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CASA ASIA

May 2009



KAZAKHSTAN

MARCH - APRIL 2009

Bimonthly article

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Kazakhstan borrows \$10 billion from China

On 15-19 April, Kazakhstan's President Nursultan Nazarbayev made a state visit to China. As with previous events of this kind, official media did not cover the preliminary agenda of the trip and therefore the announcement of a substantial loan of \$10bn from China to Kazakhstan agreed upon during Nazarbayev's visit came as a surprise. Half the loan (\$5bn) will be granted by the China National Petroleum Corporation (CNPC) to the Kazakh state oil company Kazmunaigas (KMG) for investments in the energy sector; the other half will be granted by China's EximBank to the Development Bank of Kazakhstan for various infrastructure projects.

The \$5bn energy loan will enable CNPC and KMG to jointly acquire MangistauMunaiGas (MMG), a major oil producer in Kazakhstan, for \$3.3bn. The two state companies will each hold a 50% stake in MMG. The rest of the loan will be used to finance a gas pipeline that will connect fields in western Kazakhstan with the south of the country, an area that presently depends on supplies from Uzbekistan. For China, the pipeline could eventually become part of a gas supply route linking the country with Turkmenistan, where Chinese companies have been developing gas fields since 2007.

The \$5bn loan from EximBank will be earmarked for importing Chinese equipment to build non-oil infrastructure projects such as railroads and chemical plants. \$3.5bn will finance joint Kazakh-Chinese projects and the Development Bank of Kazakhstan and the Kazakh National Welfare Fund Samruk-Kazyna will distribute the remaining \$1.5bn. The MMG deal substantially increases China's stake in Kazakhstan's energy sector. Another major acquisition took place in 2005, when CNPC bought

a 67 per cent stake in PetroKazakhstan for \$4.2bn. The MMG deal is particularly important because it gives China access to Caspian resources. Interestingly, the Kazakh government previously indirectly blocked the participation of the Chinese company in the development of the Kashagan mega-project led by a Western consortium. The MMG deal shows that attempts to maintain the geopolitical balance of Western, Russian and Chinese participations in the energy sector of Kazakhstan are being threatened by the ongoing financial crisis.

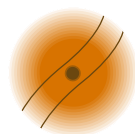
Investments in non-oil sectors have also triggered concerns among Kazakh experts and the public at large. Chinese loans are linked with the participation of Chinese companies and the procurement of Chinese goods. Few opportunities will therefore be created for local businesses that have already been suffering the consequences of the financial crisis. It is feared that Kazakhstan is turning into a natural resource appendix of the PRC.

China's role in Central Asia region has been growing exponentially in recent decades. The financial crisis is creating new opportunities for this country, which has the deepest pockets among the great powers engaged in the region. The \$10bn loan to Kazakhstan, Central Asia's biggest economy, clearly illustrates this trend.

Majlis passes draft Internet law: tightening control

On 29 April, the lower house of Parliament adopted a draft law -without much discussion- introducing amendments to the laws on information-communication networks. The key amendments concern the treatment of Internet resources (including blogs and chatrooms) as media, subject to legislation

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regulating media. The law would allow courts to block websites -including foreign sites- and enable prosecutors to suspend media operations.

The draft law was heavily criticized both by human rights activists and the opposition. If adopted, it would substantially curtail freedom of expression in Kazakhstan. Government officials insist that these amendments are necessary, claiming that the move will prevent the spread of information and disinformation that is liable to breed unrest and instability. In his presentation of the draft law to parliament, the deputy Prosecutor General openly referred to mass riots in France, Latvia, Lithuania, Iceland and Moldova, and said that these events prove that the media can trigger unrest and should therefore be controlled. Deputies were also informed that the EU laws regulating information are even tougher. Needless to say, they were quick to vote in favour of the draft law.

Experts have linked the new law on Internet resources to the overall attempts of the government to tighten controls in the political arena in these times of the economic crisis. The government is growing more insecure and wants to adopt preventive measures and at the same time it is losing badly needed points on the eve of the OSCE chairmanship, worsening its already dubious record in terms of political reforms in line with OSCE standards.

The successful uranium sector

The crisis is taking a toll on all of Kazakhstan's industries, barring uranium production, which is continuing to experience successful development. Kazakhstan holds one-fifth of global uranium reserves and has major ambitions in this respect. Kazatomprom (national uranium production monopoly) has joint ventures with Russia's Rosatom, Canada's Cameco, Areva of France and Toshiba of Japan, and plans to become the world's leading uranium exporter as early as 2009.

In April Kazatomprom and Toshiba Corp opened a new uranium mine, Khorasan-1. Once this mine is operating at full capacity in 2014, it will produce 3,000 tonnes of uranium a year. Some 2,000 tonnes will be shipped to Japan, which plans to import from Kazakhstan up to 40% of the uranium it needs for its nuclear power stations.

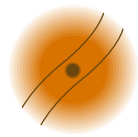
Kazatomprom is also engaged in negotiations with Chinese uranium companies interested in the development of Kazakh uranium. They are also discussing the possibility of enriching Kazakh uranium in China (at the moment, this process takes place in Russia).

Kazakhstan has great hopes for its blooming uranium sector insofar as it expected to fuel the country's economic development and enable it to diversify from the oil economy.

The nuclear fuel bank initiative

During Iranian President Mahmoud Ahmadinejad's visit to Kazakhstan in early April, President Nazarbayev caused a sensation by announcing that Kazakhstan is ready to consider hosting a global nuclear fuel bank. The nuclear fuel bank is part of the US-led plan to put all uranium enrichment under international control in an attempt to prevent further proliferation of nuclear technologies. The bank would allow countries to acquire fuel for their nuclear plants without having to develop their own enrichment capacities.

The notion that Kazakhstan could become a host country for a nuclear fuel repository was first put forward by America's non-governmental Nuclear Threat Initiative fund. Kazakhstan has a good record thanks to its decision to voluntarily get rid of nuclear weapons in the wake of the collapse of the Soviet Union and its support of all non-proliferation initiatives. It has a developed nuclear fuel infrastructure. In addition, its population is



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predominantly Muslim which will make its candidacy more appealing to many non-Western countries.

Hosting the global nuclear bank would enhance Kazakhstan's political status and its importance in international affairs. However, the initiative has also sparked criticism. Those opposing it point to the negative consequences of setting up this bank on Kazak territory (pressure from other states, political instability, problem of nuclear waste, etc). Details of the creation of this bank have yet to be forthcoming.

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