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## Oil sector development strategies and processes in the Republic of Kazakhstan

In the 21st century with growing demands of oil and gas worldwide, one can observe the rising interest in resource-rich countries in Caucasian and Central Asian regions. The possession of vast natural resources and major powers' interests in it do not always guarantee successful development for a country but in some cases they have an influence on its future. For a state like Kazakhstan that is highly dependent on its production and export of raw materials, the development of oil sector plays a key role in the country's economic growth and prosperity. During the past two decades Kazakhstan was making serious decisions on formation and implementation of important projects in developing the oil industry for the country's progress. Nowadays, the Republic of Kazakhstan is getting involved in a big number of projects for purposes of oil sector development and becoming one of the international key oil suppliers. This article explains the process of oil development, its challenges in the Republic of Kazakhstan taking into account the international and domestic issues.

*Key words:* Oil, Kazakhstan, Central Asia, independence, development, foreign investment, consortiums, economy, state-building, security, oil companies, nationalization, energy politics, Russia, China.

### INTRODUCTION

In the early 1990s after gaining independence, the Republic of Kazakhstan began establishing friendly relations with major powers and neighboring countries as well as taking an active role in international institutions, which emerged in post-Soviet space in order to provide its own secure and stable development.

One of the greatest challenges in oil sector development is strong dependency dilemma vis-à-vis Russia with tight integration in the pipeline export system and lack of its own refineries. Efficient oil field development required all the processes that need good capital and time to establish a reliable infrastructure. Despite the evolving cooperation with the West and the signing of profitable oil agreements, the Kazakh government has always acknowledged Moscow's authority and welcomed its active participation in its oil industry construction.

The purpose of this paper is to understand development strategies and processes, and analyze the number of economic and technological challenges which are connected to structural and historical issues — For instance, inherited post-Soviet oil sector underdevelopment, which affected the early years of sovereignty when Kazakhstan's main priority was enormous oil export to cope with socio-economic challenges.

The article starts with the defining of the concept of development with one of the largest issue in the 1990s — the collapse of the USSR and the post-Soviet transition, continues with narrowing of development in Kazakhstan, the overview of the domestic processes during the formation of the state, its newly introduced development strategies designed for taking into account the country's huge potential and resource wealth, and ends with the problems faced in the process of development.

#### 1. Defining development

The term «development» has diverse meanings with regards to different countries as each country has its own priorities in development strategy. In various countries the process of development focuses on different areas, most likely economic, political, cultural or social concerns — however, the multidirectional development for the majority of countries was challenging, controversial and not always successful.

Due to the emerging globalization in 1990s, it was essential to take into consideration internal and external factors in order to understand development processes (Scholte, 2005) [1]. In the same decade the strategies of development had experienced some modifications, where one of the basic requirements was the three-way partnerships with national governments, international donors and international institutions (Haynes, 2008) [2]. Before making an analysis of the international debates and issues in terms of development, we need to define and understand the basic meaning and nature of development.

The major meaning of the development was determined as «change». Robert Chambers (1997) [3] described the development in positive way as a «good change», although there is an opinion that development can be called «bad change» to some extent. The existence of various theories, approaches and analyses make the development purposes harder to define. In accordance with Paul Hopper (2012) [4], who stated in the book «Understanding development» that, the development can be influenced by domestic and external fac-

tors such as cultural and historical influence, economic and political stability, natural resources and in some particular cases by their development strategy that is being pursued (p12).

## **2. USSR collapse and development processes of Former Soviet countries**

In the 1990s one of the most important processes was the issue of the collapse of the Union of Soviet Socialist Republics, after which the fourteen newly established countries faced two major problems: economic weakness and political instability. The collapse of the Soviet Union opened the gates for the new development and Central Asian states were given the opportunity to grow rapidly in economic and political sphere.

Following the collapse of the Soviet Union, several integration organizations and institutions were established and the new era of international relations in post-Soviet space was born. Due to the developments in geopolitics in the past decade it became impossible to predict the shifts in the Kazakhstan investment policy making «the energy game as high as ever». After the collapse of the Soviet Union all republics became independent but remained dependent on each other, on Russia in particular. Kazakhstan's economic development was tightly integrated into the Soviet economy system.

During Soviet times, Kazakhstan was the main supplier of the raw materials, thus, due to the absence of the close cooperation between former Soviet republics in industrial sector, the volumes of raw materials produced declined in five year term of post-Soviet transition and a scarcity in the economy emerged. Kazakh SSR's economy was concentrated on extraction and production of raw materials such as coal, oil and gas and during the years of early independence Kazakhstan lacked the internal industrial connections: pipelines and refineries (Ketenci, 2008) [5]. Due to the high degree of the integration of the Soviet countries in economic structure, the former countries faced the challenges in fighting the economic issues on their own (Dixon, 1994) [6]. The oil sector suffered from several handicaps during the 1990s, the pre-existing pipelines were controlled by a Russian monopoly which discriminated against Kazakh oil (Pomfret, 2005) [7].

Despite the vast opportunities in Central Asia in the energy investment field, many foreign companies evaluated the risks that they could face in the region due to instability, before investing. Mainly, foreign investment companies concentrated on providing technology and expertise for the oil and gas fields' development, staying highly concerned with the issue of security of export opportunities (Dorian, 2006) [8].

## **3. Kazakhstan development strategy**

At the end of 1991, after the disintegration of the Soviet Union, Kazakhstan appeared on the international arena as a state without any political institutions or staff that was essential to providing further state-building; the Kazakh ruling elite were determined to get an advantage due to having abundant natural resources for establishing their country's sovereignty and further development. Therefore, in the mid-1990s the Kazakh government's main focus was the development of oil sector. Due to the absence of the economic disasters following the collapse of the Soviet Union, Kazakhstan had human capital, vast natural resources, quite high initial income and a huge flow of foreign investments which expected an experience of significantly better development but faced substantial challenges (Pomfret, 2005) [7].

After becoming independent, Kazakhstan had no choice but to follow a flexible foreign policy to attract foreign investments on the one side and on the other to stay under the influence of Russia, to achieve an efficient way of solving problems in terms of state-building and economic reconstruction (Ipek, 2007) [9]. Kazakhstan tried to produce and sell to the international market as much oil as they could for purposes of faster development, including neighboring major powers in their energy partnership and development strategy.

All the post-Soviet countries during their early stage of independence chased the individual strategies for the energy sector development; Kazakhstan chose the way of privatization and sold a significant part of their shares in the oil and gas industry to foreign companies. It is highly important to take into account the internal factors and its impact on oil and gas development as a core for state income (Bukkvoll, 2004) [10].

The beneficial geopolitical location of Kazakhstan with the advantages of vast oil reserves has raised debates in the international relations arena over the big majority of development processes in Newly Independent Central Asian states. In the period from 1991 till 1996 the initial recovery was becoming more evident after the implementation of an efficient regional policy which was based on work with foreign investment companies in oil and gas while state investment dramatically fell in all the economic sectors.

During the transition, Kazakhstan economy experienced the wave of the hydrocarbon field privatization and big percentage of the shares were bought by foreign investment companies, among them were British Gas, Agip, Chevron Texaco and Russian LUKoil (Ketenci, 2008). Because of the extreme interest of foreign companies to boost the production volumes and hence invested considerable amount of money to increase

quality of technology expecting that these funds in Kazakhstan economy would result in a high efficiency and productivity.

Luong and Weinthal (2001) in their article «Prelude to the Resource Curse: Explaining oil and gas development strategies in the Soviet Successor States and Beyond» suggest two assumptions regarding the energy development strategies: firstly, national leaders are aiming to maximize state sovereignty in order to have greater control over natural resources, secondly, they state 4 ways of oil and gas development:

1. nationalize (or retain state ownership) with indirect international involvement (N1),
2. nationalize (or retain state ownership) with direct international involvement (N2),
3. privatize with indirect international involvement (P1), or
4. privatize with direct international involvement (P2) [11].

In the Republic of Kazakhstan, the state leaders made a decision to privatize the energy sector with direct international investments, before they started to export their oil and gas abroad (P2 strategy). In 1990 Kazakhstan has introduced a privatization program which later, sold some part of the ownership of the enterprises to other international companies on a periodic basis. In terms of pipelines, Kazakhstan was convinced to follow a multiple policy and any other options for the export route to the international market were welcomed by the government (Ismailova, 2011) [12].

The privatization was adopted in order to quickly increase the income and establish the ground for developing relationships with prospect allies. Energy development strategies can be modified from time to time taking into account international factors. In the case of Kazakhstan, good maintenance of adopted strategy can guarantee sustainable development and positive economic prosperity.

In 1997 the Kazakh president Nazarbaev introduced the development strategy — The «Kazakhstan 2030: Prosperity, Security and Ever Growing Welfare of All the Kazakhstanis» with long-term objectives — it outlined seven first-priority strategic goals:

- 1) national security;
- 2) domestic stability and consolidation of the society;
- 3) economic growth based on an open market economy;
- 4) health, education, and welfare;
- 5) effectively utilizing energy resources;
- 6) transport and communication infrastructure;
- 7) the professionalization of public administration.

In this strategic document Nursultan Abishuly Nazarbayev has claimed that the basic principle of the Kazakhstan's development is that economic development is precedent over political one. He underlined the importance of concentrating on dealing with issues in economic policies and only thereafter to pay attention to political modifications. Strategists set the due date in 2030 when Kazakhstan will run out of the oil deposits and it is expected to find an alternative source of energy. The description of the third and fifth priorities further development will be detailed below. The main direction of the Kazakhstan's foreign policy is the strengthening cooperation and partnership in economic and political spheres, primarily with its neighboring countries — Russia, China and the Central Asia states.

Third priority in Kazakhstan's Development strategy is to establish an open market economy with big flows of foreign investments and domestic savings. The Strategy underlines substantial but limited role of the government in economic field; Kazakh government's aim is to create favorable climate for foreign investments in the prospect industry sectors.

The fifth priority is focused on Kazakhstan's energy resources development and is built on five points for its utilization strategy:

- concluding long-term contracts with major international oil companies in order to obtain technologies, know-how and to attract major companies to ensure that the natural resources of the country are effectively exploited;
- building a pipeline system for oil and gas exports;
- attracting investments from the USA, Russia, China, Japan, and Western Europe in Kazakhstan's oil and gas sector;
- maintaining self-sufficiency and competitive independence of domestic energy infrastructure through foreign investments;
- sensible spending of future revenues.

The importance of these points mentioned above are underlined by Enrique Palazuelos and Rafael Fernandez (2012) who stated that the oil and gas development consists of two parts: domestic (exploring new

reserves, drilling crude oil, and refining petroleum products) and outward (transport routes, main customers, sales conditions, and distributions of export revenues) [13].

#### 4. Oil sector development

If in the 1990s, the Kazakh government stressed the oil exports, in 2000s the government's efforts were directed on oil and gas processing industry and establishing a well integrated oil and gas chemical industrial complex. Kazakhstan is a landlocked country sharing borders with Russia, China, Kyrgyzstan, Uzbekistan, and Turkmenistan; its profitable geopolitical location with huge revenues of natural resources including oil, gas and uranium has led to the major powers' interests and consequently to the country's macro-economic growth. Amongst the ex-Soviet republics Kazakhstan is the second largest oil producer after Russian Federation, and in the near future is planning to join the top 10 oil and gas exporters (Zabortseva, 2012) [14].

The number one priority for the Kazakhstan president was to create a good foundation for the Kazakh control over the country, meanwhile saving the good and beneficial relationship with Russia. Kazakh oil industry's rapid growth has led to some international controversies with involvement of Russia, the United States and China. For instance, the Kashagan oil field played significant role in the controversies mentioned above due to believes that this might be the largest oil discovery in the last 35 years (US EAI, 2008) [15].

In 2005 a decision has been made to establish a sustainable development fund «SamrukKazyna» to manage the projects of economic modernization and diversification.

In recent years, Kazakhstan decided to modify its investment policy «from providing favorable incentives to foreign investors to minimizing these preferential conditions and re-enforcing national stakes in the Republic's oil reserves.» (Zabortseva, 2012, p171). One more development that we can observe in Kazakhstan's foreign relations is connected to the ties in cultural, historical and social spheres between the Republic of Kazakhstan and Russian Federation, as well as the longest international border in the world (over 4300 miles long) (Kazakhstan's Embassy in the Russian Federation, 2008, p.18) [16].

Another factor that influenced oil and gas sector development is «multi-vector» policy claimed by President Nazarbayev which includes establishing and strengthening relations with regional neighbors, Arab countries, the United States and Western countries that encourage Kazakhstan's development strategy and establish a good climate for foreign investments in the oil sector (Weitz, 2008) [17].

«The overwhelming majority of the international community seems to be primarily interested in the overall stability of the country and its smooth exploitation and shipment of Kazakhstan's hydrocarbon resources in order to secure their country's energy supply» (Olcott, 2005) [18].

Although Kazakhstan can be seen as one of the most developed countries in the Central Asian region, it has fought several challenges in order to develop its abundant natural resources and improve economic diversification. Sally N.Cummings (2012) states in the book that despite all the difficulties in development, the country has achieved some improvements in the oil and gas sector: «With huge reserves of oil, and well endowed with minerals, Kazakhstan has managed to attract large amounts of foreign investment» (p173) [19].

For the efficient oil development Kazakhstan requires to succeed in the following direction: 1) exploit the main onshore fields; 2) explore and drill Caspian fields; 3) improve refining processes to provide more and better petroleum products; and 4) build pipelines and other transport routes for crude export.

It has been accounted as a problem that when a country rich with raw materials is making attempts and has the opportunities to believe in their sustainable development — In case of Kazakhstan, it is highly unlikely that country will escape dependence on foreign investments, so Western and neighboring powers will be heavily responsible for the development of the majority of upstream and downstream activities.

In Kazakhstan oil and gas field essentially has experienced a huge progress in its development which played a great role in country's economic development. Sagers (1993) stated that the republic of Kazakhstan has signed contracts with around 40 foreign companies for oil and gas sector development. The state holding company Kazakhstanmunaigaz was in charge of oil sector in the early years of independence and moreover, it administered the pipelines, levels of exports and refineries as well as maintained partnership with Russia.

It was clear that Kazakhstan's and Russia's interdependence was extremely strong, in the oil refinery industry in particular, where oil refineries were not for processing the oil produced locally. One significant issue emerged: the need for investments in the refineries sector on one hand and the need to become an independent state on another (Peck, 2004) [20]. There are huge debates around the significance of the oil sector development for the Kazakhstan's economy progress: from one side, we can observe that foreign company's investments has led to the increase in the GDP around 4 percent in 2002 (Peck, 2004) [20]. Recently, the vast majority of the investments was from big international companies and is in the stage of new development. Russian government requests to acknowledge their national interests with a high importance.

In 2000s, with the discovery of the new oil field were followed by new opportunities and large profits for development, but new disputes about pipelines and investments occurred. By 2020, the country could sell up to 10 million barrels of crude per day to the world, and as much to Saudi Arabia (Kleveman, p75) [21]. The Kashagan is «believed to be one of the largest confirmed oil fields in the world and the only one among the top five outside the Persian Gulf» (*Dorian, 2005, p. 545*) and will be considered as the case study in Chapter 3 [8].

After Kashagan oil field discovery, the largest in the last thirty years, the world experienced the oil price increase — Added to the fact that Kazakhstan oil and gas development is highly dependent on exports which makes its economy vulnerable to Russian-controlled oil infrastructure. In accordance with one assessment, about 84 % of oil exports from Kazakhstan are passing through Russian territory to the international markets (Ostrowski, 2011) [22].

The rising dependence on raw materials along with the lack of economic variety has led Kazakhstan to a strong reliance on a pipeline controlled by Russia and this dependence became too complicated to change due to internal and external factors.

### CONCLUDING REMARKS

The opportunities for oil development in Kazakhstan are huge. As oil is one of the most crucial energy resources, Kazakhstan's impact on international and regional markets will proceed to expand up to 2020 and after, especially with the mutually profitable investment policy and the development of the new transportation routes. In two decades after gaining independence, Kazakhstan's oil sector has attracted a vast attention from powers all over the world, additionally; its geographical location at the crossroads of Asia, Europe and the Middle East will retain its strategic importance to energy markets [23].

After the collapse of the Soviet Union, Kazakhstan's petroleum sector has gone through several stages of development from the period of independence which were full of uncertainties and stagnation to the present, described by velocity growth. The next decade, Kazakhstan will keep strengthening its position in international oil market, however, due to a number of circumstances, the Kazakh government faced some complications during the development process.

Firstly, after the fall of the Soviet Union — Kazakhstan was still tightly integrated into the Soviet system and experienced economic weakness, which led to the necessity to attract foreign investments. In spite of the vast influx of investments, the development process faced several challenges, namely the constant delays, their dependence on external actors, the violence of the environmental norms. Kazakhstan national oil and gas company KazMunaiGaz did not have sufficient economic resources or technological equipment to develop its oil fields in Caspian Sea. However, it is highly likely that Kazakhstan will use its presence in the hydrocarbon sector to have an impact on the way the oil sector and export routes are developed. Foreign investment companies hold control over the oil cycle, when the state-owned company plays a minority position. International funding did not change economical or technological weakness, hence cannot guarantee the expansion of the oil production or transportation. In addition, the PSA regime is now controlling the «success story» of Kazakhstan's oil sector in terms of the volumes of oil produced and export pipeline routes.

Secondly, as it was mentioned above, two decades after the collapse of the USSR, Kazakhstan is still shaped by Soviet policies. External actors who guarantee influx of funding are seen as strategic partners and can be the best guarantor of state sovereignty. In the case of Kazakhstan, this role has been played by Russia and as Kazakhstan has close ties with Russia, which are influenced by geopolitical and ethnic reasons, the country chose the path to follow Russia on the international arena in order to grow and develop next to it instead of resisting its influence. In turn, Russia is using its authority and trying to gain as much benefits as it can and is seeking control over the oil sector and to regulate the export routes.

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## Қазақстан Республикасы мұнай секторының даму стратегиясы мен үдерісі

XIX ғасырда мұнай мен газға деген қажеттіліктің өсуіне байланысты, Орталық Азия және Кавказ елдерінің бай шикізат қойнауларына деген қызығушылықтың жоғарлауы байқалады. Табиғи шикізат қойнауларын иелену және оған деген әлемдік державалардың қызығушылығы әрқашанда табысты түрдегі дамушылыққа алып келмегенмен, кейбір жағдайларда оның болашағына ықпал етеді. Қазақстан сияқты мемлекет үшін, шикізатты өндіру және сырт мемлекеттерге экспортқа шығару, мұнай секторын дамыту, экономикалық өсім мен елдің дамуы жағдайында маңызды рөл ойнайды. Соңғы екі он жылдық ширегінде Қазақстан елдің мұнай саласында көтерілуі үшін маңызды жобаларды құру және өндіру бойынша бірнеше маңызды шешімдер қабылдаған болатын. Қазіргі уақытта Қазақстан Республикасы мұнай секторын дамыту мақсатында бірнеше жобалардың қатысушы болып және мұнаймен қамтамасыз ететін негізгі халықаралық елге айналып отыр. Аталмыш мақала Қазақстан Республикасындағы мұнай секторының даму үдерісін және оның халықаралық және ішкі мәселелердегі орнын ескере отырып, күрделі міндеттерді түсіндіреді.

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## Стратегия и процессы развития нефтяного сектора Республики Казахстан

В статье отмечено, что в XXI в., в соответствии с растущими потребностями в нефти и газе по всему миру, можно наблюдать явный интерес к богатым ресурсам стран Кавказа и Центральной Азии. Показано, что обладание огромными запасами природных ресурсов и интерес мировых держав к странам этих регионов не всегда гарантируют их успешное развитие, а в некоторых случаях оказывают влияние на будущее страны. Автором выделено, что для такого государства, как Казахстан, которое в значительной степени зависит от производства и экспорта сырья, развитие нефтяного сектора играет ключевую роль в экономическом росте и процветании страны. Определено, что в течение последних двух десятилетий Казахстан принимал серьезные решения по формированию и реализации важных проектов в развитии нефтяной отрасли для прогресса страны. В настоящее время Республика Казахстан становится участником в большом количестве проектов в целях развития нефтяного сектора и становится одним из международных ключевых поставщиков нефти. Автором объяснены процесс развития нефтяного сектора, сложные задачи в Республике Казахстан с учетом международных и внутренних проблем.

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### The concept of unilateralism in U.S. foreign policy: how useful was it?

What is the concept of «unilateralism» in American foreign policy? How useful was it to the George W. Bush administration in advancing U.S. national interests? Unilateralism has had a long history in the United States of America, but took a special place in foreign policy during the presidency of George W. Bush. Much of the unilateral approach to international security had developed from policies pursued by the Republican majorities in Congress prior to President Bush's election. It was expected that the administration of President George Bush had been pursuing a singularly unilateralist stance since coming to power — a significant change from its predecessor. This article explains the concept of unilateralism and its use in the name of U.S. national interests and investigates to what extent was this concept useful.

*Key words:* United States of America, unilateralism, Monroe Doctrine, 9/11, Iraq, national interests, George W. Bush, American presidency, war, Persian Gulf, neocons, foreign policy, national security, Bush Doctrine.

#### Introduction

American unilateralism is a distinct feature of United States foreign policy throughout its existence. It was used in different presidencies for the purposes of advancing national interests such as the pursuit of global primacy and natural resources possession. Instead of being a leader in establishing and strengthening rules and institutions that promote international peace, social justice, and environmental sustainability, the Bush Doctrine places the United States in opposition to them and hypocritically professes in adherence. This term of presidency can be seen as a most provocative, muscular, and pro-active period in American foreign policy.

The aim of this project is to explain the role and impact of concept of unilateralism in the United States foreign policy. The main hypothesis is that unilateral pursuit of national interests as a strong precedent in the George W. Bush administration gave certain advantages like an access to securing the oil in Middle East region, but in long-term perspective it has damaged international reputation of the United States.

The main argument of this project is supported by two chapters:

In the first chapter «The origin, meaning and implications of the concept of «unilateralism» in American foreign policy» the definition of the unilateralism, its role and impact on the American foreign policy is determined. Moreover, it explores the cardinal elements of the Reagan administration — unilateralism,