Russia-Kazakhstan Relations

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Kazakhstan with Russia: Smiling through Gritted Teeth

By Nate Schenkkan, New York, NY

Abstract

Kazakhstan–Russia relations are going through a period of unprecedented turbulence, and it is not clear when it will end, or what the relationship will look like when it is over. Kazakhstan’s government is increasingly smiling through gritted teeth as it seeks to keep relations with its unpredictable neighbor on an even keel during a time of economic crisis and its own impending, unprecedented, leadership change. Although sudden changes in a Kazakhstani policy long defined by pragmatism and patience still seem unlikely, key elements underlying the relationship are transforming in durable ways that will have consequences for decades to come. Significant changes in Russia’s foreign policy and in Kazakhstan’s politics, demography, and economy are changing the framework for the most important bilateral relationship in Central Asia.

Russian Nationalism Provokes Kazakh Nationalism

The most important factor changing the relationship between Russia and Kazakhstan has been Russia’s actions in response to the Ukrainian revolution, especially the embrace of an overt policy of “protecting” ethnic Russians and “compatriots” (sotchestvenniki) outside of Russia. For Kazakhstan, with more than 4000 miles of border with Russia, more than 20 percent of the population ethnically Russian, and Russian still the dominant language in much of the country, the Russian government’s official narrative of coming to the defense of persecuted Russians in Crimea and the Donbas was disturbingly relevant. The influence of Russian TV channels broadcasting directly in Kazakhstan, as well as local variants like Channel One Eurasia (which is partially owned by Russia’s Channel One and takes a similar editorial line) compounded these concerns.

President Putin himself encouraged these fears in August 2014, when he took an audience question at United Russia’s annual youth camp Seliger about “the growth of nationalist attitudes” in Kazakhstan. Putin answered by explaining that President Nazarbayev was a wise leader, and the Kazakhs had never had “statehood” before him. In conclusion, he emphasized that he was sure Kazakhs wanted to remain part of “the Russian world” (ruskiy mir). In Kazakhstan, Putin’s remarks were immediately taken as chauvinistic condescension towards Kazakhs and Central Asians in general, but also as a warning to Kazakhstan’s elite not to stray too far from Russia at a time of conflict with the West. Although Astana did not respond officially, two months after Putin’s remarks, Nazarbayev announced that Kazakhstan would celebrate a new holiday in 2015 marking 550 years of Kazakh statehood.

The Seliger sequence typifies a new dynamic in Russia–Kazakhstan relations after Ukraine. Faced with an increasingly nationalist neighbor that insults its history and has made irredentist claims in other neighboring countries, Kazakhstan’s government is maintaining an officially multiethnic policy to avoid confrontation, but promoting a more specifically Kazakh nationalism in order to prevent being outflanked by its own nationalists at home. The new policy addresses the immediate problem, but in doing so encourages a deeper one: the feeling of many ethnic Kazakhs that they are still of lower status in their own country, and that multiethnic rhetoric notwithstanding, the state should be Kazakh, with other nationalities more like welcome guests than truly equal citizens. Although Kazakhstani policy remains fundamentally guided by a commitment to promoting Kazakhstani (kazakhstanskiy not kazakhskiy) identity, politics in Kazakhstan is becoming more nationalist, in no small part in response to Russian actions.

The Kazakhstani response to the post-Ukraine dynamic also had practical implications in terms of demographic policy. After suspending, in 2012, a policy of subsidizing ethnic Kazakhs living in other countries, Kazakhstan’s government is maintaining an official multiethnic policy to avoid confrontation, but promoting a more specifically Kazakh nationalism in order to prevent being outflanked by its own nationalists at home. The new policy addresses the immediate problem, but in doing so encourages a deeper one: the feeling of many ethnic Kazakhs that they are still of lower status in their own country, and that multiethnic rhetoric notwithstanding, the state should be Kazakh, with other nationalities more like welcome guests than truly equal citizens. Although Kazakhstani policy remains fundamentally guided by a commitment to promoting Kazakhstani (kazakhstanskiy not kazakhskiy) identity, politics in Kazakhstan is becoming more nationalist, in no small part in response to Russian actions.

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3 Due to Kazakhstan’s high level of censorship and suppression of freedoms of association and assembly, Kazakh nationalism is poorly represented by political parties or media, and it is difficult to observe in a precise fashion. Probably the most visible strand is the “natspatrioty,” or “national patriots,” a loose movement of opposition to the government that is highly skeptical of all forms of foreign involvement in Kazakhstan, including Russian, Chinese, and to a certain extent, Western. Luca Anceschi and Paolo Sorbello, “Kazakhstan and the EEU: the rise of Eurasian scepticism,” Open Democracy, 15 May 2014, <https://www.opendemocracy.net/od-russia/luca-anceschi-paolo-sorbello/kazakhstan-and-eeu-rise-of-eurasian-scepticism/>.
tries to move to Kazakhstan (oralmans, or returnees), the government restarted the program in 2014 after the Ukraine events, but with an important change. Instead of allowing oralmans to settle where they chose, which had resulted in most of them clustering in southern and western Kazakhstan (which some had blamed for the 2011 Zhanaozen unrest), the government now sends oralmans to “labor-scarce” regions in the north and northeastern bordering Russia, which are also those regions with the largest ethnic Russian populations. Kazakhstani citizens are also incentivized to move to these areas. Oralmans now make up 5.5 percent of Kazakhstan’s population; a minority in the country at the time of independence, Kazakhs now comprise over 65 percent of the populace.

**Economic Transformation**

The second factor weighing on the Kazakhstan–Russia relationship in this period has been the collapse in oil prices that started in summer 2014, which led to a severe economic crisis across the entire former Soviet Union just at the moment when the Eurasian Economic Union (EEU) was being inaugurated. Although the EEU has been essentially irrelevant to the direction of the economic crisis, the unfortunate timing left Nazarbayev—who had strongly backed the union’s creation in its early years—exposed to criticisms from both nationalists and liberals that he had lashed the state to Russia’s sinking ship.

In theory, the EEU is a full-fledged economic union joining Kazakhstan, Russia, Armenia, Kyrgyzstan, and Belarus in a single economic space with freedom of movement of capital, labor, and goods. In actuality, it is a partial customs union with a number of long-term but vague commitments to true integration and a slew of exceptions to free movement in all three areas, including a significant number imposed since the formal creation of the EEU.

The Ukraine and economic crises have ruthlessly exposed the union’s weaknesses. Russia’s unilateral imposition of counter-sanctions on the EU in 2014, taken without consultation with its customs union partners, underscored just how little actual regard Russia has had for the nascent institution. After the creation of the full EEU, in early and mid-2015, when the Russian ruble was rapidly depreciating while Kazakhstan was stubbornly defending the tenge, the open borders between Kazakhstan and Russia led to a flood of Kazakhstani consumers crossing over to buy Russian goods, undermining domestic producers. Kazakhstan’s government was forced to reinstitute some customs controls with Russia and mount a “buy Kazakhstan” campaign to try and encourage domestic consumption.

After allowing the tenge to partially free-float in August 2015, resulting in a painful set of depreciations, Kazakhstan’s currency is no longer so dangerously overvalued against the ruble. Oil prices have also stabilized around $50 per barrel, up from their perilous sub-$30 lows. But trade between Russia and Kazakhstan still declined 26 percent year-on-year from 2014 to 2015; Kazakhstan’s exports to Russia for that time period actually dropped 32 percent. And $50 per barrel oil is still a weak replacement for the above $100 prices that Kazakhstan and Russia had both grown accustomed to, and on which the region’s boom years were built.

The economic challenges to the relationship are only deepening. Although still weakly developed, Russia post-Ukraine appears to be shifting towards a policy of at least partial import substitution, with subsidies to domestic producers to try and replace imports that are now blocked by sanctions and counter-sanctions. Economists in Russia and abroad are skeptical that the strategy will have the kind of success its most ardent proponents claim for it, but even a weakly realized version would threaten Kazakhstan’s domestic producers. Yet again, Russian policy appears to be being developed without any consideration for its effects on partner states in the union, and Kazakhstan under Nazarbayev has locked itself into a poorly thought-out economic union with a gigantic economy that is far too similar for even an effective integration project to be economically beneficial.

Meanwhile, Russia’s faltering economy and the shambolic nature of the EEU are consolidating the long-term trend of China becoming the dominant economic actor in Kazakhstan and Central Asia as a whole. Russia’s economic position in the region was built on the Soviet legacy, in which all roads (and railways and pipe-
lines) ran through Russia. In the initial period of Central Asia’s independence, it was the United States that sought to diversify investment and export routes from the region in order to break Russia’s dominance. For the last 10 years, however, it has been China that has increasingly and now overwhelmingly dominated all elements of Central Asia’s economy, from exporting consumer goods, to purchasing natural resources, to building infrastructure, to foreign direct investment. The result is that China is reshaping Central Asia’s infrastructure and trade patterns away from Russia and towards China. Although China has explicitly avoided confronting Russia during its “peaceful rise” in Central Asia, and has even sought to include Russia in its far-reaching plans, China has already shattered Russia’s monopoly position in oil and gas, and the development of transport infrastructure running through Kazakhstan and across the Caspian to reach Europe unmistakably increases opportunities for future trade routes that circumvent Russia.

Fixated on its status competition with the West and lacking a similar ideological obsession with China—as well as powerless to compete with Chinese resources—Russia has essentially acquiesced to China’s economic dominance. The fact that China, unlike the West, articulates no particular ideological or political goal in Central Asia helps smooth the way. For now, the rise of China and the transformation of Kazakhstan’s infrastructure away from Russia does not threaten the Kazakhstan–Russia relationship, but the contradiction between the official policy of membership in the EEU and the Chinese orientation may eventually demand a formal realignment.

China’s rise is not without its own complications for Kazakhstan’s leaders. The depth and breadth of Sinophobia in Kazakhstan, and the lack of accountable and transparent decision-making mechanisms, will make it hard for the government to embrace seemingly limitless Chinese investment without facing a public backlash. The protests in April and May 2016 showed all of these volatile factors converging, as protests against a land reform to allow foreigners to execute long-term leases quickly took on a Kazakh nationalist, anti-government, and Sinophobic character.

**Leadership Change**

The last factor shaping this uncertain period is the inevitable transition from the rule President Nazarbayev, the only leader in modern Kazakhstan’s 25 years of independent statehood. At 76 years old, Nazarbayev is not in notably bad health, but his age shows in public appearances, where he has appeared lately more and more like a kindly grandfather and less like a confident head of state. Especially following the violence in Aktobe in May 2016, his television appearances were surprisingly understated and his speech muted, as if he was himself uncertain about performing the role of the tough guy.

The lack of transition planning has been a long-standing complaint of observers of Kazakhstan, and there has been even less amidst the crises of the last two years. Nazarbayev responded to the economic crisis by staging snap presidential elections in April 2015, supposedly in order to restore his mandate, although no one had questioned his control of all levers of power. Throughout his career, Nazarbayev has been relentless about squelching alternative power centers and potential rivals, such that there is no clear figure in power or in opposition capable of leading the country. Former prime minister Serik Akhmetov was arrested in 2014 and sentenced to 10 years for corruption after possibly losing a power struggle to Karim Massimov, his predecessor and successor as premier. Massimov is considered a deft political player, but he is a Uighur, and so an unlikely heir in an increasingly nationalistic environment. The longtime head of the Committee for National Security (KNB), Nuraltay Abykayev, stepped down in December 2015; his replacement Vladimir Zhumakanov has been under heavy criticism after the protests in April and the attack in Aktobe in May. Nazarbayev’s eldest daughter Dariga has taken several governmental posts in the past several years and is probably the frontrunner to play at least a figurehead role in succession, but she comes with plenty of baggage, including a former marriage to Rakhat Aliyev, one-time head of the KNB who fell out with Nazarbayev and died in an Austrian prison in 2015. The president’s second daughter Dinara’s husband Timur Kulibayev is a billionaire and was once seen as a possible successor, but he has stepped away from public life since being partially scapegoated for the violence in Zhanaozen in December 2011.

Kazakhstan–Russia relations have many different components and outlets, but in an important way they are Nazarbayev–Putin relations. In his notorious Seliger remarks in August 2014, Putin assured his questioner that Kazakh nationalism was not a problem by praising Nazarbayev as “perhaps the most intelligent” leader in the former Soviet Union. Putin’s real motives may not have been to praise—certainly his remarks did not help Nazarbayev domestically—but what he said underscored the personalized nature of the relationship between two consolidated authoritarian regimes.

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Parts of the relationship that might otherwise be considered stable interstate matters, such as membership in an unpopular and unprofitable economic union, could come into question post-Nazarbayev. This commitment problem introduces an unusual level of uncertainty to the next several years of Kazakhstan–Russia relations.

Given the repeated purges of Kazakhstan’s elite of anyone with an ideological or policy agenda, and the relatively successful example that Nazarbayev has set in keeping the country stable and growing economically relative to its neighbors, the next president is more likely than not to continue similar policies to the “Leader of the Nation.” The relationship with Russia may have gone from being one of close coordination to one of smiling through gritted teeth, but it remains the single most critical relationship to Kazakhstan’s national security, and new leadership is unlikely to make sudden moves that would endanger it. That said, even an authoritarian leader or group of leaders will rule under changed circumstances, including a stagnant economy, a more Kazakh demography, an increasingly nationalist political environment, and increasing reliance on China for growth. Geography dictates that Kazakhstan not move too far or too fast away from Russia, but underlying trends indicate that it will move as far away as it can.

About the Author
Nate Schenkkan is Project Director for Nations in Transit, Freedom House’s annual survey of democracy from Central Europe to Central Asia. His writing on Central Asia and Turkey has appeared online in publications including Foreign Affairs, Foreign Policy, World Politics Review, and Turkish Policy Quarterly. He hosts The Central Asianist Podcast (<http://thecentralasianist.tumblr.com/> featuring interviews with experts on social, political, and economic topics in the five former Soviet republics of Central Asia.

ANALYSIS

Russia’s “Checks and Balances” On Kazakhstan’s Quest for Military Independence
By Mariya Y. Omelicheva, Lawrence, KS

Abstract
Kazakhstan’s moves to build a self-sufficient military-industrial complex and diversify its military procurements and defense cooperation have been interpreted as telling signs of a split in Kazakhstan’s long-standing defense and military partnership with Russia. This conclusion is, however, mistaken. Russia remains Kazakhstan’s largest supplier of arms, military equipment, and training, especially in such sensitive areas as air defense and intelligence sharing. Furthermore, Kazakhstan lacks an alternative partner and trusted ally that can replace Russia’s political backing and assistance in response to domestic political instability and the threat of terrorism.

Despite the frequent assurances that Russia remains Kazakhstan’s closest ally and partner, Astana has long sought to increase its autonomy from Moscow. Russia’s military involvement in Ukraine and the fall of world oil prices that put breaks on Kazakhstan’s once-soaring economy has amplified its resolve to loosen its economic, political, and military ties with Russia. In the defense, security, and military sectors, where Kazakhstan has remained firmly anchored to Russia, Astana’s attempts to increase its military independence and self-sufficiency by investing in domestic weapon manufacturing and non-Russian procurements have been named as telling signs of Kazakhstan’s changing foreign policy orientation.

Despite the provocative actions and rhetoric of Nazarbayev’s government, the notion that the long-standing defense and military partnership between Russia and Kazakhstan is nearing its end is gravely mistaken. First, Russia remains Kazakhstan’s largest supplier of arms, military equipment, and training, especially in such sensitive areas as air defense and intelligence sharing. Furthermore, Kazakhstan lacks an alternative partner and trusted ally that can replace Russia’s political backing and assistance in response to domestic political instability and the threat of terrorism.
the recent political unrest in Kazakhstan—heightened terrorist activity and public protests emblematic of the growing discontent with the country’s economic and political situation—have influenced Astana’s perceptions of security threats. The Nazarbayev government understands that it does not have a viable alternative ally capable of replacing Moscow’s political backing and counterterrorism assistance. Subsequently, Kazakhstan will sustain close defense and security ties with Russia in the years to come.

A Primer on Russia–Kazakhstan Military, Defense, and Security Cooperation
Russia and Kazakhstan have long-standing military and security relations developed through the multi-lateral forums of the Collective Security Treaty Organization (CSTO), the Anti-Terrorism Center of the Commonwealth of Independent States (ATC CIS), and the Shanghai Cooperation Organization (SCO), and through more than 80 bilateral agreements on military-technical, defense, and counterterrorism cooperation, which are periodically reviewed and amended. The most recent agreement on Russia–Kazakhstan military-technical cooperation was signed in 2013 and supplemented with the program of activities for 2014–2016 the following year. The joint military and security cooperation of Russia and Kazakhstan involves almost all aspects of their security and defense policies, including joint military exercises mostly within the CSTO and SCO frameworks, the purchasing and servicing of weapons and systems from Russia, the sharing of intelligence information and cooperation of the border security structures, and the training of military and security personnel.

For years, Russia has been the main supplier of weapons, equipment, and spare parts to Kazakhstan’s armed forces (see Table 1 on p. 8). In recent years, the Kazakh government has begun purchasing weapons and equipment from other states and created joint ventures to manufacture defense items domestically. Russia, however, remains Kazakhstan’s top partner in defense trade by dominating the supply of military platforms for Kazakhstan’s ground forces and navy. In 2012, the Kazakh government organized and hosted a first defense Expo—KADEX—that has since been held annually in Astana to raise Kazakhstan’s independent military stature and secure competitive contracts for domestic military enterprises. In the fourth and largest KADEX defense Expo, held in June 2016, Russia’s manufacturers were second to only Kazakhstan’s own military producers. Russia’s sole state exporter—Rosoboronexport—presented more than 250 models of equipment for Army, Air Force, and Navy. A total of 40 Russian defense enterprises took part in the exhibit, and negotiated contacts on the future aircraft, naval and engineer equipment, helicopters, ammunition, and unmanned aircraft systems to Kazakhstan.

The training of Kazakhstan’s troops in Russia’s military schools and joint military tests at Kazakhstan’s ranges amplify the impact of Moscow’s trade in military articles. By rough estimate, more than 500 cadets and officers from the Kazakh army, navy, border control, security, and intelligence units receive education and training from Russia’s Ministry of Defense, Federal Security Service, Foreign Intelligence Service, and the Emergencies Ministry on preferential terms in any given year. The Kazakh military institutions and military-security establishments have utilized Russian advisers and instructional staff. Russia continues to use important military facilities in Kazakhstan for trials of missile systems, combat aircraft and other types of weapons. These include the Baikonur Cosmodrome leased to Russia until 2050, the Kapustin Yar firing range spanning the borders of Russia and Kazakhstan, the Sary-Shagan and Emba missile testing sites, and the 929th State Test Flight Center (Taysyovgan). In recent years, Russia handed over parts of these facilities to Kazakhstan, but was able to reduce its already low lease payments for ranges.

Asta is closely tied into Russia’s air defense network. For its part, Moscow has delivered Kazakhstan multiple S-300 air defense systems between 2014 and 2016. The delivery, which was made free of charge, constitutes part of a larger plan to create a joint CSTO air defense system, which also includes Belarus and Armenia. Russia–Kazakhstan air defense collaboration will become a significant obstacle to the involvement of Western defense companies in this highly sensitive area of Kazakhstan’s defense sector. Kazakhstan’s Military and Defense Cooperation with Other States
Kazakhstan has made efforts to diversify its security portfolio by seeking non-Russian procurements and engaging in security cooperation with other states. In fact, Kazakhstan has more international defense and security partners than any other Central Asian republic. None of these partners, however, offers a realistic alternative or serious competitor to Russia’s role in Kazakhstan’s security and defense situation. The US provided Kazakhstan with the minimal security assistance limited to the area of


non-proliferation until 2001. US–Kazakhstan military-security cooperation intensified in the wake of the US- led operation Enduring Freedom in Afghanistan, but has focused on the capacity-building programs, professional- ization of Kazakhstan’s armed forces, modernization of its military education, and support for peacekeeping deployment capabilities through the annual military exercise Steppe Eagle. Kazakhstan has the most advanced partnership with NATO in the region. A home to a NATO Partnership for Peace center, Kazakhstan became the first country in Central Asia to develop a level of NATO interoperability in its peacekeeping brigade—KAZBRIG.

The frequent acclamations of US/NATO defense and military cooperation with Kazakhstan have not been matched by equivalent results, especially when compared with the accomplishment of the US and NATO military programs in Eastern Europe. Training and exercises, rather than the transfer of weapons and equipment have defined Kazakhstan’s military cooperation with the US. The number of Kazakh officers receiving training in the US has been relatively small and further undercut by the low retention rates of military cadres with Western education (see Figure 1 on p. 9). The differences in military culture and language barrier has made the achievement of interoperability and trust between the Kazakh officers and their Western counterparts more difficult. The track record of impact from the transfers of military equipment from the US to Kazakhstan has also been relatively poor, because of the lack of training in their use and inadequate maintenance. With the drawdown of US forces from Afghanistan, Central Asia, including Kazakhstan, has been lowered in priority for the US Department of Defense, as reflected in the reduced security assistance budgets for the states in the region.

Kazakhstan has developed increasingly diverse, complex, and changing international cooperation patterns with other states—France, Turkey, Israel, South Korea, to name but a few, and the European Union. However, military-technical cooperation with the new partners has been done on a case-by-case basis, driven by commercial interests and Astana’s desire to build a military that is ultimately independent of other actors (see Figure 2 on p. 10). The share of any given partner in the overall portfolio of security assistance to Kazakhstan is relatively small and does not address the heightened concerns with political instability in the country.

**The Limits to Kazakhstan’s Military and Security Independence**

Kazakhstan managed to escape the political turmoil that has afflicted many transitional states. Nursultan Nazarbayev has publicized his republic as a model of inter-ethnic tolerance and public consent internationally. Having witnessed the governments of Georgia, Ukraine, and Kyrgyzstan swept away by the “color” revolutions, the Nazarbayev administration named domestic political destabilization as the number one threat to internal security in Kazakhstan’s Military Doctrine. The government’s apprehension about internal destabilization materialized soon after the approval of the new doctrine. In December 2011, the Zhanaozen protests and deadly clashes between striking oil workers and police provided the pretext for Nazarbayev’s opponents inside and outside the country to call for the president’s resignation. Five years later, a wave of public protests that rippled across the country following the announcement of land reforms and the deadly Aktobe shootings in June 2016 have seriously alarmed the Kazakh government and the president. While the Russian Defense Ministry issued assurances that Kazakhstan’s security apparatus had the domestic situation under control and thus not warranting the deployment of Russian military contingent in the republic, the Russian Defense Minister Sergei Shoigu offered Russia’s experience in operational planning and the use of Russian troops in Syria in the struggle against terrorists to his Kazakh counterpart. The two heads of the defense ministries held bi-lateral talks in advance of the SCO meeting of defense ministers held in Astana in June 2016. The ministers discussed joint measures to combat terrorism, in addition to the usual topics of military-technological and security cooperation.

Even more than a result of joint training and face-to-face discussions, Kazakhstan and other Central Asian states have drawn on Russia’s experiences through emulation. Russia has been viewed as a model and enabler for the region’s regimes, whereby the measures and rhetoric adopted by Moscow have found their way into the legal, political, and security systems of the neighboring states. In a language closely matching President Putin’s warnings about Western meddling in the domestic politics of post-Soviet countries and his fear-mongering rhetoric of Islamic radicalization in the region, President Nazarbayev blamed instigators from abroad for the recent violence and protests. In his public address following the Aktobe shooting, he linked rhetorically political demonstrations to the violent incident, which has been cast as an act of Islamic terrorism. Russia’s expanded military and security presence in Central Asia has been beneficial to the governing regimes that exploited this anti-Islamist rhetoric and campaign for clamping down on the secular and religious opposition. Cooperating with Russia in the struggle against religious extremism and terrorism helps the Nazarbayev government in multiple ways. It assists the Kazakh president in constructing an Islam-
ist threat that the public can effectively rally against. It legitimizes the repressive policies of the ruling administration. It can also be used as a basis for the government’s “performance” legitimacy, shoring up its acclaimed ability to deliver stability and security to the people.

Conclusion
As Kazakhstan’s economy is settling into a recession and its political future remains unclear due to the absence of a designated successor to their 75 year old president, Kazakhstan’s elites and Nursultan Nazarbayev himself have resorted to policies, rhetoric, and actions interpreted as a sign of a political divorce from Moscow. Cutting at a deeper level, Kazakhstan’s diverse and changing international military and security ties do not offer convincing evidence of any political drift away from close military-technological and security cooperation with Russia. Kazakhstan’s patterns of procurement and efforts at building a domestic military-industrial complex are driven by commercial interests, while anti-Russian rhetoric is more an image-building ploy to rally the Kazakh public around the ideology of Kazakhstan’s independence. Where the political barometer rises, in sensitive areas such as air defense, intelligence sharing and support in addressing the threat of domestic political instability, Russia remains Kazakhstan’s friend, partner and its trusted ally. It comes as no surprise, therefore, that Kazakhstan’s president was the only foreign leader to stand alongside Vladimir Putin on Red Square watching Russia’s annual Victory Day parade on May 9, 2016.

About the Author
Mariya Y. Omelicheva is an Associate Professor of Political Science at the University of Kansas. She is the author of Counterterrorism Policies in Central Asia (Routledge 2011), which received an Outstanding Academic Title award by Choice, and Democracy in Central Asia: Competing Perspectives and Alternate Strategies (University Press of Kentucky 2015), and editor of Nationalism and Identity Construction in Central Asia: Dimensions, Dynamics, and Directions (Lexington 2015).

Table 1: Transfer of Major Conventional Weapons from Russia to Kazakhstan

<table>
<thead>
<tr>
<th>Year(s) of Deliveries</th>
<th>Weapon Designation</th>
<th>Weapon Description</th>
<th>No. Delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>MiG-29</td>
<td>Fighter Aircraft</td>
<td>12</td>
</tr>
<tr>
<td>1997</td>
<td>Su-25</td>
<td>Ground attack AC</td>
<td>14</td>
</tr>
<tr>
<td>2000</td>
<td>5V55U/SA-10C</td>
<td>SAM</td>
<td>40</td>
</tr>
<tr>
<td>2001</td>
<td>II-76M</td>
<td>Transport Aircraft</td>
<td>1</td>
</tr>
<tr>
<td>2002</td>
<td>5V55U/SA-10A</td>
<td>SAM System</td>
<td>1</td>
</tr>
<tr>
<td>2004–2007</td>
<td>Mi-8MT/Mi-17</td>
<td>Transport Helicopter</td>
<td>14</td>
</tr>
<tr>
<td>2004–2005</td>
<td>Mi-8MT/Mi-17</td>
<td>Transport Helicopter</td>
<td>14</td>
</tr>
<tr>
<td>2007–2010</td>
<td>Mi-8MT/Mi-17</td>
<td>IFV</td>
<td>79</td>
</tr>
<tr>
<td>2008</td>
<td>BPM-97</td>
<td>APC</td>
<td>18</td>
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<tr>
<td>2008</td>
<td>BTR-80</td>
<td>APC</td>
<td>1</td>
</tr>
<tr>
<td>2008–2009</td>
<td>ANSAT</td>
<td>Light Helicopter</td>
<td>3</td>
</tr>
<tr>
<td>2009–2012</td>
<td>Mi-8MT/Mi-17</td>
<td>Transport Helicopter</td>
<td>12</td>
</tr>
<tr>
<td>2010</td>
<td>N-001 Myech</td>
<td>Combat Ac Radar</td>
<td>2</td>
</tr>
<tr>
<td>2011</td>
<td>TOS-1</td>
<td>Self-Propelled MRL</td>
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<tr>
<td>2011–2012</td>
<td>BTR-82A</td>
<td>IFV</td>
<td>44</td>
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<tr>
<td>2012</td>
<td>BTR-80</td>
<td>APC</td>
<td>17</td>
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<td>2012</td>
<td>BTR-80</td>
<td>APC</td>
<td>17</td>
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<tr>
<td>2013–2015</td>
<td>Mi-8MT/Mi-17</td>
<td>Transport Helicopter</td>
<td>10</td>
</tr>
<tr>
<td>2015</td>
<td>5V55U/SA-10C</td>
<td>SAM</td>
<td>200</td>
</tr>
<tr>
<td>2015</td>
<td>S-300PS/SA-10B</td>
<td>SAM System</td>
<td>5</td>
</tr>
<tr>
<td>2015</td>
<td>Su-30MK</td>
<td>FGA Aircraft</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: SIPRI Arms Transfers Database
Figure 1: US Military Assistance to Kazakhstan

Figure 2: Total Trend-Indicator Value (TIV) of Arms Imports to Kazakhstan (US$m. at constant 1990 prices)

Source: SIPRI Arms Transfers Database. In 2015, Russian transferred $412 million (in constant 1990 prices) of equipment to Kazakhstan.
The Impact of the Ukrainian Conflict on Kazakhstan’s FDI with Russia and its Other Main Economic Partners

By Yelena Nikolayevna Zabortseva, Sydney

Abstract
Conflict in Ukraine and global oil price volatility has led to falling Foreign Direct Investment (FDI) not only in Russia, but also in Kazakhstan. Moreover, increased political tensions between Russia and Kazakhstan has led to concerns that the Republic of Kazakhstan could see a repeat of the Ukrainian scenario involving confrontation with Russia. However, the case of Kazakhstan is more complex due to the growing role of China, including as a source of FDI. Inward FDI is of considerable importance for Kazakhstan’s oil-dependent economy, hence this article’s focus is on the most recent trends of FDI flows from Russia and its other economic partners to examine its impact on shaping relations among the powers involved in the region following the Ukraine Crisis. The article points to the significant role played by FDIs that are routed through off-shore centres.

In the era of post-Cold War confrontation, new tensions within the Eurasian region have raised several concerns about stability amongst post-Soviet countries. While relations between Kazakhstan and Russia had strengthened prior to the Ukraine Crisis, the emergence of the Ukrainian conflict has led to a deterioration in their bilateral relationship. This is particularly evident in political and social controversies, as well as in trade relations related to the establishment of the Eurasian Economic Union (EEU).1

The renewed economic confrontation between the West and Russia affected not only the European economy.2 The resulting recession in Russia also undermined growth in other former Soviet republics.3 While global FDI flows jumped 36% in 2015—to their highest level since the 2008–2009 Global Financial Crisis (GFC)—, “flows to transition economies continued to fall (- 54%) as tumbling international commodities prices and regional conflicts undercut FDI”.4 Investment in the region’s two largest host economies, Russia and Kazakhstan, fell sharply.

Prior to the Ukrainian conflict, there was a high level of post-Soviet investment integration between Ukraine—Russia, Russia–Kazakhstan and Russia–Belarus, with Russia investing substantial funds in the economies of these partner-countries.5 Moreover, “the main ‘donor’ of investments (within the post-Soviet world) in 2012 was Russia, and the main recipient was Ukraine.”6 Up till the start of 2014, Russian investors accounted for 84% of mutual FDI in the region, while Russia itself attracted almost 9% of mutual FDI with Kazakhstan, the second-largest participant in mutual investment flows in the region.7 Taking into account the importance of FDI in Kazakhstan’s economy, this article will focus on the investment aspect of the relationship between Russia and Kazakhstan, as well FDI inflows from Western countries, China, and via off-shore financial centres into Kazakhstan.

High Significance of Foreign Investments in Kazakhstan’s Economy
Kazakhstan has the second largest oil endowment in Eurasia after Russia, and the twelfth largest in the world.8 Major crude oil export pipelines currently include the

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Analysis of Kazakhstan’s FDI from 2005 to 2015

In 2015, investments in the Kazakhstan’s economy fell by between 30 and 40% (see Table 1 on p. 14). While a relatively small decline of investment (from USD 24,012 million to USD 23,726 million) was evident during 2013–14, a more significant decline can be seen in 2015 (to USD 14, 829 million). The fall in FDI in Kazakhstan’s 2010 GDP was equal to 59%, in Russia (whose FDI to GDP ratio is similar to the world average) this share was equal to approximately 30%. This shows Kazakhstan’s strong economic dependence on FDI. Such a high share of FDI in the Republic’s economy has also been fostered by its national FDI promotion strategy, which provides strong incentives to foreign investors.

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gan oil field, the exceptionally high figure for Dutch FDI is misleading because the provisions of a 1997 tax and investment treaty make it easy for multinationals to invest in Kazakhstan through Dutch holding companies. Coca Cola, ENI, and Lukoil use this “Dutch holding construction”, though they are normally considered US, Italian, and Russian companies, respectively. Other major Dutch companies active in Kazakhstan include ABN AMRO Bank N.V. and Agip Caspian Sea B.V.O. While the official statistics dealing with investment presence of Russian businesses in Ukraine and Kazakhstan are also said to be understated.\(^2\) For example, Nelson Resources Limited (previously Canadian owned) was acquired by LUKoil in 2005 for over $2.1 billion and has its assets in Kazakhstan, although it is registered in Bermuda.\(^2\) Controlling interests in Nelson Resources Limited were held by two large financial and industrial groups (Kazkommersbank and Narodny Bank of Kazakhstan).\(^2\) Corresponding with Russia’s large economic presence in the Republic, Kazakhstan’s own re-investments via off-shore financial centres could also be attributed to low economic transparency in the country, coupled with trends in capital legalization. The Republic’s president Nazarbayev recently signed a bill that would allow the legalisation of shadow capital and property in 2014–2015. The national government hoped that the 16-month campaign would bring up to USD 12 billion out of the shadow economy.\(^2\)

**Implications for FDI in Kazakhstan’s Economy**

At the beginning of the renewed Russia–West confrontation involving Ukraine, analysts expressed concern that the cascading instability in the region presented a threat to Western oil interests. The effects of economic sanctions and the concomitant drop in international oil and gas markets “could drive Putin to more aggressively pursue Russia’s position in the Caspian Sea with the aim of eliminating any Western military and economic presence in the region.”\(^2\)

At the same time, FDI in Russia dropped by 92% in 2015,\(^2\) and Kazakhstan moved ahead of Russia in attracting FDI.\(^2\) Destabilization of the economic and political situation in Ukraine remains one of the main factors contributing to the slump of total mutual direct investments in the CIS as well. In relative terms, “the largest decline of (foreign) investments in Ukraine in 2013–2014 was registered for Kazakhstan and Georgia — by almost 50% and 52%, respectively (mostly in 2014 in the case of Kazakhstan, and in 2013 in the case of Georgia).”\(^2\) Major Russian businesses are also withdrawing from other projects in the region. In 2015, LUKoil sold its 50-percent stake in Kazakhstan’s oil producer Caspian Investment Resources to China’s Sinopec for $1.2 billion. Sinopec already owned the other half of Caspian Investment Resources. In at least one instance, Western sanctions against Russian companies are disrupting investments. Work on the Tsentralnoye offshore field on the Caspian Sea, which is being developed by LUKoil, Gazprom and Kazakhstan’s state-owned KazMunayGas, was halted last year, because some of the required drilling technology is now banned from sale to Russian companies.\(^2\) However, two decades later, while officially Russian FDI in Kazakhstan is not that considerable compared to Western capital, Kazakhstan’s economy remains dependent upon Russia for the transportation of its oil and gas. The reason, as expressed by Torjesen, is that energy “lie[s] at the heart of [the] bilateral relationship”.\(^2\)

The immediate impact of the current Western sanctions against Russian oil on the Kazakhstani oil sector is a negative one. Due to the huge role of FDI in its economy and the decline of Russia’s and Western investments, Kazakhstan’s economy has been significantly impacted by the consequences of the Ukrainian conflict.

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20 Eurasian Development Bank (EDB) 2015, p. 7
In parallel with these trends, China is challenging Russian influence in Kazakhstan.\(^{30}\) The ongoing slump in oil prices, the contraction of the Russian economy and the economic slowdown in China, have led to slower growth.\(^{31}\) However, it is difficult to make an assessment about what extent the Ukrainian conflict affected the distribution of foreign presence in Kazakhstan’s economy, due to the considerable share of off-shore investment capital among FDI in Kazakhstan.\(^{32}\) The complicated nature of off-shore investments and the absence of open and consistent statistical data on these investments, thus, leaves the question of both the actual share of Russian investments in Kazakhstan’s economy, and future trends for regional FDI open.

**About the Author**
Dr. Zabortseva’s recent experience includes lecturing in World Politics at the Department of Government and International Relations (IR), University of Sydney. She holds a Master of Arts in IR from MGIMO (Russia), and a PhD degree from the University of Sydney. Her professional experience has also entailed work as Head of IR Department at Kazakhstan’s Financial Superintendent. Her recent book on strategic relations between Russia and Kazakhstan is available via: <https://www.routledge.com/Russias-Relations-with-Kazakhstan-Rethinking-Ex-Soviet-Transitions-in/Zabortseva/p/book/9781138950429>

**Table 1: Kazakhstan’s inward Direct Investments by Country (selected, in mln USD)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
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<tbody>
<tr>
<td>(1) Netherlands</td>
<td>1,944.1</td>
<td>7,310.3</td>
<td>8,692.2</td>
<td>6,520.9</td>
<td>6,795.8</td>
<td>5,758.3</td>
<td>64,037.0</td>
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<td>(2) USA</td>
<td>1,181.1</td>
<td>1,810.9</td>
<td>1,975.7</td>
<td>2,438.7</td>
<td>4,123.6</td>
<td>2,780.9</td>
<td>23,807.9</td>
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<td>(3) Switzerland</td>
<td>112.2</td>
<td>547.3</td>
<td>3,312.4</td>
<td>1,877.4</td>
<td>2,366.4</td>
<td>1,880.7</td>
<td>14,977.4</td>
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<tr>
<td>(4) China</td>
<td>216.5</td>
<td>1,717.6</td>
<td>2,414.6</td>
<td>2,246.0</td>
<td>1,861.2</td>
<td>442.7</td>
<td>13,187.4</td>
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<tr>
<td>(5) France</td>
<td>774.9</td>
<td>1,561.4</td>
<td>1,168.7</td>
<td>954.0</td>
<td>837.5</td>
<td>963.6</td>
<td>12,218.2</td>
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<tr>
<td>(6) Not distributed by countries</td>
<td>338.4</td>
<td>1,304.3</td>
<td>1,738.8</td>
<td>1,717.8</td>
<td>932.7</td>
<td>11,826.9</td>
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<td>(7) UK</td>
<td>603.7</td>
<td>1,098.0</td>
<td>1,395.7</td>
<td>937.6</td>
<td>747.2</td>
<td>391.0</td>
<td>11,497.3</td>
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<td>(8) Russia</td>
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<td>951.6</td>
<td>1,069.5</td>
<td>1,299.2</td>
<td>1,580.1</td>
<td>565.7</td>
<td>9,690.9</td>
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<td>(9) Virgin Islands (British)</td>
<td>301.0</td>
<td>683.6</td>
<td>492.4</td>
<td>1,120.9</td>
<td>129.3</td>
<td>-67.3</td>
<td>9,588.4</td>
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<td>(10) Italy</td>
<td>325.6</td>
<td>648.0</td>
<td>866.0</td>
<td>564.0</td>
<td>470.3</td>
<td>34.8</td>
<td>5,681.2</td>
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<td>337.8</td>
<td>367.3</td>
<td>221.6</td>
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<td>99.7</td>
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<td>10.1</td>
<td>53.1</td>
<td>22.8</td>
<td>7.6</td>
<td>3.1</td>
<td>369.3</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>7,916</strong></td>
<td><strong>22,246</strong></td>
<td><strong>28,885</strong></td>
<td><strong>24,098</strong></td>
<td><strong>23,726</strong></td>
<td><strong>14,829</strong></td>
<td><strong>222,389</strong></td>
</tr>
</tbody>
</table>


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Table 2: Kazakhstan’s Direct Outward Investments by Country (selected, in mln USD)

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<td>8.8</td>
<td>7,784</td>
<td>1,521.7</td>
<td>6,207.6</td>
<td>433.4</td>
<td>5,313.1</td>
<td>65,698.8</td>
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<tr>
<td>(2) UK</td>
<td>9.5</td>
<td>2,297</td>
<td>380.6</td>
<td>44</td>
<td>1,516</td>
<td>218.3</td>
<td>10,731.4</td>
</tr>
<tr>
<td>(3) Russia</td>
<td>89.3</td>
<td>164.6</td>
<td>49.6</td>
<td>188.7</td>
<td>118.2</td>
<td>377.7</td>
<td>4,726.6</td>
</tr>
<tr>
<td>(4) Ireland</td>
<td>60.8</td>
<td>1,650</td>
<td>21.8</td>
<td>54</td>
<td>3,519.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Virgin Islands (British)</td>
<td>5.7</td>
<td>18.5</td>
<td>77.3</td>
<td>26.4</td>
<td>115.7</td>
<td>22.7</td>
<td>2,976.8</td>
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<tr>
<td>(7) USA</td>
<td>0.9</td>
<td>2.6</td>
<td>2.6</td>
<td>5.6</td>
<td>57.5</td>
<td>208.9</td>
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<tr>
<td>(8) Switzerland</td>
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<td>14.1</td>
<td>51.7</td>
<td>67</td>
<td>0.1</td>
<td>6.2</td>
<td>1,600.7</td>
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<tr>
<td>(9) Cyprus</td>
<td>18.3</td>
<td>1</td>
<td>41.5</td>
<td>0.3</td>
<td>153.3</td>
<td>1,169.8</td>
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<td>(10) Kyrgyzstan</td>
<td>42.0</td>
<td>17.9</td>
<td>26.7</td>
<td>21.7</td>
<td>15.7</td>
<td>12.3</td>
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<td>(11) UAE</td>
<td>7.9</td>
<td>347.4</td>
<td>15.3</td>
<td>51.6</td>
<td>31.3</td>
<td>1,123.6</td>
<td></td>
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<tr>
<td>(12) Ukraine</td>
<td>8.5</td>
<td>8.7</td>
<td>-0.8</td>
<td>13.4</td>
<td>9.8</td>
<td>0.9</td>
<td>803.1</td>
</tr>
<tr>
<td>(13) China</td>
<td>1.9</td>
<td>15.1</td>
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<td>47.3</td>
<td>76.4</td>
<td>46.3</td>
<td>731.4</td>
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<td>(14) Georgia</td>
<td>1.9</td>
<td>4.9</td>
<td>3.7</td>
<td>2.4</td>
<td>17.5</td>
<td>0.5</td>
<td>685.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>312</td>
<td>10,490</td>
<td>3,021</td>
<td>8,691</td>
<td>3,244</td>
<td>6,966</td>
<td>104,519.2</td>
</tr>
</tbody>
</table>


Figure 1: Kazakhstan’s Direct Investments by Country (2005–15, in mln USD)

The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies (Forschungsstelle Osteuropa) at the University of Bremen (<www.forschungsstelle.uni-bremen.de>), the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich), the Resource Security Institute, the Institute of History at the University of Zurich (<http://www.hist.uzh.ch/>), the Institute for European, Russian and Eurasian Studies at The George Washington University, and the German Association for East European Studies (DGEE). The Digest draws on contributions to the German-language Russland-Analysen (<www.laender-analysen.de/russland>), the CSS analytical network on Russia and Eurasia (<www.css.ethz.ch/en/publications/rad.html>), and the Russian Regional Report. The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

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Resource Security Institute
The Resource Security Institute (RSI) is a non-profit organization devoted to improving understanding about global energy security, particularly as it relates to Eurasia. We do this through collaborating on the publication of electronic newsletters, articles, books and public presentations.