Journal of Eurasian Studies 5 (2014) 145–156

Contents lists available at ScienceDirect

Journal of Eurasian Studies

journal homepage: www.elsevier.com/locate/euras

Risky business: The political economy of Chinese investment in Kazakhstan

Daniel C. O'Neill*

School of International Studies, University of the Pacific, 3601 Pacific Avenue, Stockton, CA 95211, USA

A R T I C L E I N F O

Article history:
Received 22 December 2013
Accepted 21 April 2014

Keywords:
Kazakhstan
China
FDI
Corruption
Political risk
Foreign aid

A B S T R A C T

Kazakhstan lacks the democratic institutions that have been shown to protect foreign investors (Jensen, 2008; Li & Resnick, 2003). Nevertheless, as latecomers to globalization, China's resource-seeking state-owned enterprises (SOEs) must go, not only where resources are, but also where they are available. These are often less than ideal investment environments, such as Kazakhstan, where they are confronted by high corruption, weak rule of law, and political risk. Focusing on investments by the China National Petroleum Corporation (CNPC), this study analyzes how Chinese foreign economic policies, such as aid and loans, assist Chinese SOEs in securing protection for their investments. They do so by making key members of the Kazakh government stakeholders in the success of the investments. In addition, the study details how Chinese government strategy has evolved from one of simply buying off key members of the Kazakh government in order to gain approval for investments to one of making institutions in the Kazakh state, such as KazMunaiGas, stakeholders in the long-term success of the investment in order to secure protection for investments in a climate of political uncertainty.

1. Introduction

Scholars studying the politics of foreign direct investment (FDI), investment seeking a long-term controlling interest in a business enterprise in a foreign country, have shown how democratic institutions, particularly those establishing rule of law and constraining the actions of political leaders, protect foreign investors, thereby enhancing FDI inflows (Jensen, 2008; Li & Resnick, 2003). Despite its status as a nominal democracy, democratic institutions in Kazakhstan are weak, as exemplified by the fact that the country's leader, President Nursultan Nazarbayev has been in office for more than two decades; the last leader of Soviet Kazakhstan has been the sole leader of independent Kazakhstan. Reflecting these weak democratic institutions, Kazakhstan's high corruption, weak rule of law, and political risk make it a less than ideal investment environment for foreign firms. Nevertheless, as shown in Fig. 1, Chinese foreign direct investment there has taken off over the past decade.

Blank (2009) of the Strategic Studies Institute at the United States Army War College argues "China's recent

* Tel.: +1 (209) 946 2225.
E-mail address: doneill@pacific.edu.

Peer review under responsibility of Asia-Pacific Research Center, Hanyang University

Production and hosting by Elsevier

http://dx.doi.org/10.1016/j.euras.2014.05.007
1879-3665/

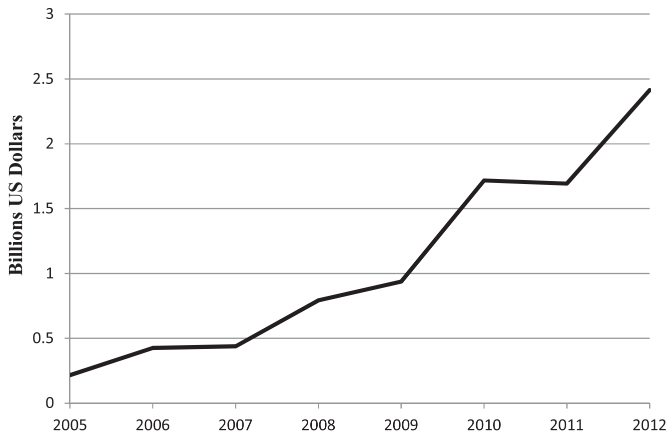

Fig. 1. Chinese FDI in Kazakhstan.

global investment activities show that China uses its economic power to lend money to distressed governments and/or firms and then uses that economic power and the dependency it generates to secure political influence with those states". This raises the question of what China is gaining by securing this political influence. I maintain that China is using its economic power in order to secure the "global investment activities" that Blank believes China is using to enhance its political influence. The Kazakhstan case supports my view: the greatest benefit reaped by Chinese investment policies in Kazakhstan is securing the approval for and maintenance of natural resource investments there by China's state-owned enterprises. It is high levels of corruption, weak checks on the executive branch, and low levels of transparency in Kazakhstan that provide the avenues through which Chinese policies, particularly foreign aid and loans, secure these goals. In addition, these goals are facilitated by the flexibility China's non-democratic regime has in dealing with the often non-democratic governments of resource-rich states, which have similar flexibility. Fewer democratic constraints and a lack of transparency mean that deals among elites can be made that might be unacceptable to the general public in both the FDI receiving (host) and sending (home) states.

Kazakhstan has what China and many other states seek: natural resources. Perhaps ideally from the Chinese perspective, Kazakhstan is landlocked and borders China to the West. This means that Kazakh resources can be imported to China without being transported through sea lanes or external land routes that could be cut off quickly by a foreign state in the event of future conflict (Strecker Downs, 2000). Geography is also advantageous from the Kazakh perspective; China offers a major export market that does not require transport through a third country, diversifying the Kazakh economy away from its historical dependence on Russia. This win–win geoeconomic situation means that Chinese investment in Kazakhstan is in the interest of both countries; nevertheless, to be successful such investments also must be in the interest of political leaders. It is this self-interest that motivates the policies of both governments and it is these policies that secure and protect Chinese investments in Kazakhstan, which lacks the political and legal institutions that protect foreign investors from predatory behavior by governments.

Where "China" (more specifically, Chinese firms assisted by the Chinese state) invests is partially driven by the ability to acquire resources and markets in these states for the Chinese Communist Party's ambitious development goals at home. As relative latecomers to globalization, Chinese firms go where resources are and where they are available; therefore, Kazakhstan has become an important destination for efforts by China's state-owned enterprises in the petroleum sector to secure oil for the Chinese market. The following study, which focuses on the China National Petroleum Corporation's investments in Kazakhstan, shows that Chinese foreign economic policies are key to mitigating the risk faced by China's state-owned enterprises investing there. The Chinese government and its state-owned firms do so through the provision of aid and loans to the Kazakh leadership. With such funding, China is able to secure the support of the Kazakh leadership for investments by Chinese state-owned enterprises. The case study of China National Petroleum Corporation (CNPC) in Kazakhstan, below, will detail how the Chinese government strategy for investing in Kazakhstan has evolved from one of simply buying off key members of the Kazakh government in order to gain approval for investments to one of making institutions in the Kazakh state stakeholders in the long-term success of the investment.

2. Chinese foreign direct investment in Kazakhstan

Chinese investment in Kazakhstan is a relatively recent phenomenon, as it is in many developing countries. According to the National Bank of Kazakhstan, through 1999, Chinese FDI in Kazakhstan totaled less than US $500 million; however, in 2008 alone, Chinese investment reached nearly $700 million, despite a global slump in FDI flows, and surpassed that figure in 2009. China's $1.62 billion invested in 2011 was topped only by France and the Netherlands. From 2000 to 2011, accumulated Chinese FDI in Kazakhstan exceeded $9 billion. These figures may grossly underestimate Chinese investment in Kazakhstan; the 2006 purchase of Nations Energy by CITIC, the Chinese