthem. The constitution condemns crimes committed by the totalitarian regimes that had occupied Hungary in the twentieth century, i.e. fascism and communism. Furthermore, the Hungarian constitution recognizes that the Christian heritage has played an important role in the formation and maintenance of the Hungarian

state. In the text a reference is made to the first Hungarian Christian king, Saint Stefan, who was crowned 1000 AD. Besides these statements on the Hungarian identity, declarations are made that are pro-European, supporting European integration and cooperation, including article E:

(1) In order to enhance the liberty, prosperity and security of the European nations, Hungary shall contribute to the creation of the European unity.

(2) With a view to participating in the EU as a member state, Hungary may exercise some of its competences arising from the Constitution jointly with other member states through the institutions of the European Union under an international agreement, to the extent required for the exercise of the rights and the fulfillment of the obligations arising from the Founding Treaties.

(3) The law of the European Union may stipulate a generally binding rule of conduct subject to the conditions set out in paragraph (2).

This article states that Hungary will actively support the European integration efforts and that it will accept a restricted sovereignty due to the fact that the Union's treaties are considered to be binding. On the basis of these paragraphs of article E, it is hard to understand why a campaign was launched against Hungary in order to label the country as "a threat to democracy," "authoritarian" or even worse as "anti-European" or as a "dictatorship", and so on. On February 16, the European Parliament adopted even a resolution calling for a "close monitoring" of the Hungarian reforms. The resolution expresses "serious concern" about Hungary "with regard to the exercise of democracy, the rule of law, the protection of human and social rights, the system of checks and balances and equality and non-discrimination." The resolution in the European Parliament was supported by the leftist parties, including the Socialists (S&D), the Liberals (ALDE), and the two Green parties (Greens-EFA and EUL-NGL). As a consequence, the resolution was adopted with 315 votes in favor and 263 against. Most of the members of the European People's Party (EPP) (which is the largest caucus in the European Parliament with 272 seats) voted against the resolution, which expressed doubts about Hungary's commitment towards democracy. The European People's Party

kept supporting its own member, FIDESZ-KDNP. However, the support of conservatives and Christian democrats was not enough to prevent the European Parliament from adopting the resolution. It seems that any reference to the common Christian heritage of Europe causes irritation among the leftist representatives in the European Parliament.

### Towards a Multi-Vectoral Foreign Policy

The conflict between the European Union, especially the European Commission and the leftist parties in the European Parliament and the Orbán government, will not vanish. There are fundamental differences over issues like national sovereignty, national identity and culture and over the ideological make-up of society. A large majority of the Hungarian society does not embrace any longer the left-liberal ideology and the neo-liberal financial and economic model. Other norms and values, like sustainability, trust in authorities and the financial system, the guarantee of full employment, family life and respect for moral, religious heritages and above all respect for life—by the way, not necessarily anti-European values—are judged to be more important. The popular support for a radical change in these domains remains high in Hungarian society. This has given the Orbán government the possibility to switch its position from being dominated in the global field to a position in which it can bargain for the Hungarian national interests with the global regulatory bodies. This is a position Hungary has never experienced in its modern history. The switch was also made possible by the fact that the present Hungarian political elite does not share the immoral, corrupt and oligarchic stance of the political elite, which has been in power since the communist coup d'état in 1948 until quite recently.

During the past three months of conflicts with the European Commission, the US State Department and the financial world have demonstrated that Hungary can hardly rely on its allies in the European Union or the Western world. However, according to its own constitution, it wants to remain a member of the Euro-Atlantic community, although European politicians have even threatened to push Hungary out of the European Union or to start the so-called article 7 procedure that allows

the European Union to impose sanctions on a member state in "serious and persistent breach" of freedom, democracy, human rights and other EU values enshrined in the treaty. On the basis of the procedure, the Council of Ministers could decide to suspend Hungary's voting mandate in the European Council.

Actually only Poland (i.e. both the Polish government under the leadership of Donald Tusk and the major opposition party led by Jaroslaw Kaczynski) has been supporting the efforts of the Orbán government and has defended its policy. Poland, a country being sandwiched between Germany and Russia, has every geopolitical reason not to lose its traditional Central European ally. This recent Polish support for the Hungarian position has led to the strengthening of the Hungarian-Polish collaboration that has been tight in history. A consequence of the active bargaining policy pursued by the Hungarian government is that a one-sided Euro-Atlantic policy cannot be maintained any longer. A change in the strategy of foreign policy would be a rational decision under the new circumstances. The alternative would be to switch to a multi-vectoral foreign policy, taking Kazakhstan as an example that has pursued a multi-vectoral foreign policy successfully (see Marác 2012). A further advantage of a multi-vectoral policy is that it would further strengthen Hungary's bargaining position in the global field and, as a consequence, Hungarian sovereignty in the global political arena and its negotiations with transnational regulatory arms (like the European Commission). Hungary has started to set the first steps in this direction when it closed a treaty of cooperation with China last year. China has committed itself to buying Hungarian government bonds, which will help to reduce its national debt. A more forceful multi-vectoral foreign policy is expected to boost Hungarian interests.

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Dr. László Maráczy defended his PhD in linguistics at the University of Groningen. Since 1992 he is affiliated as an Assistant Professor to the Department of European Studies at the University of Amsterdam. Email: [l.k.maracz@uva.nl](mailto:l.k.maracz@uva.nl). At present László Maráczy is visiting professor at the Lev Gumilyov Eurasian National University in Astana.

# The Features, Problems and Perspectives of Corporate Social Responsibility in Kazakhstan

FARIKHA YERZHANOVA,

*Lecturer*

*KIMEP University*

*Bang College of Business, Kazakhstan*

**A**bstract: The aim of this paper is to contribute to understanding corporate social responsibility CCSR by Kazakh stakeholders, the features of the concept related to the CSR model followed in the country, as well as the scope of its major drivers. The absence of a common definition of the corporate social responsibility in theory and in international practice explains its broad interpretation all over the world. In different countries there are different priorities and values that will shape how business and stakeholders act. This paper focuses on the role of government which it has played over the last years in promoting corporate social responsibility, recognizing that public policies are the key in encouraging a greater sense of CSR in the republic. The research provides the analysis of the tools and strategies adopted by the state, its thorough and intensive work together with intergovernmental and social organizations in order to encourage businesses to adopt and follow the CSR values and strategies. The use of the corporate social responsibility model, with elements of public private partnership in Kazakhstan, provides both business and the government sectors with the challenges of the concept, as well as with various perspectives in order to develop a win-win situation between parties involved along the way from simple to more developed forms of CSR. The research is based on the review of theoretical papers

on the corporate social responsibility concept, on the results of the empirical researches performed on the subject in Kazakhstan, and as well as the analysis of the reports and articles on corporate responsibility that are available from open sources, forums and contests.

**Keywords:** corporate social responsibility (CSR), public private partnership (PPP), stakeholders, government, state, Kazakhstan.

## 1. Introduction

Corporate social responsibility has become a popular topic in recent years in Kazakhstan. There has been an upward trend in CSR in the country, as it has been actively and purposefully promoted by a number of public organizations, the state and other interested parties. Among public organizations, the most prominent are social organizations specializing in the given issue (CSR) (e.g. the United Nations Development Programs in Kazakhstan, the Eurasia Foundation of Central Asia), associations of entrepreneurs and businesspeople (Forum of Entrepreneurs of Kazakhstan), as well as non-governmental organizations. The concept of corporate social responsibility has been also popularized by mass media and big foreign companies that have extended their scope of business in the territory of Kazakhstan.

The state has been playing an outstanding role in the implementation of social responsibility in Kazakhstan. The visionary strategies of Kazakhstan emphasize the need to introduce international standards for corporate social responsibility as one of the priorities for the further modernization of the society. In 2008, the Paryz contest for corporate social responsibility was introduced by the state to promote the CSR concepts, encourage the implementation of the best CSR practice by business, and as well as raise interest to this topic in Kazakhstan. In 2009, the social responsibility of business was defined legally as a voluntary contribution of private entrepreneurs to the development of society in social, economic and environmental spheres.

The absence of a common definition of corporate social responsibility in theory and in international practice explains its broad interpretation all over the world. In different countries, there can be different priorities and values that will shape how business and stakeholders act. The purpose of this paper is to outline the most recent stage in understanding corporate social responsibility by Kazakh business from one side and its major stakeholders from the other side, to contribute to the understanding of certain features of the Kazakh CSR model, the scope of major CSR drivers and the challenges present in the country.

This paper focuses on the role of the government which it has played over the last few years in tackling the critical issues of social development in Kazakhstan and in promoting corporate social responsibility, recognizing that public policies are the crucial in encouraging a greater sense of CSR in the republic. The research provides an analysis of the tools and strategies adopted by the state, its thorough and intensive work together with inter-governmental and social organizations in order to encourage businesses to implement and follow CSR values and strategies.

The research is based on the brief review of relevant theoretical papers on the corporate social responsibility concept, the previous results of the empirical researches performed in this field in Kazakhstan, and as well as the analysis of information available from open sources in Kazakhstan, such as conferences, forums, contests, company mate-

rials (press releases, corporate websites, etc.) and interviews. The literature review provides insight into the evolution of CSR definitions, concepts, and models, demonstrating that there is no “one-size-fits-all” solution. The review is not aimed to be comprehensive, but instead aims to summarize the main points in a way that may be useful for the Kazakh context.

There are not many empirical researches performed on CSR in Kazakhstan; however, there are some that provide useful implications for the present paper purposes, such as:

- The study of the Eurasia Foundation of Central Asia (EFCA) in conjunction with the BRIEF Central Asia Agency for Social and Marketing Research (2005).
- The study *Status and Perspectives of the Corporate Social Responsibility and Social Investment in Kazakhstan* (2009) by the United Nations Development Program in Kazakhstan and Forum of Entrepreneurs of Kazakhstan.

The general theoretical concepts and previous research results are used to compose a research framework to analyze the role of the state the the adoption corporate social responsibility in Kazakhstan. The elements of public private partnership (PPP) in the Kazakh CSR model provides both business and the government with the challenges of the concept, as well as perspectives for both business and the government in order to develop a win-win situation between parties involved along the way from simple to more developed forms of CSR.

## 2. What is CSR? Definition Challenges

The theoretical papers discover an absence of the consensus on the starting point in the emergence of the corporate social responsibility. The evolution of concept itself has taken place over several decades. Scientific sources claim that the concept appeared as early as in the 1920s in connection with industrialization and the new impact business was making on society and the environment (Windsor, 2001; Post, 2003). However, most researches claim that the history of CSR begins from the middle of the 20th century, which marks the beginning of the modern era of CSR (Maignan & Ferrell, 2004, Carroll, 1999, Joyner & Payne, 2002).

In 1953, Bowen conceptualized CSR as the obligation “to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Maignan & Ferrell, 2004, p. 4).

The 1960s “marked a significant growth in attempts to formalize, or being more accurate, state what CSR means” (Carroll, 1999). Throughout this decade, assertions appeared about CSR financial implications, its voluntary nature opposed to coercion, and the notion of business ethics to the CSR. In 1960, Frederick wrote that, “Social responsibility in the final analysis implies a public posture toward society’s economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms” (Carroll, 1999, p. 271).

There appeared more definitions of CSR in the 1970s, expanding the debate about voluntarism versus coercion, introducing issues of social license, CSR models and concepts such as social obligation (a response to legal and market constraints), social responsibility and social responsiveness (Carroll, 1999, Wheeler et al, 2003). Milton Friedman’s (1970) “minimalist” view that, “There is one and only one social responsibility of business—to use its resources and be engaged in the activities designed to increase its profits so long as it stays within the rules of the game, which is to say, be engaged in open and free competition, without deception or fraud” continues to be debated till nowadays (Turner, 2006). Despite Friedman’s assertions, the US Committee for Economic Development’s (CED) model of CSR (1971) shows other evolving views about the role of business, in particular the changing relationship between business and society, as “Business is being asked to assume broader responsibilities to society than ever before and to serve a wider range of human values its future will depend on the quality of management’s response to changing expectations of public” (CED in Carroll, 1999, p. 274).

In the 1980s, there were fewer new definitions, but more research on CSR, especially on the issue of whether or not socially responsible firms were also profitable firms. During this period, alternative notions began to mature, including corporate social

performance, Freeman’s stakeholder theory (1984), business ethics theory and sustainable development. Freeman’s stakeholder theory continues to be identified as the “dominant paradigm” in CSR because the paper identified a range of stakeholders, not only shareholders, whose needs should be met in a value-adding process (McWilliams & Siegel, 2001, Lucas et al, 2001). Sustainable development became another important CSR issue, and global debates took place, which started from the 1980 publication of the World Conservation Strategy and the 1987 report *Our Common Future* by the World Commission on Environment and Development (WCED) (Tilbury & Wortman, 2004). The WCED report provides a definition of sustainable development and clearly links sustainable development with economic growth: “Far from requiring the cessation of economic growth, it recognizes that the problems of poverty and underdevelopment cannot be solved unless we have a new era of growth in which developing countries play a large role and reap large benefits” (WCED, 1987).

In the 1990s, the CSR continues to serve as a core construct; however, it yields to, or is again transformed into, other related concepts and themes. One of the CSR developments of this period is Corporate Social Performance (CSP) model, where the CSP framework was revised by Wood in 1991 with special emphasis on the outcomes or performance (Carroll, 1999). The literature of the 1990s also broadens the stakeholder concept which debates whether the first priority of a corporation should be placed to its shareholders, or whether the business should develop a flexible multi-stakeholder approach to promote.

CSR. Swanson (1995) suggested that there were three main types of motivation for CSR: the utilitarian perspective (CSR helps achieve performance objectives), the negative duty approach (CSR as compulsion to appease stakeholders), and the positive duty view (businesses self-motivated regardless of social pressure) (Maignan & Ralston, 2002).

The 21st century literature is moving away from a local discourse (USA, Europe) on corporate social responsibility to a more international one. Academics from different parts of the world extend the issue to their countries comparing national perceptions of CSR and the role of business in

society. The theory also continues to argue about the place of CSR in global economy, the essence of the relationship between business and society, and the roles of business and government in proposing that corporations “should take responsibility for the improvement of worldwide social and environmental conditions” (Joyner & Payne, 2002, Windsor, 2001).

The most significant international developments that affected CSR in the 21st century were the release of the United Nations Millennium Development Goals (2000) and the publication of the European Commission’s Green Paper Promoting a European Framework for Corporate Social Responsibility (2001). CSR in the 2000s is a response to the challenges of globalization, as poverty, hunger and diseases in some regions of the world sharply increased, and the problem of global warming threatens to affect the world, and provides the company’s sustainable development ultimately.

Among the major issues in the framework of the UN Millennium Development Goals, which modern business face, are equal opportunities regardless of gender, race and religion, child labor, diversity, new technologies, combating bribery and corruption, and the fight against terrorism.

The European Commission’s definition of CSR is one of the mostly recognized. It states that, “most definitions of corporate social responsibility describe it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing “more” into human capital, the environment and the relations with stakeholders.” (European Commission, 2001).

The World Business Council for Sustainable Development in its publication *Making Good Business Sense* by Lord Holme and Richard Watts, used the following definition “Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”

The CSR definition used by Business for Social Responsibility, America’s largest organization devoted to CSR, is “operating a business in a manner that meets or exceeds the ethical, legal, commercial, and public expectations that society has of business”.

The review of the latest definitions discovers that they focus on the impact of how corporations manage business. Some definitions go further than others in recommending how far companies go to make a contribution to the achievement of broader societal goals. There is a vast range of activities under the doing-good umbrella stretching from volunteering in the local community to looking after employees properly, from helping the poor to saving the planet. With such a wide-ranging subject, many companies find it hard to know what to focus on (Franklin 2008, ii). On the one hand, “The very lack of clarity regarding what CSR means has perhaps become its single greatest strength: without any formal determination or widely accepted definition, CSR has come to mean so very much” (Stephen Dunne, 2007[Endnote]).

One of the basic tenets of many views on CSR is the idea that if a company regularly pays taxes, sets appropriate wages, provides normal working conditions, and adheres to the rules of environmental protection, then it has a good business practice and is socially responsible. Another popular claim today is the justification of the principle of volunteering and the definition of the CSR as an activity carried out in excess of legally required activities. The regulation of CSR activities of companies in the state and in society is widespread and presents diverse country experiences.

Therefore, there is no common definition of corporate social responsibility in theory and international practice, which gives the reason for its broad interpretation. The literature review reveals a myriad of evolving definitions of CSR from simple to complex ones, as well as a number of similar or related terms and concepts such as corporate citizenship, corporate/business sustainability, corporate social investment, the triple bottomline, corporate governance, and others. Blyth (2005) suggested that, “There is no one definition of what it takes to be a responsible corporate. The key is to have a rigorous process for identifying those

responsibilities and fulfilling them.” The most important question is no longer what CSR is, but rather how CSR can be carried out.

The theoretical review demonstrated that CSR terminology and concepts have changed through time, which implies that the meaning ascribed to this concept will continue to develop depending on business, social, legal and political developments. On the one hand, the increasing impact of globalization also suggests that CSR will reflect local situations, but on the other hand, it will also be affected by global trends and changes. The bare fact is, as Carroll suggested, that “the CSR concept will remain as an essential part of the business language and practice, because it is a vital underpinning to many of the other theories and is continually consistent with what the public expects of the business community today” (Carroll, 1999).

### 3. Corporate Social Responsibility in Kazakhstan

In Kazakhstan, corporate social responsibility is developing with a time lag comparing with the western countries, although business activity on the CSR issues continually increases.

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#### 3.1 History of Corporate Social Responsibility Development

There are notions that the issues of CSR in philanthropic activities are not alien to Kazakh people, as they are rooted in cultural traditions and community unity that go back to ancient times. The traditional Kazakh customs in charity and philanthropy include *asar*, *zhylu*, *kyzyl koteru* and *zhurtshylyk* (Otarbayeva, 2010). For example, *asar* occurs sometimes nowadays in the rural regions of Kazakhstan and consists in the rendering fellow villagers assistance in building houses, carrying out farm works, etc. Those who were assisted ought to only entertain the participants of *asar* by treating

them to food and beverages. *Zhylu* was applied to all village (*auyl*) inhabitants and meant an obligation to restore the cattle stock to the fellow villager suffered from *jute* (winter fodder shortage and loss of livestock in the areas of distant pastures). It is known that the obligation was apportioned between the families of the village based on their solvency. Under *kyzyl koteru* the aid was rendered to impoverished families with products, mostly meat.

In the 19th and early 20th centuries, traditions of philanthropy were developed in Kazakhstan by representatives of trade and industry, government officials and intellectuals. In 1891, settlers from Russian provinces who had suffered from hunger stopped for the winter in the Kazakh cities, Karkaraly and Semei. The affected families were assisted with jobs, clothing, and lodging. The administration officials, Kazakh natives, voluntarily agreed to donate 1% of their allowances in favor of the starving. In this period, the sphere of education became an object of very serious private investment. In 1908, a bookstore of Islamic literature, a Muslim library and a reading room were opened at the expense of Muslim merchants (Valiullina, 2001). The religious beliefs can be also considered as one of the motivations for CSR.

In the Soviet period, when the population was ensured a certain level of social protection (e.g. employment, education, housing, etc.), the word *charity* was replaced by such definitions as *international aid*, *fraternal aid*, and *comradely mutual assistance*. The charitable organizations of the Soviet Union times, for instance the Children’s Fund named after Lenin, the Literary Fund, the Art Fund, the Fund of the USSR Culture, and the Peace Foundation, targeted generally at state tasks in the area of culture, science, and politics. The Soviet period gave birth to the notion of *sotsialka* that meant participation of enterprises in ensuring the conditions of work and staff leisure, assistance to local organizations/communities and sponsoring.

Therefore, one of the features of corporate social responsibility in Kazakhstan is connected to the fact that the concept is not absolutely new for the business, state and population. The Kazakh traditions of community self-help and solidarity going

back to the region's culture, together with the historical participation of many domestic enterprises in social programs, contributed to understanding the social responsibility of business in the country.

The corporate social responsibility concept in its modern understanding was introduced to Kazakhstan by specialized organizations such as the United Nations Development Programs in Kazakhstan, the Eurasia Foundation of Central Asia, the Business Council for Sustainable Development Kazakhstan, the American Chamber of Commerce, and a number of other organizations, with active support of the Kazakh government.

International organizations affected and advanced CSR adoption in Kazakhstan. For example, the United Nations Development Program in Kazakhstan promotes the UN Millennium Development Goals, in particular "a world with less poverty, hunger and disease, greater survival prospects for mothers and their infants, better educated children, equal opportunities for women, and a healthier environment" (UN, 2006: 3).

The Business Council for Sustainable Development (BCSD Kazakhstan[Endnote], or the Kazakh Association of Natural Resources' Users for Sustainable Development, KAPUR) was established in Kazakhstan in 2003. BCSD Kazakhstan is a regional network of the World Business Council for Sustainable Development (WBCSD), which uses the CSR approaches adopted in international practice. The main task is to help strengthen the role of industry as a vehicle to promote environmentally efficient projects, technological innovation and corporate social responsibility principles. The main activities of BCSD Kazakhstan include the representation and protection of the interests of association members, the provision of training, and serving as a source of information. The association brings together twenty largest industrial enterprises of Kazakhstan and consulting companies from different regions and sectors of Kazakhstan.

In identifying the stages of the CSR development in Kazakhstan, BCSD Kazakhstan began with 2003, when the first forum on sustainable development was held. In 2004, the key corporate social responsibility elements were studied and a series of trainings for the industry in Kazakhstan were conducted. The implementation of the CSR

practices in companies, as per BCSD Kazakhstan, began in 2005.

As for business itself, social responsibility was transferred to policies and programs by global foreign companies, mostly from the energy and natural resources sectors, which stretched their scope of the CSR activities to Kazakhstan. For example, such corporations as Chevron, Royal Dutch Shell, Exxon Mobil, PricewaterhouseCoopers, Deloitte Consulting, The Coca-Cola Company, PepsiCo Inc., GlaxoSmithKline plc, Hyatt Hotels, Intel, Microsoft and others are the members of the inclusive membership organization BSR[Endnote] (business for social responsibility). BSR is a leader in corporate responsibility since 1992. With its global network of more than 250 member companies the organization works to develop sustainable business strategies and solutions through consulting, research and cross-sector collaboration.

Thus, the next peculiarity of the CSR concept in Kazakhstan is that it has been introduced at the latest stages of the CSR theoretical ideas evolution by specialized public organizations or foreign companies already experienced in corporate responsibility. That is why the business and its stakeholders had enough knowledge and experience to put the CSR ideas into practice.

### 3.2 Role of Kazakh Government

The governments globally are taking an ever active participation in CSR promotion. In the United Kingdom, for example, the 2006 Companies Act introduced a requirement for public companies to report on social and environmental matters. The United Nations promotes corporate responsibility around the world through a New York-based group called the Global Compact.

The Kazakh government has conducted fundamental institutional reforms since the independence of the republic in 1991. The legislation that formed the route to sustainable development in the country includes the Constitution of the Republic of Kazakhstan, the Civil Code (1994), the Labor Act, and subsequently the Labor Code (2007), the Environmental Code, the tax and fiscal laws, the laws in the field of environmental protection, on non-profit organizations, as well as a number of presidential decrees, legislative and normative

acts, and technical documents (rules, e.g. Interstate Standard GOST 12.0.230-2007 *Occupational Safety Standards System*, “Occupational Safety Management System”). However, *the term CSR* wasn’t mentioned until mid-2009 in any of the regulatory legal acts of Kazakhstan. Only in the Law *On Private Entrepreneurship* effective July 17, 2009, it was clearly determined that the social responsibility of business is a voluntary contribution of private entrepreneurs to the development of society in social, economic and environmental spheres.

There are also visionary state documents that promote sustainable development principles in the Kazakh environment. The Strategy *Kazakhstan-2030* (1997) forms the concepts for sustainable development of Kazakhstan in transition to market relations and economic growth. The concept of sustainable development unites the possibilities of the country’s achievement of competitiveness with a mandatory condition for improving the quality of life. The president of Kazakhstan, Nursultan Nazarbayev, emphasized the need to introduce international standards to corporate social responsibility as one of the priorities for further modernization of the society. The strategy *Efficient Use of Energy and Renewable Resources of the Republic of Kazakhstan to Sustainable Development until 2024* outlines the CSR activities in the environmental protection area.

The President addresses annually the people of Kazakhstan with the so-called messages. For instance, the 2007 [Endnote]message framed the conceptual model of the CSR development in Kazakhstan, “[...] We have approached the need to construct a mechanism for social and infrastructure development through public private partnership. We have not yet started this work. The Government should deal with it.” In his 2008 message, the President particularly noted that “[...] Business has responded to my appeal to strengthen its social responsibility. Only last year such structures as the Kazakhmys Corporation, the Eurasian Industrial Association, Kazzinc, Tengizchevroil, Agip, the national companies KazMunaiGaz, Kazatomprom, Kazakhstan TemirZholy spent over 30 billion tenge for the development of social facilities: schools, medical facilities, pre-schools, health centers, reha-

bilitation centers for disabled people, cultural and sports facilities. This is a clear example of corporate social responsibility. This practice should be widely distributed. And the media should support it.”

In 2008, the government issued the Decree of the President of the Republic of Kazakhstan *On the Paryz Competition for Corporate Social Responsibility* (amended and supplemented in July 2010) to promote the CSR concepts, to encourage implementation of the best CSR practice by private enterprises in Kazakhstan, as well as to raise interest to this topic in the society. The contest has been held in Kazakhstan every year since 2008. Private entrepreneurs can participate in three categories, as a small, medium-sized or large business. winner of the competition are awarded in the following categories:

- “The best socially responsible company,” which examines the activities of candidates in the implementation of social programs aimed at support of own staff (the organization of payment of wages and social benefits, occupational safety and health, vocational training and retraining, etc);
- “The best social project of the year,” which examines the activities of candidates in the implementation of social programs aimed at improvement of the welfare of society at large and employees of the organization in particular;
- “The best collective agreement,” which considers collective agreements that significantly enhance and strengthen the labor and social rights of workers under the laws of the Republic of Kazakhstan;
- “For contribution to the ecology,” which examines the activities of candidates that significantly differed in the implementation of environmental programs aimed at improvement of the environment.

The Grand Prix, the highest award of the contest, is awarded to the applicant that achieved the best results in the work and implementation of the principles of corporate social and environmental responsibility. The list of winners is published in the mass media. The Paryz Contest winners have the right to use the logo for promotional purposes within two years after the award of the title.

The 2010 message (results of Strategy-2010 and the Strategic Plan 2020 *Kazakh Path to Leader-*

ship) proposed that a mechanism of public private partnership had a huge potential to attract private investment. The mechanism of public private partnership has been launched in Kazakhstan, but it needs to be improved in accordance with quality international best practices. The 2020 Strategy 2020 outlines the direction for development in education, healthcare, improvements in quality of life and social protection, care of veterans, policy on the housing and utilities sector because successful implementation of the modernization strategy of the country depends primarily on knowledge, social, and physical well-being of a Kazakh person. The 2011 message [?] framed the new social policy (social modernization), where three major state programs were approved: the development of education, health, and languages. Among other Kazakh achievements, the following results were mentioned relative to the CSR:

- In the global ranking of countries with the most favorable business climate, Kazakhstan ranks 59th among 183 destinations of the world;
- In general, the facts of unsubstantiated interference of the state bodies in the activities of economic entities were minimized.

The most prominent characteristic of the social responsibility of business in Kazakhstan is the active participation of the government in the implementation, development, and promotion of the CSR concepts in the country.

### 3.3 Corporate Social Responsibility Models

The literature review identifies several organizational models of corporate social responsibility, with the most common American, European, and Japanese models.

Traditionally, corporate social responsibility has been defined in the United States in terms of a philanthropic model. In the American model, companies make a profit transparently, fulfil their duty to pay taxes, and then donate a certain share of profits to charitable purposes. These philanthropic activities are often not related to the primary activities of companies and can easily be eliminated, depending on the economic situation or company policy. Under modern conditions of the socioeconomic development, the American model of socially responsible behavior is the most

common among businesses of different countries. Such a trend can be explained by two reasons. First of all, it is a fairly simple model for practical implementation. The results of this social behavior are often publicly visible. From the standpoint of an investor, the company's involvement in charity describes it as a socially stable, which makes it more attractive for foreign investments. Secondly, such a model finds the most lively response from the public, community organizations and staff, because the company is perceived by them as caring of their needs. While selecting the American model of socially responsible behavior, companies need to ensure the involvement of local authorities, NGOs and the public in the selection of objects for social investment, in as well as they need to track results from the investments made.

The European CSR model is much more tied to the company's main activities. Normally, additional investments in social programs are the result of careful analysis based primarily on business interests of the company. Almost all the initiatives that are funded by the company under this model are directly related to profit increase and to business interests in the given economic sector. In the long term perspective, the European model is considered to be more sustainable. In this model social responsibility becomes an integral part of the wealth creation process, which, if managed properly, is believed to enhance the competitiveness of business and to maximize the value of wealth creation for society. In contrast to the American approach, in the occurrence of unfavorable business situations the need to pursue CSR activities only increases. Unlike the American model, the base of the European model of social responsibility is not a corporate commercialism, but the public. The state is interested in the prosperous and stable society; while the society is largely composed of employees, then the social responsibility of companies under governmental pressure acquires the form of responsibility towards their workers. Prior to the introduction of the European model, the company's management, in addition to determining the items for investments and the allocation of necessary funds, must also review company activities in terms of compliance with the CSR model. In addition, the mechanisms for control an investment effectiveness should be developed

and fixed. From the standpoint of the investor, the European model of social responsibility is more attractive since it can be measured by exact results, including a cash equivalent.

An Asian (or Japanese) model of social responsibility is supported by the cultural traditions of the country. This model includes social cohesion at the company level and business cohesion at the industrial group level. An active role of the state, which for many years took active participation in strategic business planning, is typical of the Asian model. From the Japanese point of view, the management of business can not be limited to organizational development and profit receipt. The management should be based on the philosophical perception of society and the world, awareness of personal responsibility towards society, and the aspiration for the progress of civilization in general. In the framework of the Japanese model, an employee is considered to be a member of the "production family," and therefore, his responsibility and rights go far beyond normal employment obligations. Many of the mechanisms of this approach are not fixed by law, but rather by a social imperative in practice.

Different perceptions are seen from different societies across the world; for example, corporate social responsibility in Africa is about capacity building for sustainable livelihoods. It respects cultural differences and finds business opportunities in building the skills of employees, the community and the government. In the selection of organizational models there is no "one-size-fits-all" solution (as with any process based on the collective activities of the communities of human beings), which companies are. In different countries, there will be different priorities and values that will shape how business acts.

In Kazakhstan, the international model of corporate social responsibility with the elements of public private partnership (PPP), which provides for the liability of companies with respect to partners, consumers, and society as a whole, has gained the highest popularity. The model also defines environmental responsibility and responsible policy with respect to employees. A typical feature of the Kazakh model of social responsibility is the participation of business in the solution of social problems in cooperation with the state and social

structures. The government played an important role in selecting this approach. The adaptation of the CSR models to local environments, traditions and, in the development stage, the inclusion of the elements of the public private partnership into the CSR model, is the final trait of corporate social responsibility in Kazakhstan.

### 3.4 Challenges of CSR in Kazakhstan

The empirical researches performed on corporate social responsibility in Kazakhstan provide useful implications to the degree of the understanding of CSR by business and its stakeholders and help to summarize the main points and problems in the development of the concept. For the present paper purposes, the following studies were reviewed:

- The study of the Eurasia Foundation of Central Asia (EFCA) in conjunction with the BRIEF Central Asia Agency for Social and Marketing Research (or EFCA 2005). This is the earliest research, conducted in 2005, to determine the development stage of corporate social responsibility among companies in Kazakhstan. The research covered 131 top managers representing the Kazakh state-owned (43 firms) and private (43) corporations, as well as Kazakh companies with foreign participation in ownership (45).

- The study *Status and Perspectives of the Corporate Social Responsibility and Social Investment in Kazakhstan* of the United Nations Development Program in Kazakhstan and the Forum of Entrepreneurs of Kazakhstan (or UNDP 2009). Until nowadays it is the largest and deepest study performed on CSR in Kazakhstan. The main purpose of the study was to identify the CSR trends in Kazakh business in order to take practical steps to promote the concept in the country. The study allowed shifting the emphasis from traditional reference to charity to the research into domestic CSR programs. The research was based on a survey of 440 top managers of private enterprises, as well as a survey of the representatives of government agencies and NGOs. The respondents were from the 14 most economically developed cities of Kazakhstan, from different economic sectors and from large, medium, and small-size a companies.

The EFCA 2005 study revealed the remarkable degree of the CSR penetration in the Kazakh

business environment; among all respondents, 73% were familiar with the term *corporate social responsibility*. Private companies were the most aware of the corporate social responsibility principles explained by transferring of business practice of multinationals to the Kazakh business environment. Another factor for such a high extent of awareness was the regular arrangement of workshops, seminars, forums on CSR by a lot of organizations and associations with the support of the government, which led to much greater awareness. However, in 2005 only 49% of the Kazakh state-owned corporations were familiar with the term *social responsibility*.

The next challenge relates to the findings that despite a rather high degree of awareness of CSR, the concept was not as widely applied in practice as the familiarity with the concept implied. Among all respondents, 49% answered that their companies had a corporate social responsibility policy, and 38% answered there were not any. The highest rate of CSR policy availability, 71%, was again among foreign-owned firms.

Although the survey made the main emphasis on the philanthropic component of the CSR, the results showed that the the corporate policies on the CSR issues were the written policies on labor (81%, with overwhelming representation by all types of companies). The labor policies were followed by the code of ethics and/or behavior (65%), the policy on corporate governance (64%), and environmental policies (60%). The presence of the listed policies was significantly higher at private companies than at state organizations. The programs on philanthropy were presented in Kazakhstan only in 46% of cases and the programs of social development were almost not presented (2%).

The survey discovered that projects on corporate social responsibility an effective way to improve corporate reputation because the population is very concerned with issues related to the condition of economy, health, and governance. Thus, projects in these areas are likely to be accepted favorably by both the population on the whole and public opinion leaders.

Overall, only 31% of the respondents noted that they had a CSR policy accessible to the public or described on their websites (51% do not have

policy accessible). It was also revealed that the level of accountability to the public and financial markets was not still high enough.

The overwhelming majority of businesses (74%) did not have dedicated personnel to manage philanthropic activity.

The majority of the problems mentioned are tied to the early stage of the corporate social responsibility development in Kazakhstan, as well as the focus of the study mainly on the philanthropic component of CSR.

The UNDP 2009 study showed that, while implementing some kind of social projects, Kazakh entrepreneurs often do not realize that they follow the international practice of corporate social responsibility. The research also identified the main barriers and factors contributing to the development of CSR.

The major results of the study can be generally united on several issues.

### **1. The degree of CSR understanding in Kazakh society by business and its external stakeholders represented by state and public organizations**

The awareness level about the CSR concept of the Kazakh business appeared to be relatively low taking into account the deep focus on this topic devoted by the society. The issues of corporate responsibility were raised in Kazakhstan in 2004 in the light of accession of a number of companies to Global Compact. Moreover, the CSR concepts were introduced at the state level and presented in the strategic documents of Kazakhstan. Nevertheless, only slightly more than half (60.1%) of companies were aware of such phenomenon as CSR. The remaining 39.9% of companies surveyed said they had not heard about CSR. It was noted that the relatively low overall awareness of CSR relates to the fact that among 440 enterprises surveyed small businesses prevailed. The awareness of CSR among small businesses is much lower than that among of large businesses (51% and 86.6%, respectively). Small companies (as opposed to large businesses) have limited access to information about CSR obtained through interaction with foreign capital, international funds, as well as through participation in conferences and

meetings. According to these factors, the level of 50% awareness of small businesses about CSR could be regarded as a positive fact.

Mass media plays a prominent role in dissemination of the CSR ideas in Kazakhstan. The companies named media as a main source of their awareness. The most frequently mentioned were also round tables and seminars, as well as the government.

The study revealed an absence of the common understanding of what relates to CSR among the business. Overall, all of the suggested CSR activities were mentioned; however, none of the activities counted 100% recognition. Social responsibility to their workers is the key understanding of CSR by the business. Despite the widespread practice of memorandums, under which companies are actively involved in charitable activities and social investments, the business tends to associate CSR not primarily with charitable contributions, but with the internal forms of CSR, namely taking care of its employees (68%). This includes, e.g. the implementation of social programs for employees, and personnel development and training.

The full understanding of CSR by Kazakh business is incomplete. The index of the CSR understanding was calculated as the sum of 11 individual indicators of understanding. An average value of the index of understanding was 4.4 (with a maximum of 11). The top five CSR indicators do not differ much for small and medium companies and include social programs, development and training for own staff, charity, as well as ethical and responsible attitude to consumers and partners. While for large companies the top five indicators exclude ethical attitude to consumers and partners (probably, due to less competition) and include involvement into regional development programs and ecological projects.

## 2. Attitude of business to CSR

Overall, companies are not willing to take responsibility for solving social problems in Kazakhstan. More than half of companies believe that the state should take care of social problems while businesses should only provide profit and pay taxes. Such a high percentage of companies (53.6%) calls for a careful political approach. Therefore, a policy of the Kazakh government, which assigns emphasis

on the fact that the state does not absolve itself from responsibility for solving social problems, is rational from the perspective of building relationships of mutual understanding between-business and government. The research showed that companies with foreign or mixed capital have higher percentage of those who believe in CSR compared to the state and private companies.

The overall attitude to the CSR concept is assessed as rather positive; only 2.5% of companies answered that CSR does not have sense. It is worth noting that around every fifth business representative of the opinion that the CSR activity should be performed on a voluntary basis. In general, the business has named education (109.7 index), health care (107.9), aid to children (106.2) and helping disabled, elderly and disadvantaged (102.0) as a priority for their participation in solving social problems. The other most common mentioned spheres were ecology (73.3) and culture (33.7).

## 3. The existence of CSR practices in Kazakhstan

The activity of the Kazakh business in CSR is quite high. The majority of respondents (77%) answered positively to the question of whether they perform events, which can be attributed to socially responsible activities. Some companies implement the CSR practices unconsciously. The number of companies that have indicated that they are not familiar with the CSR concept is much higher than those, who are not engaged in such practices (40% compared to 23%).

The most important reason for not participating in CSR was that the business had no incentive to do so (17.1%). The other reasons included the inability to perform CSR due to financial difficulties (15.8), disappointments from previous attempts (12.0), never thinking about CSR (11.4), CSR not stimulating the business (8.9), thinking that CSR is a function of state, not business (7.0), thinking it is a waste of time and money (3.2), thinking that it is a marketing trick (1.8), and believing it is not clear what CSR actually is (0.6).

The CSR practices by enterprises do not have a regular basis. About half of the respondents carry out activities several times a year. More than a third of the companies surveyed carried out the

CSR activities once a year or less, and only one fifth (21.4%) of the companies carry out activities once a month. This issue is closely connected with the management and the inclusion of CSR by businesses in their corporate strategies.

The most frequent reasons for the implementation of CSR by companies is the requirements of the labor and ecology legislation (51.3%), as well as corporate principles and internal motives (49.9%). The combination in equal proportions of the elements of obligation and volunteering reflects the ambiguous attitude to CSR in the society, and the difficult ways of the CSR practices development.

There are attempts to “stimulate” companies to implement CSR from within, especially through local authorities in the practice of many transitional countries. About 40% of the companies surveyed characterized addresses from local authorities and the state as “frequent.” About one third of companies said that “local authorities’ requests” drove them to CSR. For sure, this fact does not prove by itself the direct pressure, rather says that for these enterprises CSR is rather a necessity than a voluntary desire. At the same time, for the same number of enterprises (31%) CSR is an important image tool that indicates their deliberate CSR behavior. Overall, the given facts show one more contradiction: many companies find CSR as an effective marketing possibility to promote themselves in the society and the market, while their colleagues perceive CSR only as an obligatory minimum of efforts necessary to maintain normal relations with local authorities.

Openness and transparency are not characteristics of business. Companies often use corporate websites (35.0%) and mass media (31.0%) to submit information about themselves. The other sources of information about a company include printed publications, press conferences, TV programs, and social reports of the company. Companies are not willing to open information about financial results and ownership structure, and believe that it harms the company’s activities (38.2%). Only 22% of enterprises said that publication of the information helps improve a company’s image.

The fight against corruption is not an active form of CSR in Kazakhstan, but may be considered as

a promising development of corporate social responsibility. It is important that 32% of companies have called the confrontation to corruption as a form of CSR. Such a problem with the fight against corruption relates to the fact that companies have high negative experience of involvement in corruption schemes. About 45% of respondents said that companies in Kazakhstan have often made informal payments. Another 30% admitted that such payments are sometimes made.

#### 4. CSR as a Corporate Strategy

CSR is not a management function for most of the companies; the businesses ok, which include CSR plans into their strategies, are very scarce. However, it is important that the dynamics of the CSR planning is positive. In 2006, only 22% of companies surveyed had social plans as part of their strategies, in 2007 32%, and in 2008 36%.

The CSR function is represented in the organizational structure weakly. The study showed that work on developing CSR is not separated as a function. The director of a company is engaged in developing CSR activities in 43% of the companies surveyed, the chiefs of divisions are engaged in the CSR in 18% of companies. About 20% of enterprises have recognized that generally no one did CSR in the company. Only 6% of respondents indicated that they had a special department or employee who developed the CSR activities.

The absence of special budgets for CSR in companies shows the irregular nature of social activities and suggests that CSR is not part of normal company management. However, it should be noted that the number of companies that do not have the CSR budgets is gradually decreasing, e.g. from 80.5% in 2006 to 71.5% in 2007, and 68.7% in 2008. The amount of companies’ spending on social projects is not burdensome for their budgets. The prevailing number of enterprises surveyed indicated that they spent less than 1% of their profits to social projects (39.0%). About 37.1% of companies spend up to 3% of their profits on the CSR activities.

The social activity of the business is not expressed in its competitiveness; generally speaking the relationships with key stakeholders were not changed due to the implementation of the CSR activities. The improvement in relationships were

named in the prevailing number of cases (55.8%) with own employees, and at less extent with partners (47.2%) and suppliers (39.5%). The relations with the local public improved in 25.7% of cases, with local authorities in 24.9% of cases, and with labor unions in 16.1%.

Another reason why stakeholders do not know about the positive role of business and are not aware about contribution of business in society development is that companies rarely inform the public about their CSR activities. Every fifth company makes it once a year, more than 43% even more rare. The practice of social reporting is poorly developed. About 63.4% of companies indicated that they did not make social statements/reports.

The poor effectiveness of the CSR activities of companies is linked to the lack of records. Only 12.3% of the companies surveyed have indicators for measurement of the results of their CSR activities, such as the number of concluded collective contracts, people who look for help, activities performed, as well as the number of positive responses in the media.

### 3.5 CSR Development Perspectives in Kazakhstan

The further development of corporate social responsibility in the country is inevitable. The formation of the loyal attitude of society towards business would be impossible without the participation of business in social problems. Business will be forced to build mutually beneficial partnerships with all stakeholders to ensure its long-term survival.

Companies at the next stages of CSR evolution and implementation are expected to be more aware of the importance of CSR for future business development. Nowadays about one third indicates a few people interested in CSR in business circles, about one third of companies admitted that CSR is a fashionable idea, which they have to follow under pressure, and almost as many companies believe that CSR is a promising idea that business is already interested in.

A number of obstacles, mainly of a financial nature, do not allow business to consider CSR as a relevant activity especially at the time of the global economic crisis. The main obstacles named by businesses are imperfect legislation, which

does not give incentives for social activities due to the lack of funding, the lack of opportunities to include the CSR spending in the costs and the inability to control the CSR expenditure. That is in the perspective for the sake of wider and deeper CSR dissemination in Kazakhstan. The adjustment of these barriers is required.

Understanding the CSR as a business advantage for its competitiveness is the key to the future development of the CSR practices in Kazakhstan. A significant proportion of businesses said that CSR allowed them to find and retain skilled workers. A large percentage of companies also admitted that CSR contributed to the stability of the business and building of relationships with the government. Expectations of a positive image in the public eye should become a good incentive for companies to implement socially oriented business strategies in the perspective.

The business needs support to develop social practices. A more complete coverage of national experience would also enable enterprises to develop advanced models of social behavior and learn from benchmarks. Media is expected to participate in the promotion of social responsibility more actively than now. Today even the national CSR Paryz contest and its winners are not known among some business stakeholders.

The business sector sees the future of CSR in Kazakhstan in a stronger role of the state in solving social problems. About 75.6% of companies think so as well. However, businesses are ready to participate in social projects and the majority is convinced that the government should encourage entrepreneurs to be involved more actively.

## 4. Conclusions

Corporate social responsibility has become a popular topic in recent years in Kazakhstan. State and public organizations strenuously implemented the concept of corporate social responsibility into practices of the Kazakh business.

The theoretical papers discover an absence of consensus on the starting point in the emergence of corporate social responsibility. There is no common definition of corporate social responsibility in theory and international practice, which gives the reason for its broad interpretation.

Generally speaking, corporate social responsibility is:

- An obligation, beyond that required by law and economics, for a firm to pursue long-term goals that are good for society;
- The continuing commitment by the business sector to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as that of the local community and society at large;
- About how a company manages its business process to produce an overall positive impact on society.

The theoretical review demonstrated that the CSR terminology and concepts have changed through time, which implies that the meaning ascribed to this concept will continue to develop depending on business, social, legal and political developments. The bare fact is, as Carroll suggested, that “the CSR concept will remain as an essential part of the business language and practice, because it is a vital underpinning to many of the other theories and is continually consistent with what the public expects of the business community today” (Carroll, 1999).

In Kazakhstan, the business activity with respect to the corporate social responsibility issues continually increases. One of the features of corporate social responsibility in Kazakhstan is related to the fact that the essence of the concept is not absolutely new for the business, the state and the population. The Kazakh traditions of community self-help and solidarity stretching back to the region’s culture, together with the historical participation of many domestic enterprises in social programs, have contributed to the understanding of the social responsibility of businesses in the country.

The next peculiarity of the CSR concept in Kazakhstan is that it has been introduced at the latest stages of the CSR theoretical ideas evolution by specialized public organizations or foreign companies already experienced in corporate responsibility. That is why the business sector and its stakeholders had enough knowledge and experience to put the CSR ideas into practice.

The most prominent characteristic of the social responsibility of business in Kazakhstan is the active participation of the government in the

implementation, development and promotion of the CSR concepts in the country. In Kazakhstan, the international model of corporate social responsibility with the elements of public private partnership, which provides companies, equality with respect to partners, consumers, and to society as a whole, has gained the highest popularity. The model also defines the environmental responsibility and the responsibility policy with respect to employees. A typical feature of the Kazakh model of social responsibility is the participation of businesses in the solution of social problems in cooperation with the state and social structures. The adaptation of the CSR models to local environments, traditions and the development stage, the inclusion of the elements of the public private partnership into the CSR model are the final trait of corporate social responsibility in Kazakhstan.

The main problems for further development of corporate social responsibility can be identified generally as the following:

- The awareness level about the CSR concept of Kazakh business appeared to be relatively low taking into account the deep focus to this topic devoted by the society in the 2000s. The awareness of the CSR among small businesses is much lower than that of large businesses. The level of awareness about the concept of corporate social responsibility is higher among the general public (78.3% heard about the concept) than among representatives of business structures (60.1%).
- There is no common understanding of what relates to CSR among the business. The understanding of CSR by the Kazakh business is incomplete. Moreover, the understanding of CSR differs for business and external stakeholders. The view that social responsibility is primarily the implementation of social programs for employees (68.2%) dominates among business people. While stakeholders see CSR as deeper involvement in development programs in the region (71.4%).
- The attitude toward the participation of businesses in the solution of social problems is different at the business level and at the level of its external stakeholders. Overall, companies are not willing to take responsibility for solving social problems in Kazakhstan. More than half of companies believe that the state should take care of social problems.

- Still, the overview of the CSR concept is assessed rather positively. The activity of the Kazakh business in CSR is quite high. Some companies even implement the CSR practices unconsciously.

- About every fifth business representative considers that the CSR activity should be performed on a voluntary basis. Among those who implement CSR in practice, there are a fairly high percentage of businesses that do this not because of internal motivation, but perhaps under the pressure of circumstances.

- Many companies find that CSR is an effective marketing possibility to promote themselves in the society and the market, while their colleagues only perceive CSR as an obligatory minimum of efforts necessary to maintain normal relations with local authorities. The combination (in equal proportions) of the elements of obligation and volunteering reflects the ambiguous attitude to CSR in society and the difficult ways of developing the CSR practices.

- The business sector has a complicated relationships with stakeholders and its positive role in society needs to be more clearly confirmed. The social activity of the business is not expressed in its competitiveness; generally speaking the relationships with the key stakeholders were not changed through the implementation of CSR activities.

- In the society there is a low level of confidence in current business structures. External stakeholders are confident in the pursuit of self-interest by businesses, and believe that their primary motivation to participate in CSR is “the ability to increase sales” and “an opportunity to attract media attention”. However, the companies indicated that they are stimulated by “legal requirements” and “principles of internal motivation.”

- The most important reason for not participating in CSR was that the business had no incentive to do so (17.1%). The efforts of businesses to invest in social projects have not been evaluated properly, because the CSR practices are not widely publicized by businesses and the public does not receive signals about their readiness to participate in solving social problems from the business. Another reason for the lack of publicity is that the practice of social reporting is not fully developed

and there is a lack of records. Overall, the business sector seeks more benefits and support.

- The CSR practices by enterprises do not have a regular basis. The CSR is not a management function for most of the companies. The CSR function is represented in the organizational structure rather weakly—the overwhelming majority of businesses do not have dedicated personnel to manage activities. The absence of special budgets for CSR in companies shows the irregular nature of social activities and suggests that CSR is not part of a company management.

- The fight against corruption is not an active form of CSR in Kazakhstan, but may be considered as a promising development of corporate social responsibility.

The evolution and development of corporate social responsibility in the country is inevitable. The formation of the loyal attitude of society towards businesses would be impossible without the participation of businesses in social problems. Businesses will be forced to build mutually beneficial partnerships with all stakeholders to ensure their long-term survival. A number of obstacles towards the modern stages of CSR development include imperfect legislation, which does not give incentives to businesses for social activities, the lack of funding, the lack of opportunities to include the CSR spending in the costs and the inability to control the use of funds allocated for CSR. For the sake of wider and deeper CSR dissemination in Kazakhstan, the adjustment of these barriers is required.

The understanding of CSR as a business advantage for its competitiveness is the key to the future development of CSR practices in Kazakhstan, as social responsibility allows finding and retaining skilled workers, allows contributing to the stability of the business, and building good relationships with the government and presents a positive image to society in general.

The business sector sees the future of CSR in Kazakhstan as a stronger role of the state in solving social problems. The adoption of the corporate social responsibility model with elements of public private partnership in Kazakhstan provides the concept's challenges, as well as a perspective for both business and government in order to develop a win-win situ-

ation between parties involved along the way from simple to more developed forms of CSR.

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# Energy Security Dilemma in China and Mongolian Pipeline

(КИМ ДЖОНГ МИН, KIM JUNG MIN 金挺玟, 김정민),  
*Doctor student at Al-Farabi Kazakh National University*

**A**bstract

China must import oil at a consistent level in order to maintain constant growth. But as the economical size of China increases, nations around China fear for their growth. The reason is because China is a communist country that is politically against democracy, and they have not only strictly controlled their domestic human rights and the press, but they also conflict with surrounding nations due to defense and energy policies that do not seem to consider the circumstances of the surrounding nations. In particular, the *Varyag* aircraft carrier they launched back in August 2011 generated tension because it was suspected that the intention was to dominate the surrounding nations by force. The reason for their action of strengthening their military is because otherwise they cannot protect the channels used for importing resources, and thus if China can obtain safe channels for importing resources, they may not need to continue to strengthen the force of their military in order to defend their energy security, and they may instead change their strategy to diplomatic settlement. But having seen the offensive tactics of China so far, it will be a significant challenge to create a balance of power by letting powerful nations like European nations, the USA, and Russia to take part in and develop new import channels while not permitting China to construct the energy-import channels under their control, in order to maintain the peace in Asia from now on.

## • Keywords

Pipeline, Chinese navy, *Varyag*, energy security, China, security dilemma

## • Introduction

China is the second largest oil importer. Although the amount of domestic oil production is increasing, the amount of oil consumption has rapidly increased due to the rapid economic growth of China, and it is difficult to maintain the speed of the Chinese economic development with the offshore oil currently produced by China. The country has secured the necessary amount of oil through development of offshore oil, but their energy security remains unstable. If China maintains economic growth at this speed, it will have to depend on imports for over 80% of their oil consumption by 2030. Currently, the U.S. Army is deploying the Fifth Fleet and the Seventh Fleet in the Persian Gulf and the Pacific respectively, and *George Washington* aircraft carrier in the Pacific Ocean, and if a physical conflict between the U.S. and China were to break out, China would have difficulties in protecting the long import channels from the Indian Ocean to the Pacific Ocean. Thus, China has researched its oil supply strategy, and chosen to construct pipelines that traverse the Chinese interior in order to secure a stable energy supply and avoid intervention by Western countries.<sup>1</sup>

## • Main issue

### 1. Problems with securing the seaway and the Construction of Inland Pipeline

Although many plans have been suggested for pipeline construction, problems still remain in completely realizing energy security. The reason is that although all of the Chinese pipeline plans are able to reduce the length of the import channels from the existing seaway, they cannot change the existing channels dramatically. With possessing a significantly less powerful navy than the U.S., no matter how much the length of the seaway is reduced, it would still be vulnerable and thus energy security cannot be guaranteed for China. As a result, it is desirable for China to develop routes that completely transport the energies across land and do not involve access to an ocean, and do not require the strengthening of the power of their navy—either in terms of the expense or strategy.

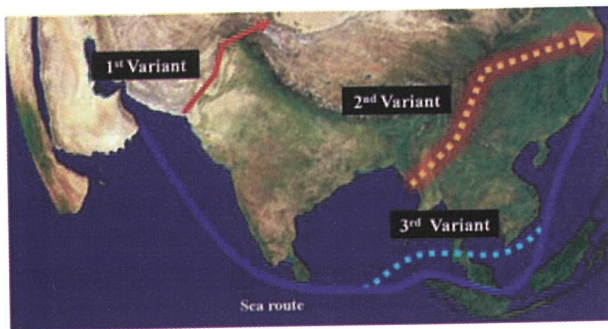


Figure 1. The new oil import routes that is under development by China

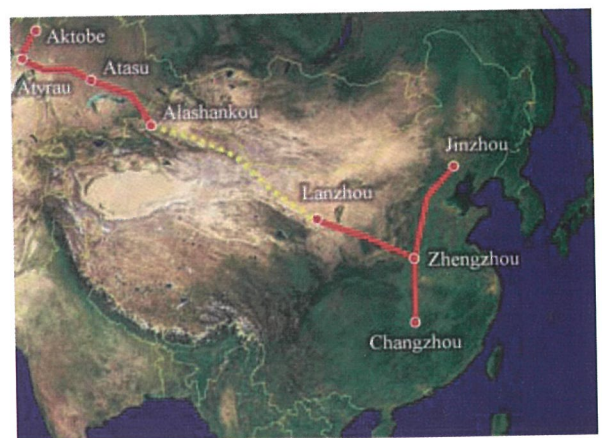
- The 1<sup>st</sup> line: Pakistan Gwadar > Tibet, China (highway construction project)
- The 2<sup>nd</sup> line: Rangoon, Myanmar > Yunnan, China (pipeline construction project)
- The 3<sup>rd</sup> line: Thailand > Kala (canal construction)

China has been planning the construction of these pipelines from around 1997. The plan that has actually been realized is the oil pipeline construction project for the Aktobe-Atyrau interval that was completed in 2003. After their success with this project, they planned the Atasu-Alashankou oil pipeline in 2004 and completed it in 2005, and they were finally able to connect the oil pipeline that links Kazakhstan and China.

In addition to that, they completed the construction of the oil pipeline for the Kenkiyak-Kumkol section, and they were finally able to complete the Sino-Kazakh oil pipeline that reaches from the Caspian Sea to the Xinjiang Yugur Autonomous Prefecture in western China.

China is also taking aggressive diplomatic actions for the construction of gas pipelines, and Turkmenistan began the construction of a gas pipeline with the condition of receiving \$4.1 billion in loans from China in 2010. Surely, Turkmenistan also made agreements with Chevron, ConocoPhillips, and TXoil on the development of gas fields in order to make a diplomatic balance, but in general, the development of gas by Turkmenistan is led by China. China has already constructed a 1,150 mile long gas pipeline that links Turkmenistan, Uzbekistan, Kazakhstan, and Xinjiang of China and the operation began in 2010. Until 2009, nearly all amount of gas in Turkmenistan was exported to Russia, but from now on, China will be importing 1.4 tcf of oil annually for 30 years through the newly developed gas pipeline.

Figure 2. Lanzhou-Zhengzhou-Changsha pipeline in China



China is not only focusing on the construction of pipelines in Central Asia. They have also constructed pipelines within the Chinese interior, and in 2010, they constructed the oil pipeline that begins from Lanzhou of Gansu Province through Changsha in Henan Province to Jinzhou in Liaoning Province. From the pipelines constructed within China's borders so far, it seems that China is planning to construct a pipeline from Kazakhstan to

China. The active pipeline construction that began in 2004 was not continued after 2010, the reason being that it became hard to protect the safety of the pipelines as the independence movement by the people of Xinjiang in Uighurs of China frequently broke out. As a consequence of this, China has been put into a situation in which they can only depend on the import of crude oil through the sea route until the problem related to the Uighurs is completely resolved.

## 2. Enforcement of Navy and the Limit

China has constantly proceeded with the modernization of its navy in order to resolve the security problem of the sea route that China is facing, and the Chinese navy launched the aircraft carrier in August of 2011 as part of the effort to protect not only the Chinese coast but also the routes used to import crude oil. China allocated \$93.9 billion of defense budget in 2011. In that year, the Chinese defense budget exceeded that of \$79.5 billion for Japan, \$73.7 billion for U.K., \$56.0 billion for Russia, \$44.7 billion for France, \$41.0 billion for Germany, and \$26.9 billion for Korea. According to a BBC World broadcast, the Chinese defense budget has increased by about ten times from 1999 to 2009. In an article written in the *People's Daily* by the Chinese People's Liberation Army General Jiang Ru Min it was claimed that China must use 2.8% of GDP for national defense in order to realize a high level of national security. His claim is based on the knowledge of crisis army officers who were shocked by the U.S. Army overwhelmingly defeating the Iraqi military in the war in Iraq in 1991, resulting in the belief that no matter how many conventional weapons a country may possess, if its military is not modernized, it will be vulnerable to the powerhouses in western countries. As a result, during the time when Deng Shao Ping was ruling, China decided to reduce its army by 1 million soldiers in order to plan the modernization of their army with a limited amount of budget.

According to an article in the Taiwanese media, *Zhongguoshibao* (中国时报) in January 2010, China is updating its army strategy from a defense system based on an army to a state-of-the-art system based on an air force and navy, and it is also trying to plan the expansion of the three step op-

erational range through the modernization of the army.

- 1<sup>st</sup> step of operational range: domination of Yellow Coast, East China Sea, South China Sea by 2000;
- 2<sup>nd</sup> step of operational range: southern coast of Japan, Philippine Sea, Indonesia, costal by 2020;
- 3<sup>rd</sup> step of operational range: expansion of operational range to Guam by 2050.

The first and second step missions were completed nine years faster than expected by launching the *Varyag*. This rapid enforcement of the military caused anxiety to the surrounding nations, causing conflicts and also allowing the Western nations to justify their interventions, and there have also been conflicts with the overseas Chinese in Southeast Asia, and thus the launching of Chinese aircraft carriers may generate anti-Chinese emotions and be counterproductive. The president of the Philippines Benigno Aquino III warned China, who claimed the Philippine Sea to be Chinese domain, in the State-of-the-Union Address on July 25, 2011. He claimed that the Philippines secured sufficient weapons for protecting their seas and he had the intention to bring this issue to an international trial. Although China prefers to resolve their territorial disputes with Southeast Asian nations *tet-a-tet*, the surrounding nations have formed a solidarity to counter against the expansionism of China, and thus allow Western nations to justify their interventions.

However, even these diplomatic efforts of the strengthening of the Chinese military cannot exercise power against the tremendous U.S. budget for national defense, technology, and military power, and furthermore, it is expected to take a long period of time to catch up with the U.S. military might. As a consequence, the Chinese government is concentrating on the development of Stealth technology, anti-carrier missiles, ASAT weapons, and SLBM to make efficient use of the national budget expense, and is focusing on the development of the expensive predator technology used by the U.S. armed forces such as aircraft carriers and nuclear submarines.

<i>Varyag</i> (China)	Specs	<i>George Washington</i> (USA)
Average: 53,000 t ~ 55,000 t Full loaded: 66,000 t ~ 67,500 t	<b>Displacement</b>	104,200 t
300 m x 270 m	<b>Length</b>	332.8 m x 317 m
73 m x 38 m	<b>Beam</b>	76.8 m x 40.8 m
11 m	<b>Draft</b>	11.3 m
Steam turbines 8 boilers, 4 shafts	<b>Propulsion</b>	2 Westinghouse A4W nuclear reactors 4 steam turbines, 4 shafts
32 knots (59 km/h)	<b>Speed</b>	30 knots (56 km/h)
7,130 km	<b>Range</b>	Unlimited distance
45 days	<b>Endurance</b>	20 years
1,960 crew 626 air group 40 flag staff 3,857 rooms	<b>Complement</b>	Ship's company 3,200 2,480 air group
2 Type 1030CIWS 4 FL-3000 (18 cell missile system) Etc	<b>Armament</b>	2 Mk57Mod3 Sea Sparrow 2 RIM-116 Rolling Airframe Missile 3 Phalanx CIWS
Shenyang J-15 26 fixed wing aircraft 24 helicopters	<b>Aircraft carried</b>	F/A-18A/C Hornet 90 fixed wing and helicopters

Figure 3. General characteristics of *Varyag* and *George Washington* carriers

Source: *The Naval Institute Guide to the Ships and Aircraft of the U.S. Fleet* & 朝日新聞; May 26, 2009

The symbolic meaning of *Varyag* is the international propaganda effect of China on the surrounding nations to show off their scientific technology and economic strength to an extent that they can operate an aircraft carrier, and domestically showing the controlling ability of the Chinese government over the internal forces of discontent due to the unbalanced growth of China, which is becoming more powerful on a daily basis, which in turn reflects that the political purpose for suppressing internal rebellions is greater than the actual military purpose.

This is why the *Varyag*—manufactured by modifying an aircraft carrier from the former Soviet Union—is no match for America's newest aircraft carrier, the U.S. *George Washington*. For instance, the *Varyag* uses steam turbines and its range is only 7,120 km, whereas the U.S. *George Washington* uses a nuclear reactor, and its range is infinite, and strategies can be executed without intermediate refueling for 20 years. In addition, the displacement of the U.S. *George Washington* is 116,700 tons—two times that of the *Varyag*'s 65,000 tons. Furthermore, with regard to the fleets that are possessed by the aircraft carriers or the specs of fighter planes, the U.S. *George Wash-*

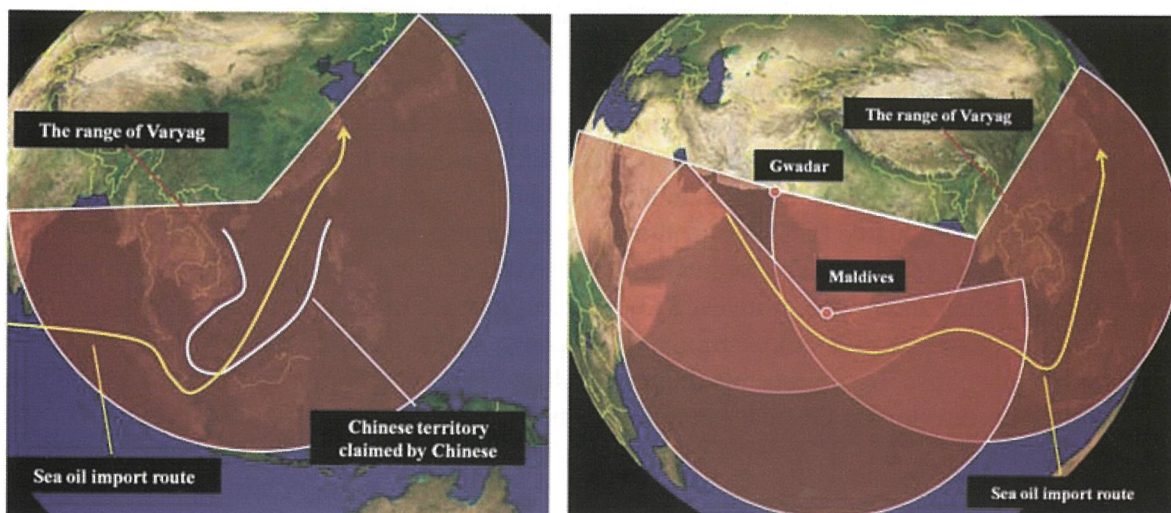
*ington* is remarkably stronger, which implies that even with *Varyag*, the Chinese navy may still have trouble executing their strategies in the Pacific Ocean.

With one aircraft carrier possessed, the range of the sea route in which China can protect is from the east side of the Indian Ocean to the surrounding region of the Yellow Sea, but even if they protect this area, they still cannot protect the region from the Middle East to the west side of the Indian Ocean, which implies that China still cannot completely protect the sea route. Furthermore, as the U.S. *George Washington* is deployed in the Pacific Ocean, it will be impossible for *Varyag* to take over the region. But to the surrounding nations, the radius of operation can symbolically protect a large area, including the territorial sea of the South China Sea that China lays claim to, and it will be sufficient to place mental pressure on the surrounding nations.

If three aircraft carriers are manufactured as planned to deploy in Gwadar Port, Maldives Port, Rangoon region in Myanmar where negotiations are either under progress or complete, they will be able to include all of their oil shipping lanes for imports from the Middle East within their operational range. But these strategic concepts would only be possible presuming that there would be no intervention by the U.S. and in the current situation where the 5<sup>th</sup> Fleet and the 7<sup>th</sup> Fleet are deployed in the Middle East and the Pacific Ocean

respectively; it will be impossible for China to protect their sea route even with three aircraft carriers.

Figure 4. The strategic protection range of Chinese navy



### 3. Gwadar Deep Sea Port Project and the Development of Myanmar Railways

Although the ability of *Varyag* may not reach that of the U.S. *George Washington*, it will be good enough to suppress the surrounding nations.

In conclusion, the Chinese aircraft carriers may place mental pressure on the surrounding nations and suppression against the activity of anti-government personnel, but will not play a huge role when it comes to obtaining complete energy security, which is what the Chinese military actually wishes to obtain.

Figure 5. Comparison between U.S. 7<sup>th</sup> fleet and Chinese navy

China is trying to obtain maximum strategic effects by utilizing this aircraft carrier, and as is shown in Figure 1, this links with the planned reduction of the sea route. If *Varyag* docks in the Maldives or Gwadar, it will at least be able to play its role of protecting the logistics through Pakistan and the pipeline that can link to Yunnan of China through Myanmar. China places strategic priority in Pakistan between the two nations, because the geographical location of Pakistan is closer to the

	U.S. 7 <sup>th</sup> fleet	Chinese navy
Force of arms	60,000	236,000 (including 25,000 aircraftmen, 40,000 marine)
Ships	<ul style="list-style-type: none"> <li>- Carrier: 1 (<i>George Washington</i>)</li> <li>- Command ship: 1 (Blue ridge)</li> <li>- Aegis cruiser: 2</li> <li>- Destroyer: 7</li> <li>- Landing ship: 4</li> <li>- Nuclear submarine: 3</li> <li>- Others: 4</li> </ul>	<ul style="list-style-type: none"> <li>- Destroyer: 29</li> <li>- Escort ship: 45</li> <li>- Landing ship: 55</li> <li>- Submarine: 72 (Including 8 nuclear submarines)</li> </ul>
Air crafts	350	800
Navy basements	<ul style="list-style-type: none"> <li>● Yokotsuka headquarters</li> <li>● Yokotsuka basement</li> <li>● Sasebo basement</li> <li>● Guam basement</li> <li>※ 4 carriers are available</li> </ul>	<ul style="list-style-type: none"> <li>● North sea fleet                             <ul style="list-style-type: none"> <li>— Qingdao, Lushun, Huludao</li> </ul> </li> <li>● East sea fleet                             <ul style="list-style-type: none"> <li>- Shanghai, Zhoushan, Fuzhou</li> </ul> </li> <li>● South sea fleet                             <ul style="list-style-type: none"> <li>- Zhanjiang, Guangzhou, Sanya</li> </ul> </li> </ul>

Source: Ministry of Korean Military Department

Middle East than Myanmar, and thus when oil is imported, they will be able to minimize the sea route and use the land route for transportation, and

as Myanmar is a nation that is economically supported by the international community, it will be possible for them to obtain the largest economic effects, avoiding intervention by Western nations.

In June 2006, when the Pakistan President Musharraf visited Beijing, Hu Jin Tao suggested that he was interested in the Gwadar deep sea port project that will construct the highway from Gwadar Port to Xinjiang, and also in pipelines and refineries in Gwadar Port.<sup>2</sup> While the Gwadar deep sea port project phase II was being executed, China provided \$50 million in loans, and the China Chamber of Petroleum Industry (CCPI) and the All-China Federation of Industry and Commerce (ACFIC) expressed their intentions to invest \$13 billion in the energy industry in Pakistan.<sup>3</sup> The reasons why China chose to invest this huge amount of money for developing Gwadar Port are as follows:

- First: the construction of a pipeline that links Gwadar to Xinjiang;
- Second: the construction of a refinery with a 21 million ton capacity;
- Third: the construction of industrial facilities related to energy in Gwadar that were originally supposed to be constructed in Dubai;
- Fourth: Strengthening of the alliance between Pakistan and China through the development of Gwadar Port.

Therefore it is possible to see that China is trying to construct the Pakistan-Xinjiang pipeline and to station the Chinese navy at the same time after obtaining permission to use Gwadar Port by providing economical support to Pakistan. If the project is made completely operational, the Gwadar deep sea port project by China may receive the support of surrounding nations and there are chances for this as once it is accomplished the surrounding nations will have a new strategic route for importing energy resources from Central Asia avoiding the Persian Gulf where many international conflicts involving Southeast Asian nations occur. But they are having difficulties with moving forward this project due to strong resistance by the Baloch people. In fact, Chinese technicians who work in Gwadar have been killed, and a rocket missile was targeted at Gwadar Airport to

protest against the development policies for Gwadar Port by the government.<sup>4</sup> They believe that the development of Gwadar Port is being led by the federal government, and that outsiders such as the Punjabi and Chinese are taking part in the project and benefitting from it, whereas the local people in Balochistan region are only provided with harsh labor work or low-income duties and thus their rights are deprived. Abdul Hakim Baloch, a former Chief Secretary of Balochistan, mentioned that the reason for the Baloch protests against the Gwadar deep sea port project was because they were not sure about who would have ownership, not that they were actually protesting against the project itself.<sup>5</sup> In addition, the Gwadar-Karachi Highway is not linked to the capitals of provinces such as Turbat, Panjgur, and Khzdar, which in turn prevents active economic relations. In this particular case, the construction of the cross-Pakistan pipelines desired by China will be delayed for a while due to the conflicts created by the resistance by the Baloch.

Myanmar is a nation that has been economically supported by the international community since 1989 after a military coup d'état. China is beginning to expand its influence by utilizing the economic difficulties faced by Myanmar, and the Vice General Manager Sun Yong Fu (孙永福) of the Chinese Ministry of Railways announced that a plan for construction of railroads that begin from the Kunming City in Yunnan through Mandalay in Myanmar to Andaman Bay in Thailand was underway. Also the Chinese, Japanese, and Thai governments are seeking to construct solutions for the reduction of the length of the sea route from the Middle East to East Asia by constructing a canal in border regions of Thailand and Myanmar.

#### 4. Energy Security and Economic Development

The reason why China manufactured the enormously expensive aircraft carrier, causing diplomatic conflicts with surrounding nations, is that it is indispensable to securing a stable supply of resources in order to maintain Chinese economic development, as all the resources (including oil) that are imported by China are imported by sea.

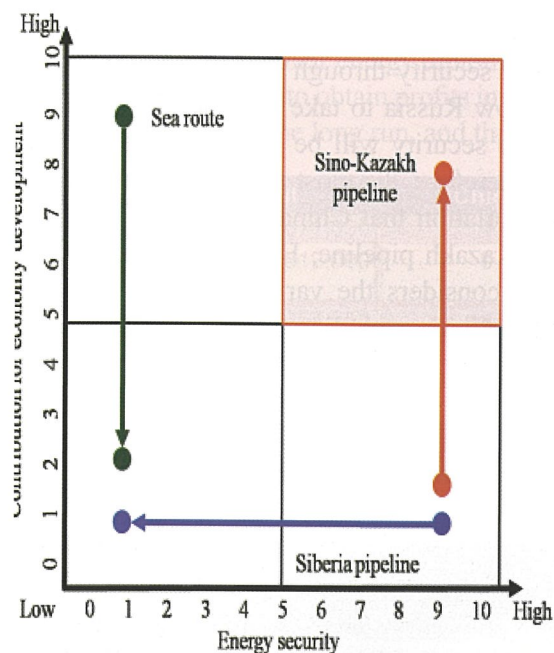
After reforming and opening up, China has maintained rapid growth but unfortunately, the gap between the rich and the poor has also increased as a result of unbalanced distribution due to overly rapid economic growth. The only method at present to suppress the potential complaints inside China is that China will have to accomplish an 8% rise in GDP, even with the risk of occurrence of inflation, in order to provide hopes of employment because the Chinese economy is growing. The Chinese economy, grew by more than 10% from 2000 to 2008, and then only grew 6.2% in 2009 due to the U.S. sub-prime mortgage problem. Economic growth was recovered, growing by 11.9% since the second quarter of 2009, but it became difficult to maintain 8% of economic growth with exports alone after the global economic recession, and China endeavored to develop domestic market to accomplish their aim. The Chinese government therefore invested \$586 billion in the promotion of domestic market in November 2008. But although these steps to stimulate the economy may arithmetically allow the Chinese economy to seemingly grow, it may instead cause inflation and, subsequently, a recession. This is due, in particular, to the corrupt relations that have been formed between government officials and the businesspeople over a long time, and as a result investment's that should be used to stimulate the economy may either be loaned out for stock speculation, or be used by uncompetitive corporations yielding large amounts of bad debts. In spite of these various internal contractions, it seems that the Chinese government will still focus on 8% of arithmetic growth rather than the reform of radical economic growth for psychological stabilization of the society. For this matter, the situation in which China will be forced to aggressively import resources and energy from the entire world occurs, and the conflicts with surrounding nations occur as well.

### 5. Final Decision by China on Energy Security

The procurement of resources is very important for China in order to maintain stable economic growth. This is particularly the case in the current situation where the Chinese economy has

now surpassed that of Japan and is now chasing that of the U.S., and so China cannot help but be conscious of the U.S. The U.S. has already constructed military bases in critical points around the world and controls the entire global logistics. As a result, China is establishing an energy security plan under the presumption that physical conflicts may break out with the U.S. due to trade frictions. There are three main routes where China procures the resources. The first is the typical sea route that imports through the Indian Ocean-the Pacific Ocean, and the second is the Siberia pipeline that imports through Russia and the third is the route through Kazakhstan, the Sino-Kazakh pipeline.

Figure 6: China's decision

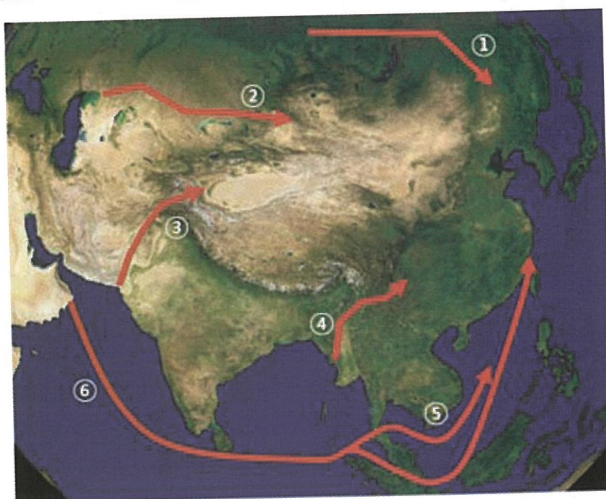


Term		Sea route	Siberia	Sino-Kazakh
Short	Economy	9	1	2
	Energy security	1	9	9
	Total score	10	10	11
Long	Economy	2	1	8
	Energy security	1	1	9
	Total score	3	2	17

The chart above shows the reason why China is increasing the amount of investment in Kazakhstan. Although the weight of China's oil imports from Kazakhstan may not be high, when seen from a long-term dimension, Kazakhstan is probably the

most appropriate counterpart in order to receive the oil supply needed for economic development while having high-quality energy security. The sea route is hard to defend and cannot increase energy security, and the import of energy resources through Russia very much depend on Russian government Policies, making it hard for China to depend on Russia. Recently in Russia, there have been many illegal Chinese immigrants residing in Premore province and this has caused conflicts with Russian authorities. In 2009, there was an incident in Nakhodka Port, when a Hong Kong merchant ship disobeyed and fled an inspection by Russian coast guards, and 500 rounds of gunfire were shot to sink the ships.<sup>6</sup> As reflected in this case, although Russia may be strategically allied with China, when diplomatic problems occur, their attitudes frequently change and thus if China desires to secure the energy security through the Siberian pipeline, it may allow Russia to take control of the security, and the security will be largely influenced by Russia. Therefore, the most appropriate land route for transportation that China can select would be the Sino-Kazakh pipeline. Even when one simultaneously considers the various policies that are planned by China excluding the Sino-Kazakh pipeline, the energy imports through Kazakhstan would still be the best choice in the long run.

Figure 7. Policies available for China and the assessment



Although China is developing various routes as they expect the physical conflict with the U.S., it can be understood that the most ideal region for stable oil imports, in changes of surrounding

political dynamics, is still through Kazakhstan. If China expands its economical influence in Central Asia, their relationship with Russia may be deteriorated but as long as China maintains economic growth as at present, their relationship with Russia will be deteriorated anyway, and thus from China's point of view, it will be a more urgent issue to include Central Asia in the influence of China as soon as possible before the relationship with Russia gets even worse.

Route	Security		
	Peace	Diplomatic conflict	War
①	○	○	△
②	○	○	○
③	○	○	X
④	○	△	X
⑤	○	△	X
⑥	○	△	X

○. Safe △. Controllable X. Uncontrollable

## 6. The Problems with the Sino-Kazakh Pipeline

China has maintained a very close relationship with Kazakhstan and Central Asian nations for the purpose of oil and gas pipeline construction since 2004. Although Russia and Western nations could not do any further expansion of construction after the construction of the CPC pipeline led by Russia in 2001 and the BTC pipeline led by Western nations, China has already succeeded four projects and completed the Sino-Kazakh pipeline that crosses from the east to the west of Kazakhstan to reach China in 2009. In addition, they also have signed the contract for gas pipeline construction with Turkmenistan, and it can be seen that China has an absolute advantage in terms of energy competition in Central Asia at present.

The reason why China is very much interested in securing resources in Central Asia, as reflected in Figure 6 and 7, is it is the only route for safe energy import for China. However, there are also some problems in the Sino-Kazakh pipeline, and it is that even if China imports all of the oil in Central Asia, the amount imported will not be sufficient for the needs of China.

As reflected in the chart, even if China exclusively imports the entire amount of the "available

for sale” that can be exported by Central Asian nations, it will not be sufficient to satisfy the needs of China, 4.916 million barrel/day of oil and 12.290 billion cubic meters of gas. In other words, the brilliant accomplishments in Central Asia until now is only the half of the success, and it will not be sufficient for realizing complete energy security. China has bought shares in the energy corporations in Kazakhstan to strengthen its dominancy and expanded production to satisfy the insufficient amount, but it is still an exorbitantly insufficient supply for the huge Chinese consumer market. Therefore, the plan to construct an Iran-Kazakhstan oil pipeline with Russia is now underway in order to satisfy 100% of the oil and gas need using a land transportation route.

Figure 8. Oil and gas production and consumption in Central Asia & China

Oil: Bbd/day (2010; estimated) Gas: Cubic meter (2009; estimated)

	Kazakhstan	Uzbekistan	Turkmenistan	Total	China
Oil production	1,610,000	58,650	202,400	1,871,050	4,273,000
Oil consumption	249,000	144,000	119,000	512,000	9,189,000
Available for sale	1,361,000	-85,350	83,400	1,359,050	-4,916,000
Gas Production	35,610,000,000	61,410,000,000	38,100,000,000	135,120,000,000	94,410,000,000
Gas consumption	8,572,000,000	46,210,000,000	20,100,000,000	74,882,000,000	106,700,000,000
Available for sale	27,038,000,000	15,200,000,000	18,000,000,000	60,238,000,000	-12,290,000,000

Source: CIA Factbook

If China is allowed to construct the pipeline from Iran to Kazakhstan, it will imply that China will be able to import more than 80% of oil and 50% of gas without having to use the sea route (based only on the amount of oil and gas produced in 2010). As Iran has been economically supported by Western nations, with huge oil fields underdeveloped, if China also develops the oil field, achieving 100% of imports through an inland pipeline will not be too difficult. There will then be a good opportunity for China to pursue the expansion of the pipeline link with aggressive diplomacy with Turkmenistan and Iran following the construction of the Sino-Kazakh pipeline.

Due to the conflicts between the Western nations, Russia and China, there is an invisible war

underway in Central Asia, and thus it will be important for each side to prevent these conflicts developing into physical conflicts and to find a solution that can provide profit to each party including the Central Asian nations. Currently, it will be difficult for the Central Asian nations to reduce the amount of oil and gas that are sold to China. It is because strengthening diplomatic relationship with Western nations by sacrificing their own economic development is not rational. Especially, in a situation where the U.S. or Europe are reducing oil consumption by increasing their investment in the development of alternative energy, the Central Asian nations will not be able to accomplish their economic growth only with exports of oil to Europe through the BTC or CPC pipeline and thus the Chinese market is an indispensably significant market for the Central Asian oil-producing nations. However, if Central Asian nations exclusively begin their energy diplomacy with China, they may be able to obtain profits in the short run but face deficits in the long run, and thus, it will

be desirable for them to match coordination with the Western nations in terms of doing energy diplomacy against China.

### Conclusion

In 2008, when the sub-prime mortgage problem broke out in the U.S., the Kazakhstan economy was also significantly influenced to such an extent that the economy that had maintained 8—10% of GDP growth plunged to 1.2% in 2009 and faced economic difficulties like the bankruptcy of industry leaders in Kazakhstan. At that time, China provided loans to Kazakhstan, which helped it recover from its economic crisis, and after that, Kazakhstan compensated by selling large amount of shares in energy corporations and ended up losing many ba-

sic industries. According to the Kazakhstan Minister of Energy Sauat Mynbaev, China already possesses 50—100% of shares in the main corporations in the energy sector.<sup>7</sup> It can be understood that the exclusive dealing of new independent nations with China, which has tremendous amount of capital and market, may generate more deficits than profits. But if the Western nations or Russia are not involved in the Chinese energy industry, it will be unnecessary for them to support the Central Asian nations. In a situation where the Western resources are not involved, if physical conflicts with China occur, Kazakhstan will more likely be in both economic and diplomatic crisis. As a result, one of the best ways for Kazakhstan to hold China in check while earning profit from energy exports to China, is to consider exporting Kazakh oil to Mongolia

If many of the Western corporations shown above can participate in construction of the pipeline that links Kazakhstan, Russia-Mongolia and China, it will not only be cost-effective, but it will also offset the fear of China completely securing energy independence and being uncontrollable, and thus will be feasible. From the Central Asian nations' points of view, it may seem that the profit will be reduced as various nations take part in the project, but as the amount of oil that is imported to Korea, China, and Japan is greater than that of the U.S., the largest oil consumption country, and considering that the size of the "pie" is huge, the economic profits that will be obtained by the Central Asian nations will not be too small. In addition, if a single nation controls the pipeline as in the case of the Siberian pipeline, the amount of exports by China will also be influenced by the policies of the corresponding nations, and thus if the pipeline that crosses Mongolia, or the third route in which the Western nations, Russia and China can all participate is developed, there will not be such cases as pipelines being disconnected by the

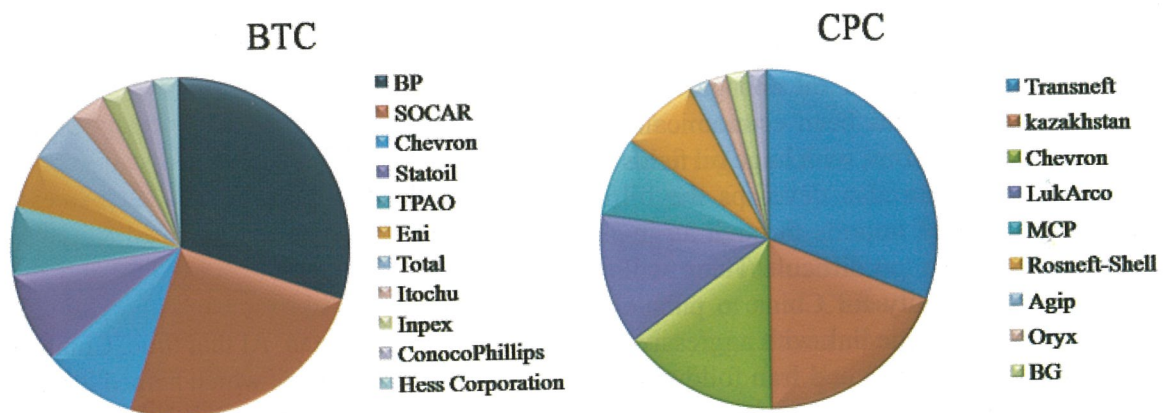
Figure 9. Total amount of oil and gas production and consumption in Central Asia, Iran, and China

Oil: Bbd/day (2010; estimated) Gas: Cubic meter (2009; estimated)

	Central Asia	Iran	Total	China
Oil production	1,871,050	4,252,000	6,123,000	4,273,000
Oil consumption	512,000	1,845,000	2,357,000	9,189,000
Available for sale	<b>1,359,050</b>	<b>2,407,000</b>	<b>3,766,000</b>	<b>-4,916,000</b>
Gas production	135,120,000,000	138,500,000,000	273,620,000,000	94,410,000,000
Gas consumption	74,882,000,000	137,500,000,000	212,382,000,000	106,700,000,000
Available for sale	<b>60,238,000,000</b>	<b>1,000,000,000</b>	<b>61,238,000,000</b>	<b>-12,290,000,000</b>

Source: CIA Factbook

Figure 10. The share of BTC and CPC pipeline



Source: Marcon International, Inc & Caspian Pipeline Consortium

tyrannies of strong nations. For example, even though the U.S. tries to disconnect the Mongolian pipeline with the purpose of impacting economic support for China, if the income amount earned by European nations through the oil exports to China is tremendous, it will be possible to resolve

the problem diplomatically and not depend solely on military force for the energy security of China, but rather through arbitration so that the conflict between the two nations does not develop relentlessly.

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