Kazakhstan and Ukraine: Common Future or Separated Fates?

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Introduction

The annexation of Crimea has resulted in numerous fears and myths which anticipate the same scenario for Kazakhstan’s northern and eastern territories, as they used to be and some of them remain a home for an ethnic Russian majority. On first sight such kind of parallels, which is Budapest Memorandum violation, might seem obvious. However, it is quite impossible to imagine similar actions as in Crimea or in eastern Ukraine to take place in Kazakhstan. At the same time, the Ukrainian crisis is an important incident for Astana to revise its national security strategy and defense capabilities.

Land protests and militant attacks in Aktobe, Western Kazakhstan and in Almaty in 2016 were mainly perceived by the government as an attempt to implement a ‘Ukrainian scenario’. For instance, Kazakhstan’s National Security Committee interpreted Aktobe attacks as a part of a coup d’etat under Tohtar Tuleshev, a very controversial personality with deep expertise and experience in the Center for Terrorist Threat Analysis, ‘Nur Otan’ ruling party, several journalists’ unions, Cossack organizations of Kazakhstan (Advisor of the Supreme Ataman) and a Shymkent Beer Company.

Overall, people in Kazakhstan, academia and experts have demonstrated feelings of sympathy after the events in Crimea and in the Donbass region. However, there is still a lack of information and discussion on what is going on in Ukraine, how the country is trying to start over, what actions the Ukrainian political leadership takes to strategically re-assess the past several years of bilateral relations with Russia and on how an independent foreign policy and diversified economic ties influence the participation in integration projects. This means that it is high time to discuss the challenges and lessons learned from Ukraine for Kazakhstan and its Central Asian partners.

This paper shall therefore (a) analyze Kazakhstan’s information environment and the case of Ukraine, covered by the media; (b) determine how important and necessary the Euromaidan was for Ukraine in terms of national development strategy and goals. As for Kazakhstan (citizens, academia and authorities) it is still worth scrutinizing to anticipate challenges, negotiations and opportunities Kyiv has had to cooperate and balance between the EU and Russia to meet its national interests in long-term perspective and choose its own path to go. With that public opinion on Ukraine crisis, Ukraine-Kazakhstan bilateral relations as well as integration projects and vectors seem best to describe common ground and sense of interaction in a new paradigm of international relations.

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Public Opinion on Ukraine’s Crisis: Undivided but Supportive

Originally there are three different perceptions of Russia’s role in Kazakhstan’s expert community and in the region: (a) a centrist (traditional understanding of Russia as a historical ally and neighboring state), (b) an extreme (concept of a “Russian World” or a “Great Russia”), and (c) a skeptical (Russia’s position in Central Asia weakens and inter-state and inter-ethnic escalations might become feasible). However, these perceptions of Russia require revision and public discussions straight off the ice to get to know the neighborhood better.

According to the National Poll (‘Strategy’ Public Fund, 2014), a “clear majority of Kazakhstan’s population (85%) was informed about the deteriorating Russian-Ukrainian relations. In 2014, 56% of the respondents were tracking daily news on this topic. As a result, based on the answers to such questions as “Are you aware of the events? Which TV channels do you prefer to watch? How do you evaluate the positions of Russia and Ukraine?”, it turned out that 61% of the respondents approved the Russian position, 23% could not answer the question, and only 5% supported the Ukrainian position. If we look closer on the sources, which influenced public opinion, it turned out that those who received information from Kazakhstani media, 54% approved Russia, 20% disapproved, and 26% were not able to answer. According to Gulmira Ileuova’s results, every fifth Kazakhstani citizen did not endorse Russia in the Ukrainian crisis. However, if respondents received information from Russian media, 84% of them approved the actions of the Russian Federation, and only 4% did not support them. It is quite clear that the position broadcast by the Russia sources did not imply any nuances and opinions. If we consider the situation on support of the Ukrainian side, among those who “received information from Kazakhstani national media 29% were undecided, and 66% disapproved Ukraine. Russian media audience is almost unequivocal: 80% did not approve the position of Ukraine. As for Internet audience, 48% still approved the position of Russia, while 35% could not answer the question. Among those respondents, who watch and read Western media, 31% approved Russian position, 39% did not approve, and 31% were undecided”. Kazakhstani media can be considered to have helped to develop a balanced view and understanding of the situation in Ukraine. The audience of Kazakhstani media increasingly tried to show Kazakhstan’s detachment from the conflict (60%), to promote reconciliation of the parties (54%), and to support Ukrainian territorial integrity (60%). Only 40% of them believed that it was necessary to support Russia. The audience of the Russian media considered it necessary for Kazakhstan to take the side of the Russian Federation (46%).”

The results of the survey have shown that there was no common understanding among Kazakhstani on what position Astana should take on this matter. “Every third survey participant believed that Kazakhstan needed to either support Russia or recognize Crimea independence; while 28.3% thought Kazakhstan should have promoted the reconciliation of the

2 Казахстанцы об Украине, России и интеграции //http://www.nomad.su/?a-lo-201404250025
3 Ibid.
parties. At the same time 24.3% considered Kazakhstan should not endorse any of the parties so that to remain neutral. And only 2.3% thought the country should have supported territorial integrity of Ukraine.”

The difference in the opinions of Kazakhstani and Russian media shows a certain amount of propaganda. Russia is said here to have introduced a discourse of war in terms of hybrid information provocation and propaganda. The recent case with the interpretation of ‘Eurasia First Channel’ TV program on Land protests in Kazakhstan and disinformation on paid ambulance in 2017 in Kazakhstan was a first example of Russian-style propaganda and hybrid war in Kazakhstan and Central Asia after the Ukraine crisis. For instance, TV hosts tried to prove that people were paid 50-150 US dollars to participate in protests throughout the country and showed a suspicious video as proof of a ‘foreign footprint’ in these events in favor of the motherland's interests.

When Russia annexed Crimea in February 2014, this move was interpreted as a warning to post-Soviet states, including Kazakhstan and other Central Asian republics. Russian President Vladimir Putin’s comment later in August 2014 that “before 1991 Kazakhs had never had statehood” just reinforced those phobias and fears that Russia could do to Kazakhstan what it had done to Ukraine.

The April unrest in Atyrau, later in Aktobe and Semey in 2016, linked to new amendments to the Land Code, has resulted in nonviolent interaction with local authorities. However, later in May 21 local authorities thoroughly suppressed protests in many administrative centers throughout the country, including Almaty, Astana, Karaganda, Uralsk, Aktobe, Atyrau, Kostanay, Pavlodar, etc. However, the Ministry of Interior surprisingly denied any kind of unauthorized protests and unrest, which were taking place and broadly covered in the media. Despite certain ‘China-phobia’ tones, there was a feeling among expert and journalist communities that the protests have become a certain boiling point all along of population’s economic grievances on the background of decreased oil prices and devaluation of the national currency, despite Nazarbayev’s promises not to do so. President Nazarbayev associated such protests to the possibility of a Ukrainian scenario, where “there was no unity, no sense of purpose, no tasks are being solved, (people) are busy with other things: fighting, killing,
brawling”.

After the land protests President Nazarbayev mentioned, “The people of Kazakhstan do not want the Ukrainian scenario in Kazakhstan”, so he warned those, who would stir such events, to be severely punished. Yuri Lazebnyk, Charge d’Affaires of Ukraine in Kazakhstan, mentioned in an interview to Azattyk, Kazakh Edition of Radio Free Europe/Radio Liberty that labeling Ukraine as a ‘country of mass riots’ in Kazakhstani media seemed to be proof of how they were seriously infected by Kremlin propaganda.

Humanitarian assistance to the eastern regions of Ukraine received lively public support in Kazakhstan. On January 10, 2015, there was an official transfer of humanitarian aid from Kazakhstan to representatives of Ukraine State Emergency Service in the zone of the antiterrorist operation in the city of Severodonetsk, Luhansk region. The event was attended by leaders of the Luhansk Regional State Administration, the State Service for Emergency Situations of Ukraine and representatives of international organizations. In addition, on April 28, 2015, Kazakhstan has allocated 1 million euro of financial assistance for the ‘Shelter’ project at the Chernobyl nuclear power plant. Later in 2015, Kazakhstani courts have begun to initiate criminal proceedings against those who went to fight for the militia in the Donbass and returned home. Two men (from Western and Northern cities) were admitted guilty for involvement in armed conflicts and hostilities (Article 162-1, part 1, Criminal Code of Kazakhstan) on the territory of a foreign state and sentenced to three and five years of imprisonment.

Despite the support for Russia in public surveys the Kazakhstani government acted in a more pro-Ukrainian, impartial and neutral way. In 2015 Kazakhstan was among those who refused to support the Russian idea to stop the Commonwealth of Independent States (CIS) Free Trade Zone Agreement with Ukraine. Moreover, Astana has promptly chosen the tactics of ‘mediator’ between Kyiv and Moscow as well as Moscow and the European Union member-states. One reason for that might also be that Ukrainians are among the four largest ethnic groups in Kazakhstan (1.64% of total population or 289,724 people) after Russians and Uzbeks.

Current State of Bilateral Relations

Despite the negative impact that the Ukrainian Crisis has on bilateral relations between Ukraine and Kazakhstan, in terms of trade turnover and mutual trade, it has become a reference point to enhance cooperation in different areas, including aviation industry, infrastructure, fuel and energy complex, agriculture and tourism. Ukrainian President Petro Poroshenko’s official

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11 Kazakh leader evokes Ukraine as land protests spread // http://www.reuters.com/article/us-kazakhstan-protests-president-idUSKCN0XS1E1
14 Kazakhstan Embassy to Ukraine and Moldova //http://kazembassy.com.ua/show/3550.html
15 Воевавшего на стороне ДНР казахстанца приговорили к 3 годам в Атырау // http://news.kaz.ru/regions/20150427/7926802.html#ixzz4A9Qgk5aK
visit to Astana in October 2015 outlined prospects and mutual benefits for Kazakhstan-Ukraine relations against the backdrop of the ‘Russian factor’.

In 2014 Kazakhstan’s President Nazarbayev argued for a peaceful settlement of the situation in Ukraine, preserving the country’s sovereignty, while adding that he was sympathetic to the Russian position, aimed at protecting the rights of national minorities in Ukraine, as well as their interests and national security. According to the Kazakhstani Foreign Ministry, Astana has perceived the referendum in Crimea as a free expression of the will of the population. Moreover, Kazakhstan abstained from voting on the UN General Assembly resolution on Crimea along with 92 other member states. Later Kazakhstan’s Counselor received a protest note from the Ukrainian Ministry of Foreign Affairs, which reflected concerns over bilateral strategic partnership between the two states.

Despite certain disagreements after the Ukrainian crisis, political cooperation between Astana and Kyiv tends to increase. Kazakhstan’s President Nazarbayev was acting as a mediator within the Minsk Group negotiations and for OSCE activities in the region. Besides official visits, there is still a huge potential in Inter-parliamentary collaboration and the Joint Commission for Economic Cooperation. Since 2013 there are special working groups within the two respective Parliaments to enhance mutual relations.

During Ukrainian President Petro Poroshenko’s visit to Astana in 2015, an Action Plan for 2015-2017 (Roadmap - 5) and a Joint statement of the Heads of the States were signed, which included a few specific areas of cooperation:

- “Kazakhstan’s aviation industry” LLP agreed with “Ukrspetsexport” to establish a service center for aviation equipment of Ukrainian production based on Astana Aviation Technical Centre;
- “National Agency for Export and Investment KAZNEX INVEST” JSC and “Tatra-Yug” LLC are to build tram tracks and to adjust the supply of Ukrainian tramcars;
- “Astana EXPO-2017” JSC gained support of “Monaco Ukraine Group” to attract tourists from Ukraine at EXPO-2017;
- establishment of a Kazakhstan-Ukraine Business Council to enhance mutual trade;
- Joint projects in aircraft construction, mechanical engineering and aerospace areas, particularly “Antonov” serial production in Kazakhstan, participation in the Ukrainian projects such as “Dnepr” and “Zenith”, and shared purchase of “Kosmotras”, a Russian-Ukrainian space company;
- Ukrainian enterprises’, “Novokramatorsky Machine-Building Plant” CJSC, participation in the field of mechanical engineering and supply of equipment for metallurgical plants;
- Cooperation in the nuclear energy sector in the framework of “UKRTVS”, a Ukrainian-Kazakh-Russian enterprise, to produce nuclear fuel.

19 Ukraine Embassy to the Republic of Kazakhstan // http://kazakhstan.mfa.gov.ua/ru/ukraine-kz/trade
Economic cooperation remains one of the main priorities of Kazakhstan-Ukraine relations and the 12th Meeting of the Joint Intergovernmental Commission on Economic Cooperation outlined several issues of future prospects, including a transit route through the Southern Caucasus and the Aktau port with an Ilyichevsk - Poti ferry, comprehensive cooperation in the energy field, including supply of Kazakhstani uranium and coal to Ukraine’s market, space industry, high-tech joint ventures and service centers in the fields of aviation, machinery and agriculture.

At the same time, the geopolitical situation in Ukraine and the global economic crisis have a negative impact on economic relationship within the Eurasian region. The political situation in Ukraine dramatically transformed the relationship between Ukraine and Russia. Kazakhstan as a member of the Eurasian Economic Union (EAEU), a neighbor and a close ally of Russia, however, seeks to preserve the relationship with Ukraine.

For instance, Kazakhstan did not decide to cancel the free trade agreement with Ukraine even after the free trade zone between Ukraine and the EU came into effect. On the other hand, annulment of duty-free between Russia and Ukraine is primarily associated with the Russian concerns about the potential use of Ukraine as a re-export station for goods and services from the EU.

Since 2010 general indicators of trade have been showing significant dynamics. According to the Statistics Committee of the Republic of Kazakhstan, trade between Kazakhstan and Ukraine reached its peak in 2012 and then declined arriving at the level of 2010 in 2015. Preliminary figures for 2016 also suggest that the volume of trade turnover continues to decline and will be less than US $1.5 billion (in January-September 2016 –US $898.4 million).

In 2013 and 2014 the volume of foreign trade turnover between Kazakhstan and Ukraine declined more rapidly than the Russia-Ukraine turnover (Chart 1). This was mainly caused by an economic crisis in Kazakhstan due to the falling oil prize. Kazakhstan reduced its imports of Ukrainian vehicles, cars, machine tools, equipment and other products of mechanical engineering due to a partial shutdown of plants in Kazakhstan and the emergence of cheaper Chinese counterparts.

In addition, Kazakhstan bought fewer Ukrainian food products because of the start of the EEU and the emergence of Russian and Belarusian products in the Kazakhstani market. The revival of the Kazakhstani steel industry and its own production of long products (refer to steel products including wire, rod, rail, and bars as well as types of steel structural sections and girders) also made it uneconomical to import steel from Ukraine.
However, Russia has closer economic and trade links with Ukraine and the political crisis has led to a larger drop of turnover between the two countries in the last three years. Based on the assessment of product categories shipped from Ukraine to Russia, the abolition of the existing agreements (free trade zone agreement between Ukraine and Russia, military exports from Ukrainian factories, freezing or blocking assets of several Russian banks and companies etc.) has led to 3 times drop in exports to Russia since 2013.20 For a long time, imports from Ukraine to Kazakhstan were significantly higher than the exports. It is one of the few countries with which Kazakhstan had a negative trade balance.

However, since 2014 the situation has changed and nowadays exports on average are 30% higher than imports (Chart 2). As Chart 2 points out foreign trade relationship between Kazakhstan and Ukraine gradually become less active.

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Even though the volume of goods turnover continues to drop, Kazakhstan and Ukraine remain among important trading partners for each other (Chart 3). As of 2015 Ukraine was ranked 9th with a 3% share among all trading partners of Kazakhstan, while Kazakhstan took the 15th place with a share of 2%. Nevertheless, since 2012 there is a persistent declining trend, which might economically disconnect the two countries even further.

Chart 3 Major trading partners in 2015 for Kazakhstan and Ukraine, in %
Due to the resource oriented economy, much of exported goods from Kazakhstan to other countries are raw materials. It is not surprising that the main mineral product, supplied to Ukraine, is natural gas and other gaseous hydrocarbons, delivered via pipelines through Russia. In 2015 gas was the biggest share with 69% or $ 813 million of all Kazakhstani exports to Ukraine (Chart 4).

Also, there is a significant supply of coal ($ 67.6 million), sulfur ($ 24 million), crude oil and petroleum products ($ 83.5 million), uranium ($ 19.5 million) and other oils obtained from bituminous minerals ($ 72.3 million). For Kazakhstani mining companies export volumes to Ukraine, however, is not critical and a partial loss of the Ukrainian market would not be a big issue. For instance, the share of Ukraine in total exports of mining products from Kazakhstan in 2015 was 3.5%. Other products, which Kazakhstan ships to Ukraine, include tobacco goods, mineral or chemical fertilizers, unwrought zinc, flat-rolled iron products or non-alloy steel and railway cars.

Even though the value of imports from Ukraine to Kazakhstan is lower than before, the range of goods is much more diverse. In 2015, the main Ukrainian imports to Kazakhstan included electric machinery and rotary converters ($ 77.3 million), pipes and tubes, flour and bread products ($ 88.4 million), steam turbines ($ 32.9 million), confectionery products ($ 51.2 million), furniture and its parts ($ 29.4 million) as well as medicine ($ 22 million). The structure of the imports from Ukraine to Kazakhstan has changed significantly since 2013 (Chart 5). However, the political crisis in Ukraine is not the very reason for this drastic shift.
The most substantial change can be observed in the category of “primary products in the form of powder and granules”, which sharply reduced in comparison to 2013. This reduction happened due to development of Kazakhstan’s own steel industry, launching new projects and production lines expansion by largest factories such as ArcelorMittal Temirtau JSC, Casting, KSP Steel and Aktau LPZ and others. So, Ukraine continues to supply Kazakhstan with end products, while Kazakhstan exports raw materials. It is expected that the structure of Ukrainian imports in Kazakhstan will change in the future: the growth of imports of light, pharmaceutical and food products and reducing imports of industrial and engineering goods.

Unfortunately, the crisis in Ukraine, which economically cut off one of the most industrialized region, the Donbass, from the rest of Ukraine, made it impossible for several large enterprises to continue production at the same level. Crucial modernization projects were stopped as well as production volumes reduced. This happened mostly in metallurgical and machine-building enterprises in the Donbass. This has a negative impact on the industrial and engineering potential of the country and consequently affects Ukraine's export potential. Further integration with the EU is likely to result in continuous de-industrialization of Ukraine, as industrial products manufactured in Ukraine are less competitive with the European ones and sometimes do not meet the quality standards adopted in the EU. Correspondingly, a depreciating relationship with Russia, the largest trading partner in the previous decades, makes it impossible for Ukraine to cooperate in former ways.

European integration, Eurasian Economic Union and Silk Road Economic Belt: What to choose?

The idea of joining the European Union has been widely discussed within the Ukrainian society, although the objective social, economic and political conditions of its full implementation are quite uncertain. In other words, Ukraine’s full membership in the EU is unlikely in the medium term or distant future. In fact, senior EU officials and European leaders publicly expressed skepticism regarding Ukrainian integration. For example, European Commission President
Jean-Claude Juncker stated, “Ukraine will not be able to become a member of the EU in the next 20 to 25 years, and not of NATO either.”

Juncker’s opinion was also backed by the president of the European Commission at that time Romano Prodi, who said in an interview to Dutch daily De Volkskrant in November 2002, “It is important that we now ask ourselves what will happen after this big expansion. Where does Europe end? The Balkan countries will join, they belong. Turkey is officially a candidate that is clear. But Morocco or Ukraine or Moldova? I see no reason for that.”

In his inauguration speech President Poroshenko mentioned that the Ukraine-European Union Association Agreement is the first step towards EU full membership. However, France’s former Foreign Minister Laurent Fabius told i-Télé TV channel, following his return from Kiev after having attended the inauguration ceremony, that Poroshenko’s speech was “obviously pro-European” and perhaps even more pro-European “than the EU countries wanted.” He also mentioned, “When I talk with my European colleagues, it becomes clear that most of them do not support the idea of Ukraine joining the EU. It is obvious.”

Another important point for the protesters in Kyiv in late 2013 was the introduction of a visa-free regime with the EU member-states. Consequently, Poroshenko has used the abolition of visas as a central slogan for his election campaign, and continued to use this topic for the past two years, at almost every meeting with European officials.

Ukraine has fulfilled all 144 requirements of the EU for securing visa-free travel, in exchange Europe has agreed to facilitate the procedures and on 17 November 2016 the EU conditionally approved the introduction of a visa-free regime. However, this will first come into force after the European Union has established a mechanism to suspend visa-free regimes in an emergency. The introduction of visa-free travel does not mean that Ukrainians will be able to get into the EU simply by showing a passport at the border. They can stay in EU countries no more than 90 days during one half-year and have to prepare a package of documents. However such

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22 As EU moves eastward, Ukraine worries about exclusion // https://www.kyivpost.com/article/content/ukraine-politics/as-eu-moves-eastward-ukraine-worries-about-exclusion-12387.html
23 The Association Agreement includes same requirements for Ukraine that are contained in the strategy of expansion of the European Union, which sets out the criteria under which a country can be admitted to the EU. The agreement also involves transformation of the legal framework of the country under the standards of the EU.
27 EU states agree visa-free travel for Ukraine, but not yet http://www.reuters.com/article/us-europe-migrants-eu-ukraine-idUSKBN13C1SG?il=0
simplification of border crossing procedures would definitely not have an immense effect on travelling patterns. The reason is a relatively low standard of living and wages. As of 2016 an average salary in EU was 7.6 times higher than in Ukraine.29

Equally important for the Ukrainian supporters of the EU is a free trade zone agreement that came into force on 1 January 2016. Experts believe that the introduction of the FTA will lead to a gradual improvement of working conditions, quality of Ukrainian goods and increase of environmental standards of Ukrainian heavy industry enterprises.

Russia’s position on the establishment of a free trade area between Ukraine and the EU is well known: on one hand, Moscow sees no need to directly interfere with the implementation of the project; on the other, it will firmly protect both its own interests and the EAEU interests in general. In fear of massive re-export of European products to the EAEU market starting on 1 January Russia suspended the CIS free trade zone with Ukraine, as well as introduced customs duties and a product embargo, like the one that applies to countries that supported the anti-Russian sanctions.30

Kazakhstan’s position on the trade partnership between Ukraine and EAEU differs from Russia. According to President Nazarbayev Kazakhstan will continue trade relations with Ukraine based on the existing regulatory framework and bilateral agreements with Kiev.31

Due to inconsistencies in standards and certification principles in the EAEU and the EU it is unlikely that Russian, Kazakhstani or Belarusian products will be exportable to Ukraine in the long term. This will ultimately result in billion-dollar losses for those countries (Russia’s losses alone are estimated at the level of $3.5 billion per year32) and distance the Ukrainian economy from the CIS.

President Petro Poroshenko acknowledged that the Ukrainian economy will be harmed by such developments; however, according to him Ukraine is ready to pay the price for integration with the European Union. Poroshenko assured that the FTA with the EU in a few years would compensate for the losses related to the closure of the Russian market. Ukrainian experts also believe that the adoption of EU norms and standards, combined with duty-free trade will help attract investors and technology from Western European and other leading economies. This will

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Средняя зарплата по Украине // http://index.minfin.com.ua/index/average/
30 Россия ввела эмбарго на поставку продовольствия с Украины // https://ria.ru/economy/20160101/1332544647.html
help transform the Ukrainian economy from an exporter of raw materials and agricultural products to a player that is fully integrated into the EU market.\textsuperscript{33}

Even though the Association Agreement and FTA seem promising and there is a possibility to create prerequisites for sustainable growth, Ukraine’s economic future is uncertain. There is a great chance that the integration into the EU market would destroy many industries, especially in knowledge-intensive production, because of their weak competitiveness and inability to quickly adapt to the quality standards, technological and other requirements of the EU. Therefore, the implementation of the Association Agreement and a free trade zone with the EU could harm domestic manufacturing and increase unemployment in the mid-term perspective.

The controversial foreign economic policy of Ukraine has resulted in the economic crisis of 2014–2016. The disruption of economic ties with CIS member states had a negative impact on the trade balance of Ukraine back in 2012, when exports to the CIS Customs Union fell by 3.3%. At the end of 2013 exports to the Customs Union for CIS countries declined already by 12.8%, resulting in an overall drop in exports by 8.0% (in 2012). Ukraine’s exit from the CIS free trade zone (2014), the transit blockade (2015-2016), food embargo (2015-2016) and economic sanctions (2015-2016) have resulted in the fact that Ukraine’s export in 2015 has fallen in comparison with 2012 by $ 30.7 billion (almost twice).

Between January and September 2016 Ukraine’s export to the Eurasian Economic Union decreased by 28.5%. The level of exports to Belarus fell by 1.4%, to Kazakhstan by 44.9%, to Russia by 30.1%, to Armenia by 16.6%, and to Kyrgyzstan by 49.6% (Chart 6). At the same time, despite this negative trend of falling exports in recent years, Russia, Belarus and Kazakhstan remain Ukraine’s key trade and economic partners. According to the data, provided by the Eurasian Economic Commission, the situation is similar concerning imports from the EAEU, which in January-September 2016 decreased by 32.6% compared to the same period in 2015. Between January and September 2016, the country’s trade deficit amounted in $1.76 billion.

Figure 6 Ukrainian export decrease to the EEU member-states, in %

\begin{center}
\begin{tabular}{|c|c|c|c|c|}
\hline
 & Belarus & Kazakhstan & Kyrgyzstan & Armenia \\
\hline
Total & 28.5 & 49.6 & 16.6 & 14.0 \\
Russia & 30.1 & 44.9 & & 0.0 \\
\hline
\end{tabular}
\end{center}

Source: Eurasian Economic Commission

\textsuperscript{33} Украина вошла в зону свободной торговли ЕС и потеряла преференции РФ
// http://rian.com.ua/analytics/20160101/1002961752.html
After losing trade preferences with the countries of the Customs Union and the Eurasian Economic Space in 2012, the Ukrainian industry began to significantly reduce production as well. The lack of sales markets led to a drop in industrial production by 0.25% in 2012 and 3.25% in 2013. This trend continued and the industrial production in Ukraine shrunk by 11.5% in 2014 and 13.4% in 2015 (Chart 7).

Chart 7 Dynamics of Industrial Production Index of Ukraine, in %

Source: State Statistics Service of Ukraine

The growth in 2016 (1.25% in January-October 2016), according to Ukrainian statistic agency, is yet questionable since it includes the Donbass region, which is not under the control of Kyiv. Hence, it is too early to claim a turnaround in industrial production.

Ukraine's foreign economic policy should be pragmatic and directed towards the protection of national interests rather than a pointless breach of all economic ties for the benefit of temporary political goals. By losing the export markets in the EAEU Ukraine experienced a de-industrialization process. Under these conditions a return to the multi-vector policy and the search for political compromise with Russia is the only way to preserve Ukraine's economic potential and to secure its development. A multi-vector foreign policy directed at both integration spaces, EU and EAEU will allow Ukraine to restore the destroyed economic links with the EAEU member-states and to increase trade and economic relationship with the region.

In contrast to Ukraine Kazakhstan, and this means president Nazarbayev is actively working to implement the integration processes in the Eurasian region since the beginning of the 1990s. This is due to Kazakhstan's geographical position, historical heritage and structure of the

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34 Промышленность впервые за три года выросла... благодаря Донбассу // http://informator.tk/promyshlennost-vpervye-za-tri-goda-vyrosla-blagodarya-donbassu/
economy. Therefore, the Eurasian integration is not only a priority vector of Kazakhstan’s foreign policy, but also an on-going trend of its development.

Kazakhstan’s goal is to be ranked among the top 30 developed countries by 2050. Nazarbayev perceives the EAEU as an important growth factor for his country and tries to support the organization’s success. He proposed completely different and more ambitious operating principles compared to the organization of the CIS.

Today, the EAEU includes five countries, Kazakhstan, Russia, Belarus, Armenia and Kyrgyzstan. However, other countries showed interest in enhancing cooperation with the new integration structure. A free trade agreement between the EAEU and Vietnam was signed in 2015. Approximately 40 countries around the world also think about closer partnership with the Eurasian Economic Union. A joint research team was established to find opportunities to a free trade agreement with Israel, India, and Egypt. Korea, Mongolia, Ecuador, Peru, Chile and other countries showed interest in a free trade zone with the EAEU as well.

To enhance its further development Kazakhstan tries to expand its markets and sees the EAEU as an excellent opportunity to do so. Astana also attempts to merge these initiatives with other integration projects in the region. Right now, a deepening and cooperation between the EEU and the Chinese initiative “Silk Road Economic Belt” (SREB) is of great importance to Kazakhstan. To connect the EAEU and the SREB the parties started negotiations in Moscow on 8 May 2015. Joint development of these projects seems to bring all participating countries mutual benefits and greater opportunities, a unified transport corridor and a common trade and economic space.

Speaking at the Astana Economic Forum in 2015, President Nazarbayev took a step towards bringing EAEU and the Silk Road project together, where he proposed to establish a Joint Eurasian economic space. A key focus in relations with China is to identify priority projects and areas of cooperation in the framework of the EAEU and the Silk Road. Kazakhstan expects to attract Chinese investment for infrastructure and industrial projects, as well as to increase mutual trade turnover in industrial production. The integration of two projects should help

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38 Совместное заявление Российской Федерации и Китайской Народной Республики о сотрудничестве по сопряжению строительства Евразийского экономического союза и Экономического пяска Шелкового пути // http://www.kremlin.ru/supplement/4971
develop transport and logistics potential of Kazakhstan and give it access to China’s sea ports and rail links.

Deepening cooperation in the framework of the EAEU and the Silk Road indicates that integration can grow even under severe economic conditions. The Chinese Silk Road initiative is the most promising direction for the EAEU member-states and it is expected that linking these two projects in the mid-term will cause new growth for Kazakhstan’s economy.

Apart from connecting the EAEU and the Silk Road, Kazakhstan strengthens relations with China within the “Nurly Zhol” program. “Nurly Zhol” is a state program for infrastructure development between 2015 and 2019, which goal is to form a single economic market by integrating macro regions of the country on the basis effective infrastructure. These measures would ensure long-term economic growth of Kazakhstan and come a part of anti-recessionary policy to support national economy under deteriorating environment in the foreign markets.

Nursultan Nazarbayev and Xi Jinping signed a Joint Declaration on a new stage of comprehensive strategic partnership on 31 August 2015 during Nazarbayev's visit to China for WWII 70th Anniversary Parade. It indicates the beginning of “Nurly Zhol” and the Silk Road project integration. Such a combination has a clear economic rationale. The main purpose of China is the transformation into a global trading power; while Kazakhstan’s goal is to achieve economic diversification, and turn into main transportation and logistics hub in Eurasia. Both expectations are met by the project and, unlike other integration initiatives; there is enough funding opportunities to achieve them. The Asia Infrastructure Investment Bank and the Silk Road Fund are perceived to be the main financial guarantors with a total capital of $140 billion.

Further cooperation between Kazakhstan and China will be carried out in two main areas:

(a) **Transportation corridors’ development**, which is beneficial for both countries. Kazakhstan’s corridor could become a faster and more reliable alternative to other existing routes, such as sea lines. Currently, more than 95% of all goods, which are exported to the EU, are transported through the Southern Sea Route. The use of Kazakhstan’s infrastructure will also allow further promotion of China’s western provinces, especially with a growing trend of manufacture relocation from the South-Eastern provinces deeper into the country.

One important area to strengthen cargo traffic through the territory of Kazakhstan is the construction of a network of logistics centers in Chinese coastal areas, in addition to Lianyungang port. The implementation of these projects will form a pool of transit trains in

40 Новый этап в сотрудничестве Казахстана и Китая // https://www.zakon.kz/4739816-novyjj-jetap-v-sotrudnichestve.html
41 Встреча с Председателем КНР Си Цзиньпином в расширенном составе // http://www.akorda.kz/ru/events/international_community/foreign_visits/vstrecha-s-predsedatelem-knr-siczinpinom-v-rashirennom-sostave
Kazakhstan’s direction and help local producers reach the markets of Japan, South Korea and Southeast Asia countries.

(b) The implementation of joint industrial projects, which corresponds to the objectives and priorities of the second five-year Kazakhstan industrialization plan. Currently, there are six sectors of the manufacturing industry, where Kazakhstan’s government tries to draw FDI: metallurgy, chemicals, petrochemicals, machinery, construction materials, and food industry. In addition to attractive business and investment environment, a high literacy rate and a profitable productivity-labor cost-ratio the access to a 183 million people market of Eurasian Economic Union is a solid argument for China towards joint Kazakhstan-China ventures.

Ukraine also tries to become an active member along the Silk Road. This was formalized in 2015 when the Ukrainian Ministry of Economic Development and the Chinese Ministry of Commerce signed respective documents. The dialogue on this issue between Ukraine and China continues in the framework of existing intergovernmental arrangements. There is a Ukraine-China Intergovernmental Commission, which supports businesses to deepen and expand cooperation in agriculture, trade, economic and transport directions.

Ukraine would have to struggle to attract the maximum volume of trade flows from China to Europe and back through its territory that currently flow through other transportation corridors. However, a Ukrainian version of the Silk Road has many shortcomings to overcome: the obsolete equipment in harbors (low rates of cargo handling), slow clearance of ships due to high corruption and bureaucracy, non-transparent and lengthy customs procedures, high cost of ship calls (25-35% higher than in Bulgaria and Romania), and low quality of roads to the EU.43 Now it is challenging to find benefits of the Ukrainian transportation rout. This path is twice longer then of Russia and Belarus. In addition, it involves passing of two seas, and thus four trans-shipments, which will also increase the cost of transportation. Hence, the future of Ukraine-China interaction in the framework of the Silk Road initiative seems to be quite uncertain.

Opportunities for Further Cooperation and Lessons Learnt

As economic cooperation is perceived as a main priority in the relations between Kazakhstan and Ukraine, it is quite necessary to focus on joint ventures and to enhance foreign trade turnover, which drastically decreased due to the Ukrainian crisis, the deterioration of Russian-Ukraine relations and contradictions within EEU and WTO. This year, for example, Ukraine has accused EEU member states of systematic violation of the WTO rules and regulations (Art. 2 (Determination of Dumping), Art. 3 (Determination of Damage) and Art. 5 (Initiation and
Subsequent Investigation) of the WTO Agreement on Application of Article VI of GATT 1994 \(^{44}\) during anti-dumping, anti-subsidiary and special protection investigations and has demanded the termination of such malpractice.

According to the Ministry of Economic Development and Trade of Ukraine \(^{45}\), such kind of violations have led to legally and economically unreasonable restrictions on access of Ukrainian goods to the markets of the EEU member states (including Belarus, which has an observer status in the WTO). This particularly concerns rods, ferrosilicon manganese and steel pipes of Ukraine origin.

As for Kazakhstan-Ukraine bilateral economic cooperation, interaction between regional business communities seems to be a good starting point. There is a need to boost economic cooperation within the Chambers of Commerce of the two countries. E.g. in March 2015 two delegations of the South-Kazakhstan region paid a visit to Ukraine. As a result, three agreements were signed, including:

(a) Administration (Akimat) of Southern Kazakhstan region and Administration of Zhytomyr,

(b) Administration (Akimat) of Southern Kazakhstan region and “Ukrmashstroy”, League of Machine Builders and Employers of Ukraine, and

(c) Roadmap for joint engineering production on coupler release for a tractor plant in South Kazakhstan region.

Later, in July 2015, businessmen from the Northern Kazakhstan region paid a visit to Ukraine to enhance cooperation in agriculture. The parties signed several Memoranda of cooperation between the enterprises of Kazakhstan and “Ukrmashstroy”, League of Machine Builders and Employers of Ukraine\(^{46}\) and launched a project on construction of agricultural machinery in Akmola region.

The official visit of Kazakhstan’s President Nazarbayev to Kyiv, expected in the end of 2016, should have focused on overcoming difficulties in economic cooperation, mainly aimed at finding new supply routes of goods to Kazakhstan particularly due to the Russian transit sanctions on Turkey and Ukraine. At the same time, according to Ukraine’s President Petro Poroshenko: “There is a huge potential for bilateral relations as Kazakhstan is ‘a window to Asia’ for Ukraine and Ukraine is ‘a window to Europe’ for Kazakhstan.” \(^{47}\) However, this visit never

\(^{44}\) Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994
\(//https://www.wto.org/english/docs_e/legal_e/19-adp_01_e.htm\)

\(^{45}\) Україна вимагає від країн-учасниць Євразійського економічного Союзу припинити систематично порушувати норми СОТ під час проведення антидемпінгових розслідувань // http://www.me.gov.ua/News/Detail?lang=uk-UA&id-c6cf85d4-b8de-4042-96e0-58b7ab97bd&title=UkrainaVimagaVidKrainuchasnitsvraziisskogoEkonomichnogoSotiuzuPripinitiSistematichnoPo
rushuvatiNormiSotPidChasProvedenniaAntidempingovikhRozsliduvan


\(^{47}\) Poroshenko: Kazakhstan is a ‘window to Asia’ for Ukraine, while Ukraine is a ‘window to Europe’ for Kazakhstan // http://www.ukrinform.net/rubric-politics/1895612-poroshenko-kazakhstan-is-window-to-asia-for-ukraine-while-ukraine-is-window-to-europe-for-kazakhstan.html
took place. And apparently, it seems that lack of a clear position on the Crimea significantly complicates boosting bilateral business and trade relations.

What is more, Kazakhstan ex-foreign minister Erlan Idrissov (now Ambassador to the UK) warned Kazakhstani to refrain from economic cooperation with Crimean business entities due to the lack of an official declaration on the peninsula's status within Russian territory. For instance, earlier in December 2016 Pavlodar Tax Authority declared a transaction between Kazakhstan individual entrepreneur and ‘SimferopolSelMach’ factory illegal as Kazakhstan did not recognize Crimea as a part of Russian Federation (Natalya Poplavec was obliged to pay customs duties and provide customs declaration). And to avoid legal collisions, Kazakhstani businessmen should cooperate with their Crimea counterparts indirectly via intermediaries, losing a part of the profit.

Following such negative aspects, there is a need to discuss the rules of the Eurasian Economic Union with respect to regulations with non-EAEU member-states to minimize the risks and overcome artificial economic and trade barriers. It is obvious, that the Kremlin substitutes the agenda to the “great geopolitical war” of Russia with the West with the EAEU obligations and its priorities in foreign policy strategy. It is clearly tracked down in official statements and the behavior of the Russian political and military establishments, which resulted in the militarization of Russian politics and strategy. Updated Russian Foreign Policy Concept (2016) marked CIS, Belarus and the EAEU as Kremlin top regional priorities.

Meanwhile, each crisis, in which Russia is somehow involved, negatively affect Kazakhstan and the Central Asian states. If the case of Ukraine was not a final indicator, the situation with Turkey (warplane incident, trade and tourism wars, and sanctions) has become a challenge for Kazakhstan and Turkmenistan in terms of their strategic partnership with Ankara. A “Cold war” paradigm will dominate in Russia both within the Information and Communications Strategy and National Security Strategy. With intentions for a leadership on the international arena, the Kremlin is no longer capable of strategic foresight within the EAEU, CSTO and Russia-EU-US dialogue, which means that it is high time to discuss the challenges and learn the lessons by its Central Asian partners.

48 Ерлан Идрисов просит воздержаться от отношений с крымчанами //http://ratel.kz/raw/erlan_idrisov_prosit_vozderzhatsja_ot_otnoshenij_s_krymchanami
49 «Казахстан не признал Крым частью России» //http://ratel.kz/raw/kazahstan_ne_priznal_krym_chastju_rossii
Conclusions

(a) Phobias regarding Russia’s annexation of Crimea are present and continue to be in varying degrees among different ethnic groups in Kazakhstan.

(b) Kazakhstan and Ukraine have different integration agendas and foreign policy priorities. While Kazakhstan promotes Eurasianism, including EAEU-China cooperation, Ukraine prioritizes cooperation with the EU and confrontation with Russia. In practice, the objective socio-economic and political conditions make it unlikely that Ukraine becomes a full member of the EU in the midterm and distant future. Further integration with the EU is likely to result in continuous de-industrialization of Ukraine.

(c) The restoration of trade and economic relations with the EAEU member states could stop de-industrialization and provide necessary impetus to the recovery of the Ukrainian industry and economy. However, due to the political crisis between Russia and Ukraine such a scenario is unlikely to take place. Here Kazakhstan’s experience as a mediator seems to be a good starting point to negotiate economic and trade relations with both Moscow and Kyiv.

(d) Even though Kazakhstan tries to maintain a positive level of cooperation with Ukraine, economic ties continue to depreciate. With Ukraine’s EU FTA, Kazakhstani products are unlikely to hold positions in the Ukrainian market due to inconsistencies in standards and certification principles between the EAEU and the EU. All of this will ultimately separate Ukraine further from Kazakhstan.

(e) For Kazakhstan China’s Silk Road project is the most promising direction that could lead to new growth due to affordable and abundant investment resources. Hence, Astana not only tries to connect the EAEU with the Silk Road, but promotes its own development plans as well. Even though Ukraine tries to play an active role in the Chinese initiative, there is still a lack of a unified governmental approach, as well as questionable perspectives of trans-Ukrainian transportation routes.

(f) Based on the web-site content of the Embassy of the Republic of Kazakhstan in Ukraine and Moldova, both countries are not a priority in Astana’s foreign policy. The latest available information on the current state of bilateral relations dates to 2015. After attempts to act as a mediator in the conflict between Ukraine and Russia, Kazakhstan’s interest in Ukraine declined.

(g) Bilateral academic and expert contacts between Ukraine and Kazakhstan are lacking. It is advisable to strengthen the expert and academic potential in different sectors, including discussions on Russia’s role in the ex-soviet space, its ‘soft power’ concept, etc.
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