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A Review of China-Kazakhstan Economic Relationship during the 21st Century

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Abstract: Economic diplomacy promotes a state's national interest through economic apparatuses. China has efficiently applied this craft in Central Asia and other parts of the world through infrastructure development projects which in turn would make China better off in energy, economy and security. The Central Asian Republic of Kazakhstan is the largest landlocked country in the world which shares a long border with China. This former Soviet Republic has pivotal strategic potential due to its location and massive natural reserves. Since China's energy needs are ever-increasing because of its enormous industrial capacity so she is preferably considering Kazakhstan for energy partnership. Two out of six economic corridors of "Belt & Road Initiative" (BRI) of China are also passing through Kazakh Republic. These considerations make Kazakhstan specifically and Central Asia generally a centre of China's attention. In that perspective, the instant study investigates China's economic policy towards Kazakhstan. A qualitative method of reasoning is followed to find the results. It reveals that Kazakhstan has obtained a central role in fulfilling the energy requirements of China.

Introduction

During the 1990s, China emerged as a strong economic power, but its initial focus was on the growth and expansion of local industry, poverty alleviation, economic reforms and infrastructure development. In the wake of the 21st Century, it gradually stretched and expanded her activities internationally. One might hold that China's economic development and indigenous growth have exported its character globally. Moreover, the disintegration of the Union of Soviet Socialist Republics (USSR) and its regional implications also contributed to Chinese fortification across its neighboring regions. China now equated and had in fact been, surpassed many global actors through its diplomatic weight nevertheless, most

of its diplomatic endeavors were primarily economic in nature.

This Chinese economic concentration triggered many infrastructural projects across the globe. It might be safely observed that the "Belt and Road Initiative" (BRI)of China was the world's largest economic integrator. More than 140 countries have joined that mega project until now (Sacks, 2021). China inaugurated this project in the year 2013 in Kazakhstan. This Central Asian region had special significance for the said project owing to its geopolitical and economic resources and potential. Already rich in hydro-carbons, Central Asia now had become a Eurasian junction because of the said project.

Chinese Dream

At the end of the year 2012, the Chinese Communist Party's 18th Congress formalized the beginning of a new era, under the 5th generation of its leadership. The Chinese President and new Party Secretary Xi Jinping devised the term "Chinese Dream" in his speech. His strategy for economic revival and governance had become greatly popular in public discussions and at policy forums due to its visionary nature.

China considered the economy as the most appropriate tool for the pursuit of her national accomplishments interest. Now economic through diplomacy have gained popularity in the international system. The 5th generation of Chinese leadership, i.e. the current Chinese President Xi Jinping, had vigorously incorporated economic diplomacy in letter and spirit. After the global financial crisis of 2008 and the consequent economic uncertainty, China appeared with new growth ambitions across the globe. This new policy shift in China was rooted in its status as the second-largest world economy after the United States of America (USA). The said exclusive growth fitted China's new vision of becoming the sole economic giant throughout the globe. This notion of global economic revival reorganization by China guarded and promoted her national interest and extended her influence internationally (Daojiong, 2015).

Kazakhstan and China

In mid-90s, China focused on strengthening its ties with Kazakhstan since the policymakers in China considered Kazakhstan as an essential ally for the accomplishment of their financial targets through the BRI. Kazakhstan enjoyed unique significance due to its geopolitical location and proximity to China, which added up to China's advantage through trans-regional trade access. These gains included the availability of diversified trade routes, energy security and domestic socioeconomic development as that collaboration would also promote stability in Xinjiang, i.e. western province of China facing violence because

of the Uyghurs. The foregoing benefits of BRI fulfilled basic geo-economic axiom, which complemented regional stability and security. China as the largest energy importer from comparatively unstable African and Arab countries. alwavs considered her trade vulnerable. Most of its supplies had to cross through the Strait of Malacca, which was mostly dominated by the USA and its allies. Against the backdrop of the War on Terror (WOT), Kazakhstan and other Central Asian states had already gained strategic importance globally with the start of the 21st Century. The region offered comparatively more stable land-based routes and transit of international trade (Zogg, 2019).

Kazakhstan possessed 12% of the world's uranium reserves and produced roughly 21,800 tU of Uranium in 2021. In 2009, its share of global uranium production was 28%; hence it had risen to the top spot among uranium producers. In 2019, Kazakhstan generated 43% of the total Uranium consumed across the globe. Moreover, from 1972 to 1999, only a single nuclear power plant in Russia produced electricity and desalinated water. Kazakhstan had a sizable plant that produced nuclear fuel pellets and eventually wanted to sell more than simply Uranium. A fuel manufacturing facility was being constructed with a 49% share of Chinese investment.

Kazakhstan has been a significant uranium supplier for more than 50 years, and in 2009 it overtook Russia, which was enjoying the status of largest uranium producer in the world. From 2114 tU in 2001 to 24,689 tU in 2016, the annual uranium production of Kazakhstan grew before significantly declining as a result of low uranium prices. Production increased by 5% to 22,808tU in 2019 but decreased by 19477tU in 2020 as a result of the Coronavirus pandemic. Her National Atomic Joint Stock Company Kazatomprom had proclaimed that it anticipated the production to reach up to 22,000 tU, which would be up from 2021's production of 21,819 tU. Ten of Kazakhstan's 13 uranium mining projects were joint ventures with international equity partners, while three were fully owned by Kazatomprom. With a production share of 10,736 tU in 2020, down from 13,291 tU in 2019, Kazatomprom outperformed Orano, Cameco, and Uranium One. It is worth noting here that Kazatomprom's contribution to uranium production in 2021 was 11,858 tU (Uranium and Nuclear Power in Kazakhstan, 2022).

The abundance of both Uranium and Oil would prioritize Kazakhstan and other Central Asian states for China in time to come. Throughout the 1990s, Central Asia's major trading allies were Russia and the European Union; nevertheless, the current trends expressed a significant increase in economic interactions with the East Asian region, particularly with Korea and China. Before the disintegration of USSR, Russia was a major trading partner with Central Asian countries. Today China has grasped a considerable share of that. Now Central Asian states heavily rely on China for the trade of their petroleum resources (Lee, 2018).

Economic Imperatives for Kazakhstan

To some extent, Kazakhstan had witnessed economic stability after its independence from USSR in 1991 up till the global economic crisis of 2008. In order to reduce the weight of inflation and maintain essential stability, access to foreign financing from China was necessary for Kazakh Republic, when the 2008 global crisis began to impact the economy of Kazakhstan. Astana (Kazakhstan's old capital, now known as Nur-Sultan) initially tried to prevent deflation of the national currency Tenge. However, the financial toll of the downgrading pressure was seen in 2009 when Kazakhstan's foreign exchange assets had been significantly depleted by US\$3.5 billion as a consequence of the decision of "National Bank of Kazakhstan" to allow the Tenge to depreciate against the US Dollar by 16%. The currency underwent a further depreciation of 18% in a single day because of the administration's problematic investment in money balancing. It became increasingly difficult for the banks in

Kazakhstan to manage their external obligations stockpiled in foreign currencies as a result of a decreased value of Tenge in terms of the exchange rate. Kazakhstan's financial problems were mostly caused by an inability to manage its external debt. The inflation rate in Kazakhstan remained quite high during the period 2007-09, ranging from 6% to 18.7%. The said factors resulted in an increased dependence on foreign loans, which financing allowed Astana to reduce inflationary pressures and to, protect her financial system and maintain the necessary portions of financial reserves (Usman, 2019).

Infrastructure Development

The construction of infrastructure was the prime objective of the BRI. Asian Development Bank estimated an amount of 8 trillion US\$, which was be invested for the development of infrastructure in Asia during the decade ending in 2020. The BRI was intended to construct a network of transportation routes for energy, materials and goods. These corridors would have to be the state-of-the-art networks of transport lines, strong logistical systems, warehouses and efficient freight services. These consortiums would be facilitated by standardized norms, integrated legislation, convenient custom processes, and insurance and trade financing. The main aspect of this plan was to increase connectivity within the region of BRI. All these ensure measures would cost-effective transportation of goods and logistics. China has vast experience in developing infrastructure. The "Fung Business Intelligence Center" reported that, in the last four decades, China had spent US\$ 20 trillion on its domestic infrastructure development. Chinese style economic development model rested upon infrastructure development which in turn triggered its industrial and economic development in the 1970s and 1980s. Companies from China have demonstrated their expertise in many leading developmental projects in recent times. The high-speed bullet trains in China running through high altitudes in harsh weather conditions created an impressive

impact on the global infrastructure market (Laruelle et al., n.d.).

The BRI spreads around three dimensions of the geographical territory of Kazakhstan. The northern side of BRI route outspread from "Nur-Sultan" to "Yekaterinburg", Russia, to European Continent. The 2nd part passed through Atyrau Port, Caspian Sea, Kazakhstan, Azerbaijan, Georgia through Turkey, consequently evading Russia. The 3rd Branch or Southern side stretched to Iran and Oman through the Republic of Turkmenistan. Due to its strategic placement in the center of Eurasia, Kazakhstan didn't have to campaign for the usage of a certain branch but to benefit from her geography and logistics. Investments in transportation infrastructure, commerce, and the economy were the three top priority sectors of China-Kazakhstan economic cooperation that had been merged with the overall strategic priorities of the BRI (Pieper, 2020).

Furthermore, nineteen transportation routes had been planned and proposed in Central Asia and Caucuses region under the umbrella of BRI. Six out of those nineteen routes passed through the Republic of Kazakhstan. The 1stof them was the New Dry Port of Khorgas, "New Rail Terminal, Truck Terminal, Logistics Centre& Free Trade Zone" between China and Kazakhstan. That was started in the year 2012 and became operational in 2015 (World Bank, 2020). That was the largest dry port in Central Asia with an area of 129.5 hectares, situated in the Zharkent, Almaty region on the Kazakh-China border. That port operated for all kinds of heavy and commercial transportation and provided other complementary logistic services (Khissimova, 2021). The 2nd was "Khorgas-Aktau Rail Project" comprising railway passages spreading over 293 km from Khorgas to Zhetigan, 546 km from Jezkazgan to Saksaulsky and Beyneu to Salkar tracks, which were constructed during the years 2014-2016. The 3rd was "Aktau Sea Port Expansion" which contained a sea link, container port and expansion of an old port constructed earlier in year 2000. The said

container port was established in the year 2014, but the expansion work was still under process. The 4th was "North-South Uzen-Gorgan Rail Project" from Uzento Bolashakto Serkhetyaka Bereket (Turkmenistan) to Gorgan city of Iran. The Kazakhstan-Turkmenistan-Iran railway was officially inaugurated in December, (Kazakhstan - Turkmenistan - Iran railway is of strategic importance for Silk Road revival, 2020). The 5th was "Baku-Alyat seaport", which linked Azerbaijan and Kazakhstan to Turkmenistan; that sea link was also established during 2014-2016. The 6th was the "Atyrau, Shymkent, Astana, Almaty" plan which anticipated modernization and expansion of the existing infrastructure (World Bank, 2020).

China-Kazakhstan Cooperation in Energy Sector

Kazakhstan was the first Chinese investment avenue in the Central Asian region. In June 1997, China negotiated with her an agreement in the petroleum sector (Aktobe, 2017). Chinese enterprise "CNPC" outdid the major international oil companies like Yuzhnimost, Amoco and Texaco to build the Uzen field, estimated 205mts of deposits in Kazakhstan, which would cost \$9.5 billion. 2000km oil pipeline to China was to be constructed with \$3.5 billion and other \$4.3 billion was to be paid to Aktobemunaigaz "AMG" Kazakh Oil Company (Liao, 2021).

China deeply depended on fossil fuel and oil imports for its huge domestic industry. Most of its energy needs were fulfilled by Arab and African countries. Central Asia had huge natural reserves of valuable resources like hydrocarbons and Uranium. That proximity of China with Central Asia, especially through a long shared border with Kazakhstan had provided a great opportunity to China for an energy partnership with the neighboring Kazakhstan.

Moreover, as mentioned earlier, Kazakhstan's had huge Uranium resources, which constituted nearly 20 per cent of known global reserves. Their estimated weight of one to one-and-a-half

million tons provided a decent reason for Chinese interest in that country. According Kazatomprom, the said reserves would maintain their level until the year 2050. In 2001, Kazatomprom and the "China National Nuclear Cooperation" started negotiations to launch a joint venture for uranium exports to China from Kazakhstan. In 2004, Ulbinsk metallurgic plant at Ust-Kamenogorsk in Eastern Kazakhstan, which was owned by the National Atomic Agency of Kazakhstan opened its subsidiary in the city of Shanghai for the trade of beryllium which was used for the enrichment of Uranium. These two companies had signed an agreement for the extraction of Uranium back in 2004, which lasted until 2020. After one year of the said treaty, agreement, another i.e. the "Strategic Cooperation Treaty", was signed for strong ties in the atomic energy sector. That treaty intended to enhance the unification of the industrial cycle for the enrichment of Uranium. In 2006 a new signed agreement was between "China Guangdong Nuclear Power Holding" Kazatomporom for the purpose of supplies from Astana to Chinese power plants. Within this mechanism, Kazakhstan offered China nonenriched Uranium. That Uranium, in turn, was enriched by China and afterwards, it was sent to Ulbinsk plant for the production of fuel (Peyrouse, 2008).

In the energy sector, Kazakhstan has always enjoyed self-sufficiency in addition to her reputed energy exporting profile globally. The "Tengiz" Oil Field was the 6th biggest energy enterprise in the world, with estimated global production of 3%. It had 170 functioning oil fields. Although Kazakhstan had no domestic problem with energy security due to its rich deposits, it had issues with the export of its energy. This former USSR Republic (Kazakhstan) had still not come out of Russian reliance and influence over its export outflows. It was still dependent on Russia for the export of oil through historic trade routes to the Western Hemisphere. China still had very few oil imports from Kazakhstan, which was raised to only 4% in recent times. That little share curtailed the Kazakh oil flows to international competitive markets. Consequently, Kazakhstan had to vary its export routes to reach out to new buyers and substitute routes (Sagsen & Turan, 2021).

Nevertheless, it was not very convenient and simple firstly because, after Kazakh Republic's independence from USSR, its inability to employ its energy reserves efficiently offered other oil companies a reasonable bid to buy her assets and make some productive investments in the Furthermore, country. Kazakhstan landlocked and had no excess to sea for the export of its oil, so it was not likely for the state to bypass its neighbors for international trade of oil and energy security. Another important factor was her proximity as the most important Kazakh oil and gas fields were near Caspian Sea which was far away from the Chinese border. It made the oil and gas pipeline a costly proposition for China as compared to Turkmen and Russian oil and gas. All these factors collectively made up a challenging situation for Kazakhstan to attract new investments in alternative pipelines. Moreover, in addition to the lack of domestic resources to invest in the oil and gas industry due to its heavy cost, the ever-fluctuating oil and gas prices were the cause of distress for the Kazakh republic (Sagsen & Turan, 2021).

AS viewed from the Chinese perspective, it might be noted that because of her growing industrial and public requirements, China which was earlier an energy-sufficient economy, had to turn itself into an oil and gas importer country. The fastest growing economy of China consumed 20% of global energy and had a 60% share in the global import of crude oil. It had now surpassed the USA and enjoyed the status of the largest oil importer (Nabiyeva, 2019).

Challenges in Energy Sector for China

A few years back, it was commonly believed in Kazakhstan that China would gradually take over the country's energy sector, which has not taken place yet. The Sino-Kazakh intergovernmental

agreement on cooperation in the oil and gas sector celebrated its 25th anniversary in September 2022. The first investment made by the government-owned "China National Petroleum Corporation"(CNPC) was to hold a 60% share in AktobeMunai Gas (AMG), which Kazakhstan's 4th largest oil company situated in the Aktobe province of Kazakhstan in northwest of China. Later, CNPC took control of the entire business, which was now known as CNPC-AMG. At the time, China also promised to construct a 2,200-kilometer pipeline from western Kazakhstan to her own province of Xinjiang. Since the time it was put in place, the channel has been used to pump about 150 million tons of oil eastward. According to the data presented at a CNPC-sponsored conference in Almaty in November2021, the CNPC, since 1997, has invested more than \$45 billion in Kazakhstan's oil and gas industry. Although it was a significant amount, the trend had not traditionally been one of upward growth. China's involvement in Kazakhstan's oil and gas sector has decreased proportionately in recent years. It was evident from the fact that China's contribution to the country's oil production 31% in the year 2010, which had now been decreased to 16%. According to the National Bank of Kazakhstan, cumulative investment in the oil and gas sector had also been declining, falling from \$3.7 billion in 2013 to \$1.3 billion in 2021 (Kumenov, 2022).

Since the last decade, China had established a comprehensive strategy to expand its trade internationally. The said policy accompanied an approach to support and expand infrastructure in different countries. As mentioned earlier, that infrastructure would be used to reduce trade cost and enhance the transportation of trading commodities. China had already witnessed tremendous growth in the domestic manufacturing industry but its new economic outlook would further promote its indigenous manufacturing capacity. Through these economic steps the country would also tackle the political and social disorders like irredentism, poverty and wage gap. Through BRI, the strengthening of infrastructure was the first priority for China. Recently Chinese adopted the economic policy to establish its trade and investment links in almost 65 countries around the world (Toman, 2019). That mega project would provide great opportunities to Chinese businesses to grow internationally and attract as much investment as they could. The regions of Central Asia, South Asia, South East Asia and Europe would be closely linked with China through the channels of BRI. Additionally, it would bring African and Gulf states in China's direct trading zones. That would allow China to align its interest with other states world around the through economic interdependence and integration. Due to its totalitarian system of governance, China did not enjoy a very appealing political image globally but enjoyed only a significant economic influence. This long-term Chinese strategy as mentioned above would enable China to deter criticism and propaganda from Western democracies. It would further help China to achieve the strategic goals of extending her military stations. Extending her political and diplomatic outreach could also be achieved through this arrangement.

At the end of the 20th Century, a new Chinese approach had led to trillions of dollars of Foreign Direct Investment (FDI) in different countries globe. Mining the manufacturing and infrastructure had been improved through this FDI. That sort of investment had been quite popular in recent times because, it allowed the host countries to control or curtail the amount of influence brought in by investors or donors. African continent was the third biggest recipient of Chinese investment after Asia and Europe. Many of these countries had favorably welcomed the said Chinese investment due to their fragile relations with USA. China consequently had become a dominant investor in the region surpassing many Western investment bodies. That inflow of Chinese capital had created jobs, strengthened local markets and commerce linkages to local firms of the African region. Moreover, a spillover effect had fostered the flow of knowledge in domestic sectors. On the other hand it had also prompted the perception in different experts that it was a form of debt-trap diplomacy. That type of diplomacy typically extended international credit to a country which technically could not afford to pay back its financial liabilities (Toman, 2019).

Shanghai Cooperation Organization, China and Kazakhstan working Triage for BRI

The Shanghai Cooperation Organization (SCO), after its expansion to include two South Asian neighbors, Pakistan and India, had grown to be the most populous regional organization with significant market potential. The SCO, which was initially founded as a security cooperation organization, had since developed into a crossregional organization with stronger ties in a variety of spheres. While SCO had assisted BRI in formulating shape, BRI, in turn, would enable SCO's core vision of multilateral cooperation to be materialized with the help of the spillover effects of its developmental design. The hope for cooperation as actually sowed by SCO was germinated and paved the way for BRI to realize shared aspiration through that greater cooperation in economy, trade, energy, agriculture, tourism, and culture among countries along the BRI would be worthachieving. Notably, the strategic platform for BRI was provided by its placement in the SCO's geographical regions, which also provided guidance and ensured the economic and trade security of the participating nations. The adoption of the BRI and the negotiation processes for its implementation would be adhered to strictly since the SCO had effectively governed multilateral cooperation across all fields. Despite the fact that the BRI's geographic scope was undoubtedly much greater than that of the SCO, the Shanghai Spirit, which was based on "mutual trust, respect, equality, regard for diverse civilizations, and the pursuit of shared development" had offered a fresh framework for negotiation and cooperation for the successful implementation of BRI. Just like the "Spirit of Silk Road," BRI's fundamental tenets were based on

cooperation, "peace and openness and inclusivity, mutual learning and mutual benefits" in order to eradicate political, economic, and cultural differences that were largely attributable to the region's geographic diversity (Yiwei 2018). Wang Yiwei believed that the objectives of both the SCO and BRI were to create strategic development, cooperation, support and governance encourage globalized via consultation, joint construction, and establishing a new type of international relations globally. The SCO's objectives as a body for regional cooperation were very broad, and the main pillars of its foundation were potential collaboration in three areas: (a) regional stability and eradication of the evils of terrorism, extremism, and separatism; (b) economic cooperation; and (c) strategic cooperation. When national interests converged and action was taken, maintaining regional stability was the SCO's top priority. That was the principal arena focused by China, forcing her to monetize its control over Central Asia and to counter US efforts in that region (Pradhan & Mohanty, 2021).

It would not be an exaggeration to say that the SCO's establishment and operations were extremely significant for the Republic of Kazakhstan. The SCO was a legal institution and commitment to universally principles of international law was the first rationale for its acceptance by the regional countries. The second was the nature of the goals that the SCO sought to achieve, namely: (1) the upkeep of both global and regional security through cooperative action based on equal partnership; and (2) the development of close economic, social, and cultural cooperation among its Member States in order to promote comprehensive and balanced economic growth and steadily raise citizens' standards of living. The Republic of Kazakhstan's foreign policy, on the other hand, was strongly focused on the ideals of cooperation and friendly ties with other nations and was founded on unwavering adherence to the rules and standards of international law (Article 8 of the Constitution of Republic of Kazakhstan).

The Republic of Kazakhstan's essential values were also enshrined in the Constitution, with the top two being economic growth for the benefit of all citizens and social cohesion and political stability (Paragraph 2 of Article 1 of the Constitution of the Republic of Kazakhstan). Although the application of these principles did not fall under their formally established hierarchy, it could be argued that that order aligned the characteristics accurately Kazakhstan's modernization and the philosophy of her first President, N.A. Nazarbayev, regarding the evolution of the country's government: "Economy first, politics next," and "Democracy is not the beginning but the end of the road". Since attaining the domestic stability and economic growth would inevitably led to the provision of both global and regional security as well as the growth of trade and economic relations with neighboring countries, there was every reason to believe that the SCO was fully consistent with Kazakhstan's vital interests. As a result, the Kazakh government actively participated in the SCO (and in many areas of cooperation, it even acted as a driving force) and keenly encouraged the achievement of its goals (Rozanov, 2013).

Given Kazakhstan's economic structure, more BRI connectivity was anticipated to be correlated with greater spatial concentration rather than the dispersion of economic activity within nations, which could translate into greater prospects for some regions relative to others. The majority of the benefits anticipated from the increased connectivity did not result directly from the lower trade costs; rather, they came from income gains related to the responses of economic agents that tended to increase scale and profit from agglomeration by situating themselves close to other businesses that engaged in similar and related activities. The predicted extra gains could be significant given Kazakhstan's potential for agglomeration (a strong manufacturing base, larger metropolitan regions offering chances for specialization and clustering). According to the findings of a spatial general equilibrium model for Central Asia, Kazakhstan would benefit from a decrease in transport costs by about 1.9 percent, which would be higher than the sub region's overall gain of 1.4 percent. However, under a scenario with very little economic adjustment or under the premise that goods traded internationally were distinct for every country, the real income increase for Kazakhstan was smaller (i.e. consumers could change behavior, but firms remained in their location). As economic activity concentrated in areas with greater potential for agglomeration of economic activity, allowing businesses to relocate or assuming labor mobility and improving return to scale in manufacturing greatly enhanced the real income gains for Kazakhstan (World Bank, 2020).

Conclusion

China demonstrated strong economic attraction towards its neighbouring regions. This attraction was generalised through the announcement of BRI project by China's President in 2013. Kazakhstan possessed an important position in this generalised view of economic integration. It's due to her geostrategic location and economic potential for the whole of Central Asia. China and Russia both share a long border with Kazakh Republic. It is the largest land-locked country in the world. Kazakhstan has hydrocarbon and uranium deposits. Caspian Sea also adds up to the advantage of this Republic. Moreover, Kazakhstan was the founding member of Shanghai Five in year 1996 which was later modified into "Shanghai Cooperation Organization" in year 2001.In the contemporary economic competition where China is thriving and growing along all axis, an all-inclusive collaboration with China is vital for Kazakhstan's long-term foreign policy goals. Likewise Chinese leadership is trying to use its soft power and cultural might to secure its economic interests in Central Asia. Kazakhstan is playing significant role in BRI project. China and considers energy security connectivity through this former Soviet Republic a very important part of its economic aspiration. The infrastructure development in Kazakhstan by China and nuclear cooperation between both countries certified Chinese interest in Central Asia and Eurasia.

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