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One Belt One Road in Kazakhstan

An economical and political
assessment

Friederike Zahlbaum

Matrikelnummer: 32956

Kennnummer: 132756

Erstgutachter: Prof. Dr. rer. pol. Stefan Kolev

Zweitgutachter: Prof. Dr. sc. pol. Ralph Michael Wrobel

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Anschrift:
Thanner Straße 61
83607 Holzkirchen

Telefonnummer: 01575/7283430
friederike.zahlbaum.csl@fh-
zwickau.de

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1. Introduction

The name of the Silk Road “Seidenstraße” was termed in 1877 by the German geographer Ferdinand von Richthofen (Das Kundu 2017: 1). Marco Polo supposedly traveled along the legendary Silk Road, leaving the idea of the trade route as a romantic footprint in our collective memory. Back then, China was a world power, mysterious, closed to outsiders, but Chinese porcelain and silk was wildly popular among European kings and queens. After a long history following centuries of war, decades of communist regime and isolation, China is yet again pursuing the idea of a Silk Road.

The idea for this project was born, after I read an article titled “Puffing across the ‘One Belt, One Road’ Rail Route to Nowhere”. In this article a reputable journalist, Tom Holland, expressed his opinion about a train that had just arrived in London after a 12-day journey from Yiwu, China. In his opinion, China’s One Belt One Road initiative is a waste of money and resources. Reading the article, I started to wonder why China would build an expensive infrastructure, if there is only little to no payoff in for the country. When discussing the article with the Managing Director of the company I was interning with at that time, he dismissed the project as a “dream, that will never come true”. Yet, China was underestimated before. Few people believed in the economic miracle, that evidently happened, when China decided to open up its economy to the world. I personally believe, that reconstructing the Silk Road can be an opportunity not only for China and Europe, but also for the countries, that lay in between and often seem to get overlooked, such as Kazakhstan, Kirgizstan, Uzbekistan, Tajikistan. Therefore, I decided to dedicate my bachelor thesis to the One Belt One Road initiative and what it can mean for the Central Asian countries. During my research I found many contradicting opinions, some of them agreeing with my former manager’s position, others praising the initiative as a huge chance. I also noticed that numerous projects planned or completed are in Kazakhstan, which has an interesting location between Russia, the EU and China. It is often handled as a bridge between Asia and Europe. In this thesis I will present the One Belt One Road initiative and the steps China took to realize it. Then I will focus on Kazakhstan, how it is positioned in the world, its involvement with the OBOR initiative and how its collaboration with China is shaping its policies and country strategies. With my

thesis I am hoping to shed some light at the influence China and the OBOR initiative have on the country and to answer the question, why China would invest into a project, that is not economically profitable and what advantages Kazakhstan promises itself from participating in the initiative.

2. Classification and delimitation

This is a topic of the theory of economic policy. The theory of economic policy is divided into two main sectors: general and specialized theory of economic policy. The object of investigation of the general theory of economic policy forms the base, that is relevant for all sectors of macro economical consideration. This includes questions about the societal targets, problems about target and means, and the selection of measures to commit to concrete means.

Its function on the one theoretical side is to describe and analyze the current economic situation, examine economic policies, systematize, and explain its motives, appearance, and consequences. It aims to explain goals, targeted relations and creates forecasts about the effects of planned measures. Its main point of interest is to answer the following questions: How are economic goals formulated? How are powers and responsibilities assigned, decisions made, conflicts carried out? How are coordination problems solved? What triggers economic actions? What is their goal? How are these goals reached? What can be the outcome? The practical side focuses on concrete measures and their institutional requirements. (cf. Fredebeul-Krein et al. 2014: 17-18).

This work also belongs to the science of politics, or rather, a subcategory of political science, the science of International Relations. Political science belongs to the humanities and overlaps thematically with philosophy, law, economics, and social sciences (cf. Alemann/Forndran 1990: 5-10). The science of politics was not recognized as a science but rather as an art for a long time. Like other social sciences, the science of politics depicts a simplified version of the political reality and is therefore restricted in its options of description. The science of politics aims to gain methodically proofed knowledge about the behavior of political systems. Political system in this context means general binding decisions that are indispensable for controlling a society (cf. Kevenhörster 2008: 13-15).

The science of International relations describes the study of the political and social interaction of state, non-state actors, and individuals (cf. Griffiths/O'Callaghan/Roach 2014: 7-8). The object of investigation is the analysis of politics in an anarchic system of sovereign states and the main difference between inner and outer politics. The science of International Relations aims to answer the following questions: Who are the central actors in international politics? States, economic actors, international organizations, or transnational NGOs? What motivates their actions – security concerns, charity, or greed? Are these interests nationally or internationally shaped? What is the normal state of the international system – war, peace, equality, or inequality? (cf. Deitelhoff, Zürn 2013: 381)

For this thesis, I aim to introduce the OBOR initiative and the financial steps China took to realize it. Following the introduction, I will present two of the most prestigious projects of the OBOR initiative in Eurasia and describe how they are depicted by the public and observing experts. In the progress of this thesis we can see, that the OBOR initiative is not paying off in a profitable way and is not going to for a long time. The focus will then shift to OBOR's political side, I will have a brief look at China's internal short- and mid-term goals and how the OBOR initiative can help to realize these goals. Then I will explore China's long-term goal, how OBOR supports this goal and how the international community depicts China's efforts. In the second part of this work, Kazakhstan is presented, its geopolitical position, engagements with the OBOR initiative, and the influence the engagements have on the Kazakhstani economy. I will then study the bilateral relationship China-Kazakhstan and how the relationships shapes Kazakhstan's inner and outer politics.

This thesis is a work of literary research. Sources are numerous monographies, articles in newspapers and online newspapers and online representations, country strategies, and declarations issued by the Chinese Ministry of Foreign Affairs and the Embassy of Kazakhstan. It is aiming to answer the following main question: What is the goal of the OBOR initiative? To answer the main question, several side questions must be answered: What is the OBOR initiative? Which financial steps is China taking to realize the initiative's objections? Are they paying off? The follow-up questions are: What are the short-term and long-term

goals of OBOR respectively China? What steps is China taking to realize its goals? To keep this thesis in a reasonable extent, I picked out Kazakhstan as an example of China's involvement in member states of OBOR. The questions that I seek to answer are: How is Kazakhstan involved with the OBOR initiative? What are Kazakhstan's short- and long-term goals? What steps is Kazakhstan taking to make OBOR work? What influence do these steps have on the relationship China-Kazakhstan? And ultimately, are China's efforts towards its long-term goal working out?

The OBOR initiative has carried several names since its first mention, e.g. New Silk Road, Silk Road Economic Belt etc. In my thesis, for reasons of clarity, I will use the abbreviation OBOR to refer to the One Belt One Road initiative, which is the direct translation of the official Chinese name (一带一路 = *One Belt One Road*).

3. One Belt One Road initiative overview

The OBOR initiative is a Chinese tool of its economic policy but was also called "China's biggest economic diplomacy program" (Leng 2017).

In September 2013 Chinese President Xi Jinping introduced the idea of the "Silk Road Economic Belt" during a speech at Nazarbayev University in Astana, the capital of Kazakhstan. Two months later the Third Plenary Session of the 18th Central Committee of the Communist Party of China proposed the acceleration of infrastructure among neighboring countries and thus the Belt and Road initiative was born (Miller 2017: 29-31). In March 2015 China's National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce jointly issued a paper titled "Vision and Actions on jointly building Silk Road Economic Belt and 21st-century Maritime Silk Road".

The Belt and Road initiative aims to promote the connectivity of Asia, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent balanced and sustainable development in these countries. (Vision and Actions 2015: 2-3)

If the initiative can be implemented according to the Chinese vision, OBOR will cover an area, where more than 50% of the world population live, and approximately 1/3 of global GDP is produced. Several routes have been proposed for the new Silk Road, current plans foresee six major economic corridors: The New Eurasian Land Bridge, China–Mongolia–Russia, China–Central Asia–Western Asia, Indo–China Peninsula, China–Pakistan, and Bangladesh–China–India–Myanmar. Five main goals have been formulated:

- stronger political coordination
- connectivity of infrastructure
- free trade
- integration of financial markets
- cultural as well as scientific exchange (cf. Ilg 2017: 5).

China continually stresses its hopes, to collaborate with other countries as equal partners when constructing the infrastructure, that is vital for a functioning OBOR. In May 2017 Beijing held a summit to promote the initiative. In his final speech to close the summit, Xi Jinping said: “So far, China has signed agreements related to the ‘Belt and Road’ with 68 countries and international organizations.” (Leng 2017). He also stressed, that the initiative is “not set by ideology. We won’t set a political agenda. It’s not exclusive.” (Leng 2017). Professor Yang Minghong (2016: 7-9) from Sichuan University explains, that internally, the Belt and Road initiative is understood as a strategy to further promote opening up. He states, that the past three decades of opening up policy left west China behind, while the east developed rapidly. In the internal OBOR strategy, the “Belt” prioritizes the western inland’s development, while the maritime “Road” is supposed to support the development of the coastal areas. Externally though, Yang writes, that OBOR is often wrongly referred to as a strategy, whereas it should be understood as an initiative (cf. Yang 2016: 9).

Delegates from all over the world attended the summit, including representatives from the United States and North Korea. Both are not part of the routes that were mentioned earlier, so the attendance is more of symbolic value, expressing friendly intentions, readiness to cooperate, and probably a way to stay up to date with regional developments.

4. Financial steps to realize the OBOR initiative

Xi Jinping pledged to invest between USD 100 billion and USD 113 billion, depending on which source one consults and how current said source's information is. China set up several financial institutions and additionally redirected the capital of already existing banks to help finance the OBOR initiative. China's representation and stakes in US-sponsored institutions are rather small, voting right shares within the International Bank for Reconstruction and Development is at 5%, within the International Monetary Fund it was at 3,8% (cf. Miller 2017: 35-36) With setting up its own financial institutions, China can be independent from US-sponsored institutions and invest money in projects they see fit without having to get content from the US-American stakeholders. Below, the four most important financial institutions are briefly presented.

4.1 China Development Bank

The China Development Bank was set up in 1994. In December 2005 it was reorganized as China Development Bank Corporation, and redefined as a development finance institution in March 2015. The bank has a registered capital of RMB 421.248 billion, approximately USD 63.773 billion. Its shareholders include the Ministry of Finance of the People's Republic of China, the National Council for Social Security Fund and various Chinese investment companies. The Chinese Development Bank provides mainly medium to long-term financing facilities, which are supposed to serve China's major long-term economic and social development strategies. By the end of 2016, its assets grew to RMB 14.34 trillion, a balance of loans of RMB 10.32 trillion. According to its website, the China Development Bank is the largest development finance institution worldwide and the largest Chinese bank for long-term lending, bond issuance, foreign investment, and financing cooperation. Currently, the bank has 37 primary and 3 secondary branches in mainland China, one offshore branch in Hong Kong and five representative offices in Cairo, Moscow, Rio de Janeiro, Caracas, and London. Its subsidiaries include CDB Capital Co., Ltd., CDB Securities Co., Ltd., CDB Leasing Co., Ltd. and China-Africa Development Fund Co., Ltd. (cf. cdb.com.cn)

4.2 China Export-Import Bank

The Export-Import Bank of China is a state-funded and state-owned policy bank, that was founded in 1994. Being lead directly by the state Council, it is dedicated to supporting China's foreign trade, investment, and international economic cooperation. According to its website, the bank "plays a crucial role in promoting steady economic growth and structural adjustment, supporting foreign trade, and implementing the "going global" strategy". (english.eximbank.gov.cn)

Its main commitment is the facilitation of national development strategies. Most of its financial support goes to foreign trade, cross-border investment, international industrial capacity and equipment manufacturing cooperation, science and technology, cultural industry, "going global" endeavors of small and medium enterprises, the building of an open economy, and specifically the OBOR initiative. After the conclusion of the Belt and Road Forum in May 2017, the China Export-Import bank agreed to 28 loans valued over RMB 40 billion, approximately USD 6 billion, which were signed with government representatives and the concerning companies along the Belt and Road. The covered sectors included transportation, electric power, telecommunication, equipment manufacturing, industrial capacity, and financial cooperation.

As of 2016, the bank has 29 domestic branches in mainland China, one representative office in Hong Kong, and four overseas institutions in France, Russia, and South Africa (cf. eximbank.gov.cn).

4.3 Asian Infrastructure Investment Bank

The announcement of the plans to set up the Asian Infrastructure Bank "divided the West and shook the world's financial architecture" (Hirn 2015). China has hold frustrations against the IWF and the world bank for a while, because of its relatively small voting rights, which were not set to change anytime soon. The set up of the AIIB and the decision of numerous countries to join as funding members is widely understood as a division of the west and an overthrow of the traditional financial powers, which are mostly westwards oriented (cf. Hirn 2015). The Asian Infrastructure Investment Bank is meant as a channel for government support for Belt and Road projects. The setup of the Asian Infrastructure Investment Bank was proposed as China's multilateral development bank in October 2013 by Xi

Jinping in the same speech, in which the construction of the Maritime Silk Road was announced. Within eighteen months after announcing plans for the new bank, fifty-seven countries agreed to become founding members. The AIIB plans to lend a maximum of USD 2 billion per year for its first five years with an approved capital of USD 10 billion. (cf. Miller 2017: 38-39). Currently, the bank has 80 members from all over the world.

In December 2017, the Asian Infrastructure Investment Bank announced the approval of its first loan in China for a natural gas project. The bank loans USD 250 million to fund a project, that aims to connect 216,750 households in approximately 510 villages to the natural gas distribution network. The project is expected to reduce carbon dioxide emissions by 595,700 tons per year. The investment in the project also marks AIIB's first corporate loan. The project, undertaken by the Beijing Gas Group Company, will entail construction of natural gas distribution networks in villages and low-pressure gas pipelines and household connections. It is scheduled for completion in 2021 (cf. Yidaiyilu.gov.cn).

4.4 Silk Road Fund

In November 2014, Chinese President, Xi Jinping, announced the establishment of the Silk Road Fund at the Dialogue of Strengthening Connectivity Partnership. China will contribute USD 40 billion. One month later, the Silk Road Fund was officially established. The investments came from State Administration of Foreign Exchange, China Investment Corporation, Export-Import Bank of China, and China Development Bank. The Fund was designed to provide investment and financial support for projects, that fall under the OBOR initiative (Miller 2017: 41-42). The fund engages in Infrastructure, resources and energy development, industrial capacity cooperation, and financial cooperation. According to its website, the Silk Road Fund follows a “philosophy of openness, inclusiveness, and mutual benefit”. In March 2017, the Fund had closed contracts for a total investment commitment of USD 6 billion for 15 projects (cf. silkroadfund.com.cn).

5. Payoff

5.1 Example 1: Railway transport

Train transports between Europe and China have been organized for years. German car manufacturers regularly send trains to their factories in China, loaded with containers filled with car parts.

In 2005 there were 4 trains transiting between China and Germany, ten years later there were around 400 (cf. Veser 2017: 5). In 2013, the Asian Development Bank judged in their report of China's Railway Container Transport Development:

While rail freight has grown rapidly, the role of container services remains small and underdeveloped due to poor connectivity with other modes and insufficient business collaborations with potential service chain partners in the inland waterway, marine, aviation and road transport sectors (ADB 2014: 4).

In 2014 around 300 train rides were carried out with a cargo volume of 25 000 TEUs. In 2016 the number of trains grew to nearly 1 800 trains with a transport volume of 145 000 TEUs.

Yet, 90 % of freight in Eurasia is still transported by ship, railway transport only has a share of 1 % in the trade between Asia and Europe. This is because of the market development and highly competitive of other transport options (cf. Roland Berger 2017: 2-4).

In the table below, time, costs and capacity of railway transport are put into comparison with maritime transport.

Modus	Shipping	Railway
Time (in days)	35 - 42	12 - 20
Capacity (in TEUs)	10 000	44
Price China – EU (in USD)	900	2500
Price EU – China (in USD)	1500 – 3000	3000 – 9000

The numbers vary from source to source, but all of them agree on three main points:

- the price of rail transport is currently 2 to 3 times higher than ocean shipping.
- rail transport is twice as fast as maritime transport.
- the capacity of a large container ship is 300 times as large as train capacity.

And yet, in April 2017, a new connection between London and Yiwu commenced service. After a 12-day journey, the first train from China arrived in London. The distance between Yiwu and Barking, UK, is about 12,000 km. The head operator is the Swiss company Inter Rail, which was subsidized by the Chinese Railway. Numerous subcontractors, longtime Inter Rail partners, carried out the trip, such as KTZ Express, a subsidiary of Kazakh railways and DB Cargo AG and DB Cargo UK. Leaving China, the train transported 44 TEUs, 10 were destined for Duisburg, the other 34 TEUS were trans-loaded onto special DB container platforms approved for the Channel Tunnel and went to the DB Cargo London Eurohub at Barking, UK (cf. interrail.ag).

The London-Yiwu train was the first Eurasian railway connection, that was opened under the sigil of the OBOR initiative, which is why the train completing the journey for the first time received so much media attention in China and the UK, even though it is clear for numerous experts, that “intercontinental rail freight as touted by “Belt and Road” supporters can never be economic” (Holland 2017). One point, critics like to stress apart from the price is the demand. As Holland (2017) points out, there are few goods, that are worth the price of getting them across the continent in two to three weeks, rather than five. Expensive goods, like pharmaceuticals, food or electronic components that must comply with a just-in-time inventory, usually go by plane. Any other goods do not lose value, if they are transported by the slower, but significantly cheaper ship. The container train from Yiwu to London with 44 x 40’ boxes carried mostly textile goods. Another disadvantage is the scale at which ships carry containers. Railway transport can never match the capacity a ship has.

Assuming a very modest average cost of US\$2 million per kilometer, upgrading the Euro-Asian railway freight system to handle such volumes – in both directions – would cost at least US\$50 billion. Probably it would be many times more (Holland 2017).

Transport by train offers only two advantages over transport by ship: time and reliability (Roland Berger 2017: 12-13). It is not economically rational to use the railway for companies.

5.2 Example 2: Dry port of Khorgos

Because of the cost advantage, producers take their factories from the increasingly expensive cities in East China to cheaper production sides in Western China. And while destinations in eastern China are easier to reach via Russia, Western China is in a better position to be reached over Kazakhstan. 30% of train traffic is rolled out in Eastern China, 70% goes over Western China via Kazakhstan (cf. Triebe 2017:21).

In 2005, Chinese president Hu and Kazakhstani president Nazarbayev designed the dry port at a meeting of the Shanghai Cooperation Organization. Six years later, the Kazakhstan government established the Khorgos Eastern Gate Special Economic Zone. It is handled as a very prestigious project of the OBOR initiative in Kazakhstan is the Special Economic Zone at the Chinese-Kazakhstani border, a dry port located 2000 km away from any ocean. The Special Economic Zone “Khorgos – Eastern Gate” is the part of territory of Republic of Kazakhstan with defined boundaries, which is the subject to special legal regime of special economic zone for implementation of priority activities (Law of RoK “On special economic zones of the Republic of Kazakhstan” № 469-IV dated July 21, 2011). The dry port is considered as a strategic facility to create a logistics hub connecting China, Central Asia, and Middle East. The total area of the Special Economic Zone is 45,915 km². This includes three main areas: logistics and industrial zones, as well as a transport and logistics complex (cf. sezkhorgos.kz). Since 2015, the dry port is equipped with machinery, that enables it to move train containers between former soviet gauge and Chinese gauge. Today, it is one of the central hubs for a railway network connecting China and Europe, on which trains currently shuttle goods from laptops to wine between 27 Chinese cities and 11 European cities including London and Duisburg (Reuters.com).

Fast track transport service from China to Europe enjoys simplified border formalities at Khorgos, so this route is significantly faster than the old track through Russia.

The dry port’s construction cost USD 250 billion, Kazakhstan paid for it itself. Even though Beijing promised USD 100 billion in investments and established the Asian Infrastructure Investment Bank, no Chinese money was used for the construction of the dry port. “China is playing a clever game, to develop a

maximum of transport alternatives to choose from” said Pawel Schanaiza, Managing Director of Transcontainer (Triebe 2017: 21).

Mid May 2017 two Chinese logistics companies took over 49% of the dry port’s stakes. One of them is Cosco, the biggest maritime logistics company, going for its first foreign train investment. The Chinese shipping giant owns one of the world’s largest dry bulk and container shipping fleets as well as a network of ports including Greece’s Piraeus. In January it secured a 180 billion Renminbi (USD 26.1 billion) financing pledge from China Development Bank to support Belt and Road projects (cf. Triebe 2017: 21). The dry port is intended to become an economical center, but the initial local population was very small, so that the Chinese as well as the Kazakhstani government offered financial incentives for traders from all over the country to settle nearby the Special Economic Zone (cf. Miller 2017: 68).

Last spring 65 trains passed the route through Kazakhstan, in one year 100 000 containers can be moved over the borders. The long-term goal is to transfer 500 000 containers a year through Kazakhstan (cf. Triebe 2017: 21).

The free trade zone next to Khorgos is celebrated in Chinese media, yet some reports by journalists indicate, that it is not more than a market place with cheap, low quality goods and numerous old Kazakhstani women selling cheap, low quality goods to tourists. Some people who relocated to Khorgos think, it was a mistake to go there. They say, they were lured into resettling here to artificially stimulate trade (cf. Miller 2017: 68-69)

6 . OBOR’s political side

In the former paragraphs we saw, that China is willing to invest a lot of money and energy into the OBOR initiative. Financial institutions have been set up, an international summit was held, loan agreements signed, money was invested, first projects are rolled out. Yet, one of the most prestigious projects, the cross-continental train from China to the UK does not pay off in a way, that justifies the investments and the attention the media dedicated to the train and the Special Economic Zone of Khorgos is locally known as a cheap shopping center for low quality Chinese goods.

And yet, a study carried out by the management consultancy Roland Berger on behalf of the International Union of Railways showed significant growth within

Eurasian cargo transport on rail in recent years. Kazakhstan invested millions into the Dry Port of Khorgos.

The question to ask is, why would China and its partners invest their time and energy in a large-scale international infrastructure project, that is too expensive to ever return huge profits? Why is the Eurasian transport on rail growing, if there is nothing to gain? What are the goals besides monetary profit?

6.1 Internal goals

China, as every other country puts itself as its highest priority. The Asian Development Bank pointed out various advantages, that investing and developing the Chinese railway could bring along.

1. Shifting container transport from road transport to other modes, e.g. to railway, could reduce traffic congestion on roads and reduce fuel consumption. Eventually, a shift to railway transport can support Beijing to reach its environmental and climate change targets and improve citizen's health by reducing air pollution (cf. ADB 2013).
2. Investing in railway transport and infrastructure, especially in landlocked regions, can support the development of Western China and narrow the gap between Eastern and Western regions (cf. ADB 2013).
3. China's overall logistics cost to gross domestic product ratio was at more than 18%, which is twice as much as the European Union's and the United States'. The high ratio poses challenges for its global competitiveness and slows the speed of economic development in the western regions. Developing railway transport in the region, could help to lower the ratio. (cf. ADB 2013). Providing a reliable and high-efficient logistics service can decrease the overall cost of transportation.

Additionally, there must be external incentives to justify the investments made in China's neighboring countries.

6.2 External goals

Dr. Nivedita Das Kundu (2016: 2) from United Service Institution of India states that "it is (...) an imperative that wherever there is an economic interaction there is bound to be a degree of geo-politics too." (Das Kundu 2016: 2). It is therefore

assumed that China is aiming for political advantages. The countries along the Silk Road have invested significantly in the last few years in infrastructure and the promotion of Eurasian rail transport to facilitate competitive services and transport growth. China's "One Belt, One Road" (OBOR) initiative is a particularly strong driver of the development of existing and new Eurasian rail routes. (Roland Berger 2017: 6).

Since 1954 China used to hold back in international diplomacy and preferred not to intervene in other countries issues and wished no interventions in its own inner conflicts, following the "Five Principals of Peaceful Coexistence" (cf. Panda 2014)

1. Mutual respect for each other's territorial integrity and sovereignty.
2. Mutual non-aggression.
3. Mutual non-interference in each other's internal affairs.
4. Equality and cooperation for mutual benefit.
5. Peaceful coexistence.

Considering China's economic development over the last four decades since introducing its grand opening-up policy, its immense size, and corresponding responsibilities, these principles seem very outdated. China's engagement in Africa and Asia speaks for itself, China is no longer isolating itself within the global community. In "Vision and Actions on jointly building Silk Road Economic Belt and 21st-century maritime Silk Road" it is explicitly stated:

China will stay committed to the basic policy of opening up, build a new pattern of all-round opening-up, and integrate itself deeper into the world economic system. (...) China is committed to shouldering more responsibilities and obligations within its capabilities, and making greater contributions to the peace and development of mankind." (Vision and Actions)

This indicates clearly, that China is planning to take a more influential role within the world. Some say, China's new long-term goal seems to be the establishment of a multipolar world order. In this world order, China would stand as an equal power next to the USA, culturally speaking as well as in terms of financial and political power. Xi Jinping recently took steps to make "winning the hearts and minds abroad and at home" the mission of his administration (cf.

Kynge/Hornby/Anderlini 2017: 7). At a meeting with his party in November 2017 Xi Jinping himself announced his vision of China becoming a global power by 2050. Since then, the Chinese government presented itself as an “alternative leader and a guardian of peace” (FAZ 2017). This is an example of using Soft Power to reach a country’s goals:

Political leaders and philosophizers have long understood the power of attractive ideas or the ability to set the political agenda and determine the framework of debate in a way that shapes others' preferences (...) If a state can make its power seem legitimate in the eyes of others, it will encounter less resistance to its wishes. If its culture and ideology are attractive, others will more willingly follow. If it can establish international norms consistent with its society, it is less likely to have to change. If it can support institutions that make other states wish to channel or limit their activities in ways the dominant state prefers, it may be spared the costly exercise of coercive or hard power. (Nye 1990: 153-155)

The OBOR initiative can be understood as a Chinese tool to establish a multipolar world order the way Xi Jinping envisions it using Soft Power. Promoting the OBOR initiative as a joint project, making countries believe they are working as an equal with China, can shape these countries’ preferences, influence their choices, and improve the image China is trying to promote of itself. At the opening of the One Belt One Road summit, Xi Jinping said that China is not planning to act alone when confronted with new challenges. Also, China will not worship any military power. Instead, China is striving for a fair and open world order. China is not going to copy foreign development models, nor is it going to export its own models. Many countries view China’s growing investments and engagements skeptical. Some worry about the growing influence, especially in context with its growing military strength. This may be one of the reasons for the Chinese leadership to portray themselves and the OBOR initiative as peaceful and collaborative.

China has been one of the founding members of the United Nations in 1945 and holds a permanent seat in its security council. Its engagement within the UN grew considerably in recent decades. China became the third-largest contributor to the

United Nations' regular budget, the second-largest contributor to the peacekeeping budget, and has committed over 2,500 personnel to UN peacekeeping operations. China states, that since the UN support international cooperation and offers a platform to find solutions for diplomatic problems, it provides China with a platform to develop its global influence. The membership also provides valuable training to China's military through peacekeeping participation while simultaneously promoting a positive image of China. China says it obeys to the United Nations' mandate for upholding international peace. This gives the Chinese leadership the opportunity to demonstrate their engagement towards global stability, thereby silencing concerns over China's growing military and economic strength. (cf. chinapower.csis.org).

China is already taking over more responsibilities within the United Nations and presents itself as a bringer of peace and an ambassador of stability.

6.3 China and the EU

"China hopes the benefits of cooperation can be shared and that the circle of friendship will be strengthened and expanded." (Tian 2016: 3).

China's Soft Power in Europe is consistently strengthening. The current vision of the OBOR initiative sees Europe as a vital part of the Silk Road Economic Belt as well as the Maritime Silk Road.

Trade between China and Europe grew significantly over the past few years. According to Eurostat, Chinese exports grew from 275 000 tons in 2012 to 610 000 tons in 2016, European exports to China grew at the same time from 83 200 to 400 000 tons (cf. Triebe 2017:21). Europe is one of China's biggest trading partners. Involving the EU with the OBOR initiative allows China to diversify its transport routes and further grow trade with European countries.

But while many developing countries see the initiative as a great chance to get Chinese infrastructure investment, most Western European countries seem to have little to no interest in participating in the large-scale project. While China continually stresses its peaceful intentions, and the initiative's focus on cooperation and mutual benefit, critical, even seemingly nervous, voices remain. German foreign minister Sigmar Gabriel warned in August 2017, that the OBOR Initiative is a geopolitical, cultural, economic, and possibly military strategy. He

said, that the EU has nothing to set against this strategy, on the contrary, „we all go there and are happy, that we were invited and allowed to hold a speech.” (Veser 2017: 5).

The OBOR initiative also raises new questions over the role of the EU compared to the autonomous countries. In 2012 China set up a cooperation with 16 Eastern European countries, 11 of them members of the EU, called 1+16. The German ambassador to China Michael Clauss expressed his views about it in an interview with the South China Morning Post. A cooperation like this in Clauss's view is "somewhat inconsistent with a commitment to a coherent and strong EU". He expressed concerns about China exerting increased pressure on smaller countries to follow its political agenda and stressed, that the OBOR initiative "needs true co-ownership by all participants". In November 2017 at a summit with 16 east-, middle- and south European leaders, the Chinese prime minister Le Keqiang promised USD 3 billion of investments in the infrastructure of eastern EU states and at the Balkan. This led some European parliamentarians to voice their concerns about the Chinese engagements, which could possibly have a big influence on European politics and split the EU (cf. Veser 2017: 5).

During last week's BRI summit, China insisted it wanted to share 'growth, development and connectivity' and 'collaborate more closely on concrete projects' with the EU, but the European Commission's vice president Jyrki Katainen made some different points. In his speech at Beijing, he said that any scheme connecting Europe and Asia should adhere to a number of principles including market rules and international standards, and should complement existing networks and policies (Le Corre 2017).

Many Western European leaders didn't take part in the OBOR summit in person, but instead sent ministers or delegations to represent their respective country, sending a non-verbal message that the OBOR initiative is not among their highest of priorities. Examples include:

Finland: Minister of Transport and Communications of Finland Anne Berner
France: Jean-Pierre Raffarin, chairman of the Committee on Foreign Relations, Defense and Armed Forces in the French Senate
Germany: Minister of Economic Affairs Brigitte Zypries
United Kingdom: Chancellor of the Exchequer Philip Hammond

While most Eastern and Southern European countries preferred to send their Prime ministers, expressing interest and commitment.

Czech Republic: President Milos Zeman

Greece: Prime Minister Alexis Tsipras

Hungary: Prime Minister Viktor Orban

Italy: Prime Minister Paolo Gentiloni

Romania: Deputy Prime Minister / Minister of Environment Gratiela Gavrilescu

Poland: Prime Minister Beata Szydło

Serbia: Prime Minister Aleksandar Vucic

Spain: Prime Minister Mariano Rajoy

These very different expressions of interest convey the picture of a divided European Union, which makes it easier for China to reach countries individually and strengthen its Soft Power in one country at a time.

6.4 China and Central Asia

While Europe seems divided about the prospect of a New Silk Road, the Central Asian countries sense an opportunity for growth and relatively easy Chinese investments. China's modern contacts to Central Asia are still relatively young. During the cold war, there were very little interactions between the five countries and their eastern neighbor. When the USSR broke apart, the Chinese government spurred the shaping of bilateral relations. Generally, their approach was formulated as "good neighborliness", as the wish to "maintain friendly relations with neighbors, to make them feel secure and help them get rich". Initially, the priority was to settle border disputes between China and three Central Asian states – Kazakhstan, Kyrgyzstan, and Tajikistan. In April 1996 China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan signed the "Treaty on Deepening Military trust in Border Regions". This treaty foresaw the reduction of troops in the border areas and the introduction of other confidence building measures. Territorial disputes were settled with Kazakhstan in 1998, with Kyrgyzstan in 1999, and Tajikistan in 2002. While the agreements were officially celebrated as big diplomatic successes, the general population reacted rather negatively. During spring 2002, the "transfer of Kyrgyz land" by corrupt politicians became one of the main drivers of rallies, demonstrations and hunger strikes in Kyrgyzstan, culminating in violence in Aksy district. In Tajikistan, the Pamir branch of the

Social-Democratic party wanted to hold a demonstration in response to the delimitation agreement, which in their opinion damaged the interests of the local population, but they were prevented from doing so. Newspapers that raised the issue were closed immediately. Once the border delimitation and security problems were solved, Beijing could focus on another security issue – separatist movements in Xinjiang autonomous region. From the very beginning, Central Asian governments showed readiness to cooperate with China on this issue. In 1996, the “Shanghai Five forum” was created by China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan with the main objective to deal with border security. In 1998 the members of the “Shanghai Five” forum signed a statement proclaiming that they would unite to combat terrorism and that none would allow its territory to be used for activities that harm the sovereignty, security, and social order of another member state. In June 2001 Uzbekistan joined the “Shanghai five”, which was then renamed into the Shanghai Cooperation Organization (SCO) with the goal of combating terrorism, separatism, and extremism. Towards the end of the 1990s, Chinese interests started shifting from military-political security to energy and commercial issues. Since 2001 energy became the central focus of Beijing’s strategy and diplomacy in Central Asia, because of harsher global competition for energy reserves. China has made investments in the energy sectors of Kazakhstan, Uzbekistan, and Turkmenistan. It built the Atasu-Alashankou pipeline connection oil fields in Central Kazakhstan with refineries in Xinjiang. It also started implementing ambitious plans to bring Turkmen and Uzbek gas to the Chinese market in order to help diversify China’s energy supplies. Apart from oil and gas, Central Asian states provide China with ferrous, non-ferrous, and rare metals. The participation of Chinese companies in the mining sector has also increased (cf. Kassenova 2009: 11-13).

All presidents of the Shanghai Cooperation Organization member states attended the Belt and Road Forum in May 2017 personally, which shows, that the countries of Central Asia put more value on the initiative than their Western European colleagues.

1. Uzbekistan: President Shavkat Mirziyoyev
2. Kazakhstan: President Nursultan Nazarbayev
3. Kyrgyzstan: President Almazbek Atambayev

4. Russia: President Vladimir Putin

China is displaying the same behavior in Central Asia as it does in relation with the European Union: instead of approaching Central Asia as a United Region, China negotiates with each country individually, setting itself up as mediator and communicator, but also gradually divides the region.

7. Kazakhstan's involvement with OBOR

On the following pages, Kazakhstan is put into focus. We are assuming, that China is trying to strengthen its Soft Power in the region, therefore we want to explore, if and how it is working out. We will look at Kazakhstan's involvement with the OBOR initiative, what projects are already rolled out and how these projects affect the Kazakhstani economy. Kazakhstan's regional position will be looked at, its relationship with China and how this relationship shapes Kazakhstan's inner and outer politics.

7.1 Country portrait

Kazakhstan is with a total area of 2.723.890km² the ninth biggest country in the world. Its capital used to be Almaty until, in 1994, Astana was named capital. Kazakhstan has a population of only 17.8 million and a population density of 5.95 inhabitants per km². Ethnical distribution is Kazakh 51.8%, Russian 31.4%, Ukrainian 4.4%, Tatar 1.7%, German 1.6%. There are over 100 other nationalities and 46 religious confessions, including Muslims 47%, Russian Orthodox 44%, others, such as Roman Catholics, Protestants, Judaists at 9%. Kazakh, spoken by over 52% of the population, is the state language. Russian, spoken by two-thirds of the population, is used in everyday business and enjoys official status under the Constitution. Russia is one of Kazakhstan's major trade partners, along with the EU, USA and China. Kazakhstan's monetary unit is called Tenge. 100 Tenge equals USD 0,3. Its system of Government combines aspects of both parliamentary and presidential systems.

Kazakhstan has large natural resources, e.g. the world's largest reserves of barite, lead, tungsten, and uranium; second largest reserves of chromite, silver, and zinc; third largest of manganese, significant deposits of copper, gold, and iron ore. Its current oil reserves are at 35 billion barrels (twice as much as the North Sea).

Projected oil reserves were at 100-110 billion barrels by 2015 (would be in top 3 of the world). Current natural gas reserves are 2 trillion cubic meters with projected reserves of 5 trillion cubic meters by 2015 (cf. aboutkazakhstan.com). Its location puts it in a delicate situation, which will be explored on the following pages.

7.2 Kazakhstan between EU, EAEU and OBOR

EU, EAEU and OBOR are the three main integration projects in Eurasia (cf. Bond 2017: 1). Kazakhstan finds itself in between these very different collaborations, searching for investors for oil projects on every side, trying not to upset any of their big partners, following the strategy of multivector politics (cf. Schmidt 2017: 8).

Kazakhstan is a member of numerous unions and cooperation agreements, which create dependencies and obligations for the country. Once a part of the Soviet Union, it remains in strong relations with Russia. In 1994 the Kazakhstani President proposed the establishment of an Eurasian Union. 19 years later, January 1st, 2015, Kirgizstan signed the final agreements, joining Russia, Belarus, Armenia, and Kazakhstan. Out of EU, EAEU, and OBOR, the EAEU covers the greatest landmass of roughly 20 million km². Their collective GDP was at USD 1,6 trillion in 2015 and they produced roughly 14% of the world's oil and 20% of its gas. Members of the EAEU agreed to gradually open their markets for each other, mostly in terms of free movement of goods and labor (cf. Bond 2017: 3).

The EAEU is limited to the economic sphere, as there is no common foreign policy or law enforcement. When signing the EAEU treaty in 2014, Bakytzhan Sagintayev, deputy prime minister of Kazakhstan told the New York Times: "We are not creating a political organization; we are forming a purely economic union. It is a pragmatic means to get benefits. We don't meddle into what Russia is doing politically, and they cannot tell us, what foreign policy to pursue." (MacFarquhar 2014: 10).

But Russia remains a huge partner and influence. Kazakhstan is still very dependent on Russia and its demand for oil. They also share a history of military cooperation, which is carried on until today. Russia and Kazakhstan cooperate in the military spheres. Kazakhstan receives supplies of weapons from Russia, as

well as support of maintenance of military hardware. Russia leases four military testing grounds in Kazakhstan and in return train Kazakhstan's military personnel in Russian military training schools (cf. rfembassy.kz).

OBOR overlaps geographically with the EAEU, which, if plans go as intended, is covering all Central Asia's population, but there are very few official institutions in place yet. Russia is pursuing a strategic partnership with China, but different interests and inherited suspicions might cause conflict (cf. Bond 2017: 8). Russia's influence in Kazakhstan is fading as China pours in increasingly more money. Russia is largely left out by the OBOR initiative, apart from minor links in its southern parts, the main hubs Moscow and St. Petersburg, and two new pipelines, there are no plans to integrate existing Russian cross continental infrastructure into OBOR (Baumgartner 2017). Because of its delicate geopolitical situation, Kazakhstan tends not to pick a side, when it comes to international conflicts, the most prominent example being the Russian annexing of the Ukrainian peninsula Krim. When it came to declare the annexation invalid, Kazakhstan decided to abstain from voting, but didn't officially acknowledge it either. Cautious diplomacy has become their specialty (cf. Schmidt 2017: 8). An attitude like this could potentially pose a problem for OBOR engagements in the country, if Kazakhstan struggles to decide where to turn.

7.3 OBOR engagements in Kazakhstan

Kazakhstan used to be a vital part of the old Silk Road 2000 years ago. Its cities were brimming with traders and bazars. Today, Kazakhstan yet again shows big interest in the OBOR initiative as the improved connectivity would allow the emerging Central Asian markets to open their economies and join the regional increasing engagements in the exchange of goods. The railway transports potentially allow more flexibility and connectivity, when trading goods with Central Asian and Eastern European countries, which, being landlocked, are harder to reach by ship than Western European countries. In the future this could prove as very valuable (cf. Miller 2017: 66). Kazakhstan aims to profit off the growing trade between China and Europe. It wants to establish itself as a land bridge and transform their isolated position into their advantage. "Beijing's initiative spurred activities in its surrounding countries, that want to get ready for the Chinese transports" said Pavel Schanaiza (Triebe 2017: 21).

Numerous projects have been planned and rolled out. Yet the newly founded and controversial (as discussed above) Asian Infrastructure Investment Bank is not very active in Kazakhstan yet. According to its official online representation, there are no projects planned or realized in Kazakhstan and in Central Asia in general. Kazakhstan as a country has no official credit score yet, which makes projects risky for unestablished financial institutes. The Asian Infrastructure Investment Bank is still young, so projects without security are dangerous for the bank's credibility and stakeholders.

The Silk Road Fund is engaged in Kazakhstan on various projects, which remain unspecified on its official online representation (cf. silkroadfund.com).

The cooperation between Kazakhstan and the Asian Development Bank is described as “relatively limited” (ADB Country Partnership Strategy 2017: 1). The ADB has currently 5 sovereign and 3 non-sovereign loans on its Kazakhstan portfolio, with a total loan amount of USD 1 055, 3 million. But the Asian Development Bank is one of the founders of the Central Asian Regional Economic Cooperation (CAREC) program. Since 1997 Kazakhstan and Xinjiang in China are members of CAREC. Inner Mongolia joined in 2008. The program encourages cooperation among its 11 members and supports projects in the areas of transport, trade facilitation, energy, and trade policy. CAREC aims at the overcoming of barriers to growth and connectivity and is committed to place Central Asia at the heart of Eurasia's trade, facing the increasing integration of markets. Kazakhstan took part in one of CAREC's first initiatives, the construction of the road between Almaty and Bishkek, Kyrgyzstan. The road became a vital part of CAREC Corridor 1, which is now an integral part of the current version of the OBOR initiative. CAREC has six multilateral institution partners:

- Asian Development Bank
- European Bank for Reconstruction and Development
- International Monetary Fund
- United Nations Development Programme
- World Bank

As of 2016, more than USD 8.23 billion has been invested in Kazakhstani transport, trade, and energy. Currently there are 11 ongoing and 15 completed CAREC projects in Kazakhstan (cf. carecprogram.org). CAREC funded the construction of roads and highways, which connect not only Kazakhstani but also Central Asian cities with each other, easing transport of goods by road between main trade hubs in Kazakhstan and neighboring countries (cf. Miller 2017: 75-76). Despite Xi's investment promises, Chinese banks are not heavily involved in Kazakhstan yet. Until now multilateral institutions, lead and influenced by western powers, remain strong investors.

7.4 Macroeconomic Impact

Kazakhstan achieved independence in 1991, after the disintegration of the Soviet Union. It's GDP then was at USD 23.9 billion and dropped slightly every year until 2000. In 2006, exports of oil, gas and other resources generated windfall revenues, which helped to lift Kazakhstan to upper-middle income status and turned it into a major economic power in Central Asia. From there Kazakhstan experienced steady growth until 2013, at a GDP of USD 236.6 billion. Since then Kazakhstan's GDP dropped every year (cf. worldbank.org). In 2016 it was at USD 135.0 billion. After the global financial crisis in 2008, oil and gas prices decreased significantly, which lead to a slowdown of Kazakhstan's GDP. This shows an "Excessive reliance on commodity exports" (ADB Country Partnership Strategy 2017: 2). Kazakhstan's economy is closely tied to the oil market and depends heavily on the international prices for natural resources. The Asian Development Bank concluded in 2017, that social inequalities are strengthened by limited infrastructure and lower quality of public services outside the main cities (cf. ADB Country Partnership Strategy 2017: 2). Kazakhstan's unemployment rate has been consistently low, due to a big part of the population being self-employed (cf. ADB Country Partnership Strategy 2017: 3). This suggests, that the impact of the OBOR initiative is not yet measurable on a macro economical level. Yet, in a report published by the management consultancy Pricewaterhouse Coopers, the two leading infrastructure companies estimate the contribution of infrastructure investments will add 0,1% and 0,2% to Kazakhstan's annual growth over the next decade (Gupta et al. 2017: 4). The report also stresses that Kazakhstan will gain importance as a transit region for Central Asia. The annual increase in Asia-EU-

Asia transit container traffic in Kazakhstan suggests rising demand for railway transport through Kazakhstan.

We can see, that the OBOR initiative hasn't impacted the Kazakhstani economy too heavily yet.

7.5 Kazakhstan and China

The bilateral relationship is quite young but deepened fast. Both are members of the United Nations and since January 2017, both have a seat at the United Nations Security Council, China a permanent member, Kazakhstan occupying a non-permanent seat.

China can use Kazakhstan's membership of numerous unions to its advantage. As mentioned above, Kazakhstan is a member of China's Shanghai Cooperation Organization (SCO) born out of the Shanghai Five Forum, a regional security association. China's underlying goal when founding the forum in 1996 was to ensure Xinjiang's security and demarcate its borders against the newly independent states of Central Asia. 20 years later, the goal is to combat the "three evils" of terrorism, separatism, and religious extremism.

Additionally, China and Kazakhstan are both members of numerous unions with different aims and specialties.

In 1996 the Asia-Europe Meeting (ASEM) was established as an intergovernmental process encourage dialogue and cooperation between Asia and Europe. Currently, ASEM consists of 30 European and 21 Asian countries, the European Union, and the ASEAN Secretariat. ASEM was set up to address political, economic, social, cultural, and educational issues of common interest, in a spirit of mutual respect and equal partnership. Kazakhstan and China are both active members of ASEM (cf. aseminfobard.com).

In 2002, the Asia Cooperation Dialogue (ACD) was inaugurated by 18 Asian Foreign Ministers. According to its online representation, the ACD is as a continent-wide forum the first of its kind in Asia. The ACD aims to incorporate every Asian country and building an Asian Community without duplicating other organizations or creating a bloc against others. A key principle is to consolidate Asian strengths and fortify Asia's competitiveness by maximizing the diversity and rich resources evident in Asia. The core values of the ACD are positive thinking; informality; voluntarism; non-institutionalization; openness; respect for diversity;

the comfort level of member countries; and the evolving nature of the ACD process (cf. acd-dialogue.org).

Kazakhstan and China are also members of the Conference on Interaction and Confidence Building Measures in Asia (CICA). CICA is a multi-national forum for enhancing cooperation towards promoting peace, security, and stability in Asia. It is a forum based on the recognition that there is close link between peace, security and stability in Asia and in the rest of the world. The Member States, while affirming their commitment to the UN Charter, believe that peace and security in Asia can be achieved through dialogue and cooperation leading to a common indivisible area of security in Asia where all states co-exist peacefully, and their peoples live in peace, freedom, and prosperity. The idea of convening the CICA was first proposed by H.E. Mr. Nursultan Nazarbayev, President of the Republic of Kazakhstan, on 5 October 1992, at the 47th Session of the United Nations General Assembly (cf. s-cica.org).

Tom Miller (2017: 58) claims, that nowadays China also views the SCO as a “vehicle for economic cooperation”. China stresses in “Vision and Actions” that “we should enhance the role of multilateral cooperation mechanisms, make full use of existing mechanisms” and names not only the SCO, but also ASEAN Plus China, APEC, ASEM, ACD, CAREC, and CICA, which proves Miller right. As mentioned above, China already managed to use CAREC to build crucial sections of OBOR in Central Asia.

Kazakhstan and China cooperate in the United Nations, the Shanghai Cooperation Organization, the Conference on Interaction and Confidence-building Measures in Asia (CICA), and other frameworks. Kazakhstan supported China in taking over the CICA chairmanship in 2014 (cf. [China and Kazakhstan](#)). Kazakhstan’s and China’s bilateral relationship outside of multinational unions is confirmed in writing through several contracts and agreements. The biggest sector of cooperation is the energy sector.

7.5.1 Energy sector

China also needs Kazakhstan to meet its growing demand for natural resources, specifically for its demand for energy.

During an interview in Astana in June 2017, the Chinese Minister of Commerce said that trade in energy now accounts for 30 percent of bilateral trade between the two countries. According to an article on yidaiyilu.com, the official online representation of the OBOR initiative, 25 percent of Kazakhstan's total output is of crude oil which Chinese companies have developed in Kazakhstan. Kazakhstan has rich oil and gas reserves, more than 100 million tons of crude oil and 183 billion cubic meters of natural gas have been imported to China, which has a huge market for energy. The article also states, that "the energy sector has been the main focal point for bilateral cooperation for a long time, and related cooperation has been accelerated since Chinese President Xi Jinping proposed the Silk Road Economic Belt in Astana in 2013." (Yidaiyilu.gov.cn)

China's energy needs are expected to grow steadily, and the country is expected to import 65% of its oil by 2020. In July 2006 the 2.798 km long Kazakhstan-China crude oil pipeline became operational. It transports crude oil from oil fields located in western Kazakhstan to the Dushanzi refinery located in the Xinjiang Province of China. The 813mm diameter pipeline has a capacity of ten million tons a year. The Chinese National Petroleum Corporation and KazMunaiGaz jointly established Kazakhstan-China pipeline. The total cost of construction is estimated at UDS 3 billion. The goal was to meet China's growing energy needs. According to the company's website, the construction "provided a win-win for both Kazakhstan and China by directly linking Kazakhstan's huge oil resources in the Caspian Sea with China's strong oil consumer market" (cf. hydrocarbons-technology.com). Even though this project was executed before Xi Jinping announced his plans for the New Silk Road, the pipeline is sometimes called the Power Silk Road and gets referred to quite frequently in the context of OBOR (cf. Miller 2017: 75).

Kazakhstan is also rich in solar and wind energy resources, which can form a complementary advantage with China's advanced technologies, said Kazakhstan's Energy Minister Kanat Bozumbayev, who thinks that the two countries also have broad prospects for cooperation on new energies (cf. Yidaiyilu.gov.cn).

7.5.2 Bilateral agreements

For China it makes sense to bind Kazakhstan close to its own economy, to secure energy deals and develop its resourceful neighbor into a strong trading partner. China pursued this strategy for years.

The Treaty on China-Kazakhstan Good-Neighborly and Friendly Cooperation, which was signed on December 23, 2002, has laid a solid legal foundation for the continuous and stable development of bilateral relations. The 2003-2008 China-Kazakhstan Cooperation Outline, which was signed on June 3, 2003, is a guiding document that identifies the priorities of cooperation in various fields for the mid and long term. The Joint Statement on Establishing and Developing the Strategic Partnership between the People's Republic of China and the Republic of Kazakhstan, which was signed on July 3, 2005, is said to be of important historic significance, as it symbolizes a new development stage for China-Kazakhstan relations according to the press release following the meeting of the two presidents. The bilateral relationship is embodied as follows:

The mutual political trust is further strengthened; the cooperation in maintaining regional security and stability is continuously deepened; the mutually beneficial cooperation in economy and trade is constantly expanded and deepened; and both sides are committed to realizing the common development and prosperity, furthering the cooperation in the human and cultural field, strengthening the people-to-people exchange and consolidating the traditional friendship between the people.

The latest all-embracing cooperation agreement was released in 2006, carrying the title "The Cooperation Strategy between the People's Republic of China and the Republic of Kazakhstan for the 21st Century". It was released after a state visit of Kazakhstani President Nazarbayev to China at the invitation of then Chinese President Hu Jintao. Both sides agreed, to further develop the strategic partnership between the countries on the following topics: politics, economy, science and technology, human and cultural area, security and environmental protection, and international arena.

The points they agreed on, formed the foundation for later negotiations concerning the OBOR initiative. Point six under the topic of "economy" states, that:

Both sides will increase the cargo-shipping volume by railway and study the possibility to construct a new railway between China and Kazakhstan after identifying the potentials in goods transportation.

Both sides will widely exploit the potentials of transit transport and promote the establishment of international transport passage so as to guarantee the goods transportation in the Euro-Asian region and within the borders of China and Kazakhstan.

Both sides will develop the competitive and modern transportation and communications infrastructure. They will realize the quick custom declaration of goods and promote the Euro-Asian transportation by perfecting logistic services and optimizing transport conditions.

Both sides will adopt measures to increase the number of cross-continent container trains and guarantee that the fixed route of container trains will be strictly followed.

Both sides will perfect the coordination across different agencies including frontier defense, custom, inspection, quarantine and railway. (The Cooperation Strategy between the People's Republic of China and the Republic of Kazakhstan for the 21st Century 2009)

This shows, that the ideas promoted in the OBOR initiative are not revolutionary. Plans to increase cross-continental trade were made long before Xi Jinping's announcement. In 2013, with the announcement of starting the OBOR initiative, the comprehensive strategic partnership between the People's Republic of China and the Republic of Kazakhstan continued to deepen. In April 2013, President of Kazakhstan Nursultan Nazarbayev paid a state visit to China and attended the Boao Forum for Asia Annual Conference 2013. President Xi Jinping had talks with President Nazarbayev and the two presidents attended the signing ceremony of such documents as the agreement on establishing the China-Kazakhstan Entrepreneurs Committee, the agreement in principle on expanding the China-Kazakhstan crude oil pipeline and the strategic cooperation agreement between China's CITIC group and Kazakhstan's Samruk-Kazyna Sovereign Wealth Fund.

In September 2013, Xi Jinping paid Kazakhstan a state visit for the first time, during which he had talks with Kazakh president Nursultan Nazarbayev and

several meetings with the Kazakh prime minister and the Speaker of the Lower House of the parliament. Later he held a speech at the university of Astana, in which he announced the construction of the new Silk Road. Nazarbayev and Xi attended the meeting of the China-Kazakhstan Entrepreneurs Committee together and later signed the “Joint Declaration on Further Deepening the Comprehensive Strategic Partnership Between the People's Republic of China and the Republic of Kazakhstan”. During the visit governmental departments and businesses of the two sides signed in total 16 documents on cooperation in such areas as energy, economy, trade, finance, customs, and outer space. The two countries stressed the remarkable results in their cooperation and assured each other, that they will continue to cooperate in the trade and energy sector, non-resource sector and others.

According to the declaration, Kazakhstan has become China's second largest trading partner in the Commonwealth of the Independent States only next to Russia, while China became the largest trading partner of Kazakhstan.

Kazakhstan consistently supported China's position on issues related to Taiwan, Tibet and combating the East Turkistan Islamic Movement (ETIM) (cf. Joint Declaration on New Stage of Comprehensive Strategic Partnership Between the People's Republic of China and the Republic of Kazakhstan 2015: 1-4).

The relationship between Kazakhstan and China is close, they are members of and partners in numerous unions and organizations. Kazakhstan supports China's political positions, namely adopting the One China policy by not recognizing Taiwan and Tibet as an independent, but as rebelling provinces of the People's Republic of China. Kazakhstan also helped China to become chairman of CICA, which gives China leverage and influence over Asian countries.

7.6 Inside politics/ Country Strategies

Kazakhstan needs China to realize its ambitious country development goals and to diversify its economy.

Kazakhstan's government strategies, outlined in several grand-scale narratives—the 100 Concrete Steps to achieve the Five Institutional Reforms and Nurly Zhol, the Bright Path are, in brief, a scheme to bring Kazakhstan into the ranks of the

top-30 world economies. At the center is the improvement of quality of life of the Kazakhstani population (ADB Country Partnership Strategy 2017: 1).

7.6.1 Kazakhstan 2050 Strategy

During his annual state of the nation address in Astana on December 15, 2012, Kazakh President Nursultan Nazarbayev introduced the Kazakhstan 2050 Strategy — a comprehensive state plan aimed at bringing Kazakhstan into the ranks of the world's 30 most developed countries by the middle of the twenty-first century. The Asian Development Bank identified three main challenges for Kazakhstan's economy to achieve diversified, inclusive, sustainable growth:

1. Economic diversification by strengthening the financial sector and establishing an environment to develop the private sector.
2. Reduction of social and spatial inequality by easing access to infrastructure and improving the management and efficiency of public services.
3. Remodel the current growth model to become more environmental friendly and lessen the vulnerability of the economy to climate change.

(cf. ADB Country Strategy Partnership 2017: 2).

7.6.2 The 100 concrete steps

In May 2015 President Nursultan Nazarbayev set up the 100 concrete steps to implement five institutional reforms (strategy2050.kz).

The five institutional reforms are:

1. Creation of a modern and professional civil service
2. Ensuring the rule of law
3. Industrialization and economic growth
4. A unified nation for the future
5. Transparency and accountability of the state

In the context of the OBOR initiative, point 3. Industrialization and economic growth is of special interest for this thesis. Point 3 covers 49 steps out of the proposed 100, which reveal industrialization and economic growth as the main priority. Below, there are the main four points, that directly concern infrastructure and communication.

58. Attracting strategic (anchor) investors to establish a single operator maintaining and developing road infrastructure.

(...)

65. Further integration of Kazakhstan into the international transport and communication routes. Launch of the project to establish a multi-modal “Eurasian transcontinental transport corridor”, which will allow free transit of freights from Asia to Europe. The transport corridor will include routes through Kazakhstan, Russia and further into Europe; through Kazakhstan from Khorgos to the Aktau port and through the Caspian Sea to Azerbaijan, and Georgia. We will aim to work with the Asian Infrastructure Investment Bank.

(...)

69. Making Astana a Eurasian business, cultural and scientific center, attracting researchers, students, entrepreneurs, tourists from the region. A modern international transport and logistics system, including a new terminal at the airport will be established in the city.

70. Establishing the Astana International Financial Centre (AIFC), and giving it a special status consolidating legally within the constitution. Establishment of the center as a financial hub for the CIS countries, as well as the region. An independent commercial law system, which will function on English law principles and with a judicial corps consisting of foreign experts will be established. The goal is for Kazakhstan’s financial hub to join the top 20 financial centers of the world (strategy2050.kz).

We can see, that Kazakhstan puts great importance on infrastructure and on its role as a transit country. They explicitly state their wish to work with the Asian Infrastructure Investment Bank. Kazakhstan also aims to become a business, cultural, and scientific center, and establish Astana as a financial capital, which would further diversify its economy and loosen its dependency of oil and natural resources.

7.6.3 Nurly Zhol – the Path to the Future

Apart from “The concrete 100 steps”, Nazarbayev launched another large-scale development strategy in 2017, that focuses solely on infrastructure development.

It carries the name “Nurly Zhol – The Path to the Future” and was announced and outlined during Nazarbayev’s annual state-of-the-nation address in 2015 (cf. kazakhembus.com). The background for this step was the global financial and economic crisis. The wording in Nazarbayev’s speech and in “Vision and Actions on jointly building Silk Road Economic Belt and 21st century Maritime Silk Road” is almost identical: “The recovery continues at a very slow and uncertain pace, and some countries remain in decline.”

Nazarbayev announced the development of transport and logistics infrastructure around regional hubs. Astana is understood as the central hub, which will be connected to the regional hubs by highways, railways and airlines. He prioritizes the main road projects, which lead from Western China to Western Europe and connect Astana with Almaty, Ust-Kamenogorsk, Aktobe, and Atyrauana and the regional hubs with each other.

He also aims to create a “logistical hub in the east and marine infrastructure in the west of the country” (line x), probably referring to the dry port of Khorgos and a port at the Caspian Sea. The ferry site from Kuryk and the railway line from Borzhakty to Yersai will contribute to the growth of exports to the west through ports in the Caspian Sea. The government is working on the construction or rental of terminals at dry and sea ports in China, Iran, Russia and the EU.

His second priority is the development of industrial infrastructure. Nazarbayev counts on infrastructure projects to generate demand for construction materials, products and services of transport, communication, energy, housing, and utility areas. He outlines two steps to realize this point.

Point one is to finalize the existing Special Economic Zones and fill them with concrete projects.

Point two is to examine, if the construction of new industrial zones is worthwhile.

His third priority is the development of energy infrastructure. In the last five years, he said, a lot of improvement took place within the framework of the industrialization program, yet the southern regions still have a deficit of electricity, while the central and eastern regions lack natural gas.

Nazarbayev names two concrete projects to tackle these issues: the construction of two high voltage lines in the east and north-east, hoping for a balanced energy supply in the country.

Finally, Nazarbayev expresses his hopes, that the new lines will renew the Kazakhstani economy and society. He predicts a rise of cargo traffic and growing volume of transit through Kazakhstan (cf. kazakhembus.com).

During their talks, Xi and Nazarbayev stressed, that the new Kazakhstan strategy and the OBOR initiative complement each other and agreed to further integrate one into the other (cf. Yidaiyilu.gov.cn) They agreed to cooperate in the spirit of opening-up and the “principles of negotiation, coordination, and mutual benefit” (Yidaiyilu.gov.cn) and strengthen their partnership in production capacity and investment. The two presidents agreed to invest in inter-regional connectivity and cooperation in areas such as infrastructure construction, trade, tourism, and investment within the framework of the above initiatives (cf. Yidayilu.gov.cn).

The strategy outlined above adopts numerous ideas from the Chinese “Vision and Actions” such as “improving the region’s infrastructure, and put in place a secure and efficient network of land sea and air passages, lifting their connectivity to a higher level” (Vision and Actions 2015: 4) and “establish a network of free trade areas that meet high standards, maintain closer economic ties, and deepen political trust” (Vision and Actions 2015: 4). Following the Chinese proposal of creating an economic corridor that connects China-Central Asia-West Asia, Kazakhstan plans to build highways leading through their country on fast track. Kazakhstan is adopting a strategy outlined by China into their domestic development program, which shows an increase of Chinese Soft Power in Kazakhstan’s inside politics. Kazakhstan follows the Chinese vision, adopting its vision and formulate their own strategy to pursue the goals pre-formulated by China, just like China suggested. Kazakhstan is trying to diversify its economy and to move away from oil. They do so by moving closer to China. They are actively showing, that they are ready for the OBOR initiative to kick in and if it does, Kazakhstan is hoping for profit and high transit. Reviving the old Silk Road is understood as a huge opportunity to become a buzzing trade hot spot of Central Asia again.

8. Challenges

The OBOR initiative is heavily promoted and celebrated in its country of origin. But China faces numerous challenges of different nature in realizing its vision.

One of the main challenges to overcome, is the distrust of the people whose country its investing in. Many fear an infiltration by Chinese workers with no gain for the people of Kazakhstan. Chinese companies are known for their preference to hire Chinese workers instead of locals (cf. Miller 2017: 80-82).

The Chinese culture and language although heavily promoted and supported, remains foreign to Kazakhstan. The culture is of strong Russian heritage, many speak Russian next to their native language. To improve its public image, China tries to strengthen its soft power in the region by setting up Confucius institutes, giving out scholarships to attract Kazakhstani students to study at Chinese universities. They frequently host people from the other country to hold cultural exchanges. As the Chinese Ministry of Foreign Affairs states: "The two countries enjoyed fruitful people-to-people cooperation" (China and Kazakhstan). Various exhibitions were held in Kazakhstan, e.g. writing competitions, language proficiency competitions. Kazakhstan in return held the "Kazakhstan Culture Day", "Kazakhstan Film Festival" and other activities in China. According to the Office of Chinese Language Council International (Hanban), it has become a fashion in Kazakhstan to learn Chinese in recent years. The number of Kazakhstani students who signed up for the Chinese proficiency test through the Confucius Institutes increased from 100 in 2007 to over 1000 in 2017. The website also states, that currently 5000 students are signed up at the Kazakhstani Confucius Institutes to learn Chinese and that 12 universities in Kazakhstan have set up Chinese centers (cf. sdwht.gov.cn). Chinese culture is becoming a trend in Kazakhstan according to Chinese media, which needs to be handled carefully. While it can't be denied, that the number of Chinese language students grew, it is an ambitious assumption to handle this development as "fashion".

Actual gain of Soft Power was mostly political so far. The Chinese approach hasn't reached the people yet.

Apart from the social and political challenges, OBOR faces financial ones as well. The existing infrastructure needs heavy investments. According to Schanaiza (cf. Triebe 2017:21), capacities are tight, but not overwhelmed yet, although growing demand will be hard to meet.

Another challenge is to convince traders to use the infrastructure of the OBOR projects. Most logistics companies prefer to use their own equipment, which is why the London-Yiwu train, for example, is not using the dry port of Khorgos.

Another problem is the promotion of the OBOR initiative as a new revolutionary idea. As discussed above, there are multiple organizations in place which invest in infrastructure and efforts for cooperation in the logistic sector were made long before China announced the idea of OBOR.

Transparency is a problem, too. China prefers to interact with each country individually, to remain the main point of contact. Its financial institutions offer only vague numbers or no information on their projects at all. There are no fixed numbers or targets to determine if the OBOR initiative was successful.

9. Conclusion

All points considered I conclude that China aims to reach three short/mid-term goals with the execution of the OBOR initiative in Kazakhstan:

1. Improve connectivity of Central Asia
2. Spur development of Western China
3. Diversify transport options to Europe

and one long-term goal, which is the establishment of a multi-polar world order. The OBOR initiative is a small step to reach this goal, but one that the Chinese government thinks is worth billions of investments.

Experts from different backgrounds seem quite divided about the prospect of a New Silk Road. Some see huge potential and opportunities, others a waste of resources. While it seems like the investments made aren't going to pay off anytime soon, it's important to keep in mind, that China is a long-term strategist. China's long-term goal is not total world domination, but a multipolar world order. They want to become a global power next to the US. The OBOR initiative can help China to strengthen its bonds to its neighbors. If they manage to build the infrastructure as equal partners together with the participating countries, they can strengthen their soft power and political influence in its surrounding regions. OBOR is, economically speaking, too expensive to pay off anytime soon, but as a political tool very worthy to the Chinese government. Since there are no defined goals, any success can be counted as a target reached, so China will declare the initiative successful in any case.

Ian Bond (2017: 9) states, that growth in Europe and China is modest and is indicative for numerous economic problems. "It's worth an effort to boost growth by reducing the barriers to trade between East and West." (Bond 2017: 9).

A successful and thriving Silk Road with China at its center can help form the multipolar world order the KPA envisions. Kazakhstan already adjusted some of its inner policies and strategies in order to fit China's One Belt One Road initiative. This is a sign of a strengthening soft power and soon other countries might follow.

The relationship between China and Kazakhstan is not an old one but very active. OBOR showed some impact already and might further influence the bilateral cooperation in the future. Kazakhstan is moving closer to China as time passes and China slowly but decidedly develops its Soft Power in the country. Kazakhstan is only one example of numerous countries that agreed to work with China on realizing the OBOR initiative. Further questions could be how the respective countries react to the prospect of OBOR and how it influences their relationship with China and each other.

With this work I aimed to show, that China is working on a long-term strategy which aims at gaining soft power and influence over its neighboring countries and beyond. The OBOR initiative is not to be overlooked, but too young to see any significant changes yet. However, there are indicators for a growing Chinese influence. Even though costs are significantly higher than shipping by the sea, demand for railway transport services is slowly rising: In 2016 the Deutsche Bahn transported over 40 000 TEUs between China and Germany, a plus of more than 10%. Plans are to rise this number to 100 000 TEUs by 2020. According to Roland Berger's study, which was mentioned above, China's OBOR initiative serves as a particularly strong driver of the development of existing and new Eurasian rail routes (cf. Roland Berger 2017: 6).

The next decade will show OBOR's impact. Further studies can include studies concerning the political impact of OBOR to different countries and their economy, the implications of a multipolar world order, the role of the EU compared to the role of its member states. Economic approaches can also be interesting, as well as projects in the logistics field.

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