

# Analysis

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## Kazakhstan's Ambition for Central Asian Economic Integration

By Ralph Winnie Jr. and Cole Daubney

Kazakhstan is one of the great 'eastern tigers' willing to create an economic vision that would benefit surrounding countries in Central Asia. Through this vision, Kazakhstan has built a reputation of promoting economic integration.

Kazakhstan's Eurasian identity stems from its geographic location at the crossroads between Asia and Europe. Given its close proximity to Europe and central location in Asia, Kazakhstan finds itself in an excellent position to take the lead in formulating policies aimed at promoting economic integration. Kazakhstan also has the benefit of being one of the wealthiest nations in the Central Asian region. While this is due in part to an abundance of natural resources such as oil, Kazakhstan has also used some of its \$180 billion G.D.P.<sup>i</sup> to invest outside the country's borders. Kazakhstan's primary focus of investment has been in the trade, finance, and mining sectors. Through smart investments, Kazakhstan has managed to increase G.D.P. growth and trade in Central Asia which, in turn, has helped Kazakhstan's economy grow. One industry in which economic cooperation has benefited Kazakhstan is tourism. For example, citing neighboring Kyrgyzstan's tourism potential, the Kazakh government has agreed to build a direct road from its largest city, Almaty, to the popular Issyk-Kul region of Kyrgyzstan.<sup>ii</sup> While building infrastructure for tourism is but one benefit, increased infrastructure development by Kazakhstan in Kyrgyzstan links Central Asian nations to the rest of Europe and Asia, thereby solidifying Eurasian ties and expanding the local economy.

Kazakhstan's economic goals of a strong Central Asia, codified in the Kazakhstan 2050 Strategy, are spurred by various 'push and pull' factors in the region. Push factors originate from economic policy set by Kazakhstan, including bilateral trade agreements (B.T.A.), bilateral investment treaties (B.I.T.), double tax treaties, cultural ties, and economic liberalization. Recent bilateral trade agreements have been made with Kyrgyzstan and Tajikistan. Since the collapse of the Soviet Union, Kazakhstan has signed 48 bilateral investment treaties<sup>iii</sup> with its Central Asian neighbors. These countries have also signed B.I.T.s with their fellow Central Asian states, creating an integrated web of investment and trade infrastructure within the region.<sup>iv</sup> Kazakhstan also utilizes double tax treaties in dealing with its Central Asian neighbors, creating lower withholding rates on dividends, interest, and royalties. Thirty five treaties have been signed by Kazakhstan,<sup>v</sup> creating favorable results for the Central Asian nations involved. The final significant factor is strong cultural ties and economic liberalization. A common history of living under the Soviet Union bridged cultural ties in the region.<sup>vi</sup> Furthermore, the similar languages and demographics of the countries in this region have led to

successful negotiations and cooperation between the countries of Central Asia, which have solidified these friendships.<sup>vii</sup>

Unfortunately, while Kazakhstan continues to act as a central hub of investment and trade in the region, many countries fail to have the pull to keep investment flowing. Policies in other Central Asian states are often not as flexible or stable as in Kazakhstan. A study by the Eurasian Development Bank estimated that integration between Central Asian countries had dropped from an index value of 100 points in 2000 to 67 points in 2008,<sup>viii</sup> showing a narrowing of investment in Central Asia. While integration and cooperation were at one point higher in the Central Asian region, they have since softened as other markets in Russia and China have become more attractive for Kazakhstani investors.

However, intra-regional trade remains strong. Kazakhstan-led investment in Central Asia has ensured that trade between the states of Central Asia and Kazakhstan remains high. Kazakhstan's main exports such as mineral fuels, chemicals, cereals, and milling products are finding their way into neighboring Central Asian countries. Exports for Kazakhstan climbed from \$313 million in 2001 to \$1.6 billion in 2009, while imports rose from \$200 million in 2001 to \$500 million in 2009. Central Asia's rising G.D.P is considered a causal factor in the increase in trade volume. Thus, while direct investment between the countries may seem to be decreasing, increased trade as a product of this investment has been growing exponentially.

Kazakhstan has also developed a viable financial infrastructure that many countries in Central Asia utilize on a regular basis. The creation of a renowned banking industry and a financial market system are just starting to emerge in many of these Central Asian countries, where authoritarianism is often the norm, obstructing the creation of a viable economic system. However, Kazakhstan's economic liberalization has enabled the state to establish a financial system that can be applied in other Central Asian states and attract significant foreign direct investment. Kazakhstan's policies have led to the elimination of foreign exchange surrender requirements, creation of overnight facilities for banks, regulation of revised pension system funds, increased limits on foreign ownership of banks, and splitting of Kazakhstan's stock exchanges for foreign and security trading.

The final example of Kazakhstan's economic integration is the prospect of future investment cooperation. New power plants in Kyrgyzstan and Tajikistan have created a window of opportunity for Kazakhstani investors to assist in the construction of smaller hydro-electric power facilities in which both the host nation and Kazakhstan can benefit. Kazakhstan's growing need for electricity as well as concerns over the lack of water coming from the upstream nations ensures a continued Kazakhstani interest in the development of its neighbors. Kazakhstan also stands to benefit from investment in Kyrgyzstan's textile production facilities and Uzbekistan and Turkmenistan's economic liberalization projects.<sup>ix</sup> These future plans are excellent ways in which the Central Asian countries can work together and support economic integration for a much stronger Central Asia.

While confidence building is relatively new to Central Asia, Kazakhstan is one of the leading countries formulating such policies and working to build and maintain these measures. Kazakhstan's greatest foreign policy concern by far is the preservation of its sovereignty.<sup>x</sup> By maintaining good relations with every bordering state from Russia to Uzbekistan, Kazakhstan manages to keep a positive focus on trade and economic diversification while maintaining its sovereignty. To deepen its integration, Kazakhstan has served as the regional stabilizer for Central Asia by assisting the United States in

providing aid to nations in the region.<sup>xi</sup> Kazakhstan has also championed the Conference on Interaction and Confidence-Building in Asia (C.I.C.A.), which is designed to deploy confidence-building measures as a means to promote peace and security throughout Eurasia.<sup>xii</sup> Sovereignty is incredibly important to a Central Asian country like Kazakhstan that, for the most part, has only been truly independent since the fall of the Soviet Union. The relatively new country has been subjected to various problems since independence, such as radical Islamic fundamentalism and organized crime. A lack of viable religious institutions, due to years of Soviet domination and influence, has created a vacuum for foreign intrusion to fill religious gaps, often coming from radical backgrounds.<sup>xiii</sup> Kazakhstan is leading the fight against these security threats by working to create organizations such as the Central Asian Rapid Reaction Force (C.A.R.R.F.), which was created to defend the region against major terror threats.<sup>xiv</sup>

Kazakhstan is serving as a leading nation in the promotion of positive economic policies in a bid to deepen regional integration and foster unity across Eurasia. Advances in economic policy involving Kazakhstan 2050, as well as confidence-building initiatives such as the C.I.C.A., are ensuring that these policies will be carried out effectively.

*Assertions and opinions in this Commentary are solely those of the above-mentioned author and do not necessarily reflect the views of the Middle East Institute, which expressly does not take positions on Middle East policy.*

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<sup>i</sup> Kassymkhan Kapparov, "Kazakhstan's Investments in Central Asia," 2012, accessed March 25, 2016, 6, <http://www.ucecentralasia.org/downloads/UCA-IPPA-WP14-KazakhInvestmentCA-Eng.pdf>.

<sup>ii</sup> *Ibid.*, 8.

<sup>iii</sup> "Kazakhstan – Bilateral Investment Treaties (BTI)," Investment Policy Hub, accessed March 25, 2016, <http://investmentpolicyhub.unctad.org/IIA/CountryBits/107>.

<sup>iv</sup> Kassymkhan Kapparov, "Kazakhstan's Investments in Central Asia," 2012, accessed March 25, 2016, 10, <http://www.ucecentralasia.org/downloads/UCA-IPPA-WP14-KazakhInvestmentCA-Eng.pdf>.

<sup>v</sup> Kassymkhan Kapparov, "Kazakhstan's Investments in Central Asia," 2012, accessed March 25, 2016, 6, <http://www.ucecentralasia.org/downloads/UCA-IPPA-WP14-KazakhInvestmentCA-Eng.pdf>.

<sup>vi</sup> "Kazakhstan – Bilateral Investment Treaties (BTI)," Investment Policy Hub, accessed March 25, 2016, <http://investmentpolicyhub.unctad.org/IIA/CountryBits/107>.

<sup>vii</sup> Kassymkhan Kapparov, "Kazakhstan's Investments in Central Asia," 2012, accessed March 25, 2016, <http://www.ucecentralasia.org/downloads/UCA-IPPA-WP14-KazakhInvestmentCA-Eng.pdf>.

<sup>viii</sup> Kassymkhan Kapparov, "Kazakhstan's Investments in Central Asia," 2012, accessed March 25, 2016, 11, <http://www.ucecentralasia.org/downloads/UCA-IPPA-WP14-KazakhInvestmentCA-Eng.pdf>.

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<sup>viii</sup> See E. Vinokurov, “Dinamika integratsionnih processov v Central’noi Azii,” Eurasian Economic Integration, No. 2 (2010), p. 7, found in Kassymkhan Kapparov, “Kazakhstan’s Investments in Central Asia,” 2012, accessed March 25, 2016, 11, <http://www.ucentralasia.org/downloads/UCA-IPPA-WP14-KazakhInvestmentCA-Eng.pdf>.

<sup>ix</sup> Kassymkhan Kapparov, “Kazakhstan’s Investments in Central Asia,” 2012, accessed March 25, 2016, 17, <http://www.ucentralasia.org/downloads/UCA-IPPA-WP14-KazakhInvestmentCA-Eng.pdf>.

<sup>x</sup> Zhazira Ayapbergenovna Taubayeva, “Regional Stability of Central Asia: Confidence-Building Measures (CBM),” *Middle-East Journal of Scientific Research*, Vol. 21, No. 3 (2014), p. 445-448, accessed March 25, 2016, <http://www.idosi.org/mejsr/mejsr21%283%2914/5.pdf>.

<sup>xi</sup> European Dialogue, “Kazakhstan’s Strategic Significance,” accessed March 25, 2016, <http://www.eurodialogue.eu/Kazakhstan-Strategic-Significance>.

<sup>xii</sup> Ibid.

<sup>xiii</sup> Ibid.

<sup>xiv</sup> Ibid.