

BTI 2010 | Kazakhstan Country Report

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scale: 1 (lowest) to 10 (highest) score rank trend

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Key Indicators

| | | | | | | | |
|------------------|--------|------|------------------------------|------|----------------------|----|-------|
| Population | mn. | 15.5 | HDI | 0.80 | GDP p.c. | \$ | 10863 |
| Pop. growth | % p.a. | 1.1 | HDI rank of 182 | 82 | Gini Index | | 33.8 |
| Life expectancy | years | 66 | UN Education Index | 0.97 | Poverty ² | % | 17.2 |
| Urban population | % | 57.7 | Gender equality ¹ | 0.52 | Aid per capita | \$ | 13.1 |

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Politically, the period under examination is significant for the announcement in November 2007 that Kazakhstan had obtained the OSCE rotating chair for 2010 (one year later than it had hoped, but a significant victory after its concerted public relations efforts). Despite this upcoming chairmanship and accompanying increased rhetoric of democratization, Kazakhstani authorities have interfered in the electoral process, and the two-term presidency rule has now been lifted, which allows Nursultan Nazarbayev to become president for life. Furthermore, even if funding to NGOs has increased, its sources compromise the necessary impartiality of that sector and also allow easier government monitoring and unwanted interference. Other changes in the name of democratization have also been largely cosmetic.

Mid-year 2007 marked a turning point for the economy, bringing new macroeconomic difficulties to this petroleum-rich state that had hitherto registered significant growth rates. Already since 2005, the non-oil economy had become the main engine of growth, especially construction and services, and was mostly financed by borrowing from domestic banks. The problems that arose in the banking and construction sectors were compounded by soaring inflation rates, which have been seen all across the former Soviet Union. Even if a sizable share of the increase in oil revenue continues to be saved in the National Fund of the Republic of Kazakhstan (NFRK), the government has drawn both on National Bank and National Oil Fund reserves to stabilize the value of the national currency, the tenge (KZT). Talk about necessary diversification has been put on hold.

In this politico-economic context, Kazakhstan's multi-vector foreign policy practice continued to be rooted in pragmatism rather than dogma. Signs indicated a renewed rapprochement with Russia, an EU-driven strategy in Central Asia and increased attempts to strengthen cooperation with its Central Asian neighbors, with a particular strengthening of Turkmen-Kazakh bilateral relations.

History and Characteristics of Transformation

Kazakhstan's independence in December 1991 following the breakup of the Soviet Union was also the starting point for the country's political and economic transformation. The early post-independence years were marked by initial steps toward a democratic liberalization and a very steep economic decline. Under President Nursultan Nazarbayev, a former Communist Party chief who has been at the helm since 1990, the economy was liberalized and eventually rebounded. However, while the country has seen significant economic growth since the late 1990s, the president has become more authoritarian over time, harassing opposition parties and their leaders and disregarding media freedoms.

President Nazarbayev's authoritarianism has become more marked since the end of 1994, when he dismissed parliament on a pretext and ruled by decree for nine months until new elections were held. In May 1995, his term in office was extended by national referendum. In August 1995, a second referendum approved a new constitution, which transformed the government from a parliamentary democracy into a presidential republic. Members of his family began to be placed in key government and business positions.

Fearing political fallout from the possible effects on Kazakhstan's economy of the 1998 financial crisis in neighboring Russia, the Kazakh parliament decided to hold presidential elections two years ahead of schedule, in January 1999. Nazarbayev won the election, but the OSCE sharply criticized the electoral process. Six years on, in December 2005, Nazarbayev was again re-elected, and again the OSCE criticized the process.

Political maneuvering among the country's elite first became public in November 2001. A political struggle involving the president's son-in-law, Rakhat Aliyev, led top government officials and leading businessmen to openly oppose Nazarbayev for the first time. They founded their own political movement, Democratic Choice, and called on the president to speed up democratic and free market reforms. The government officials involved were subsequently fired and have acted as dissenters ever since. This party, other members of the opposition and the media have all been subject to increasing repression. Parliamentary elections in September 2004 – judged as neither free nor fair by the OSCE – saw the majority of seats go to the presidential party, the Fatherland party (Otan), and only one seat to the opposition. The daughter of the president and wife of Aliyev, Dariga Nazarbayeva, also gained a seat. She set up her own political party, Asar, which merged with other parties to form Nur Otan in 2007. According to several sources, she is considered to be a potential successor to her father.

Kazakhstan has been one of the most successful ex-Soviet republics to make the transition from a centralized to a free market economy. The economy, which had been controlled by Moscow, collapsed following independence. Many state enterprises came to a standstill, and inflation surged to well over 2,000%. In November 1993, a new currency, the tenge, was introduced.

Mass privatization and the sell-off of large enterprises in the oil, gas, electricity and metals sectors in mid-1990s, in which foreign investors could participate largely within management contracts, gave a significant boost to the economy. Kazakhstan achieved economic growth for the first time in 1996, and it managed to maintain this for 10 years. The discovery of the giant Kashagan oil field in Kazakhstan's sector of the Caspian Sea in July 2000 marked the beginning of a new chapter in the country's oil explorations, and the brokering of a new deal in 2008 was significantly to the advantage of the Kazakhstani government. To reduce its vulnerability to price swings in world markets and to accumulate funds for future generations to use following the exhaustion of oil resources, Kazakhstan set up the National Fund of the Republic of Kazakhstan (NFRK) to stabilize state income in January 2001. The fund is designed to make up for budget shortfalls should oil prices fall below a certain level. While it has been somewhat depleted in recent times to keep the tenge stable, it continues to be fed by high commodity prices (oil and wheat, in particular).

In May 2007, parliament approved an unprecedented change in the laws that lifted the two-term restriction on the presidency and allowed Nazarbayev to be president for life. The five-year term of office existing since the constitutional changes of 1998 has thus become meaningless. Simultaneously, the president was given the right to officially head his Nur Otan party, thereby strengthening his presidential influence (through this party) in parliament, government and society. Presidential influence was also increased by increasing the number of senators in parliament from seven to 15 and by incorporating nine members of the Assembly of the People of Kazakhstan, a presidentially appointed body, into parliament. Nazarbayev has also strengthened his rights when it comes to initiating law and can dissolve parliament and regional parliaments with very little justification. On 20 June 2007, the president accepted a request from parliamentarian N. Rustemov to dissolve parliament and hold new elections, which were duly held on 18 August 2007. In these new elections, Nur Otan gained 88.4% of the seats. This strengthening of the presidential system was mirrored in laws enacted in February 2009 (e.g., the Law on Mass Media, the Law on Political Parties, the Law on Elections), all of which fail to comply with OSCE obligations.

Transformation Status

I. Democracy

1 | Stateness

The executive continues to keep its monopoly on the use of force and, during the period under consideration, it tightened even more its control over the Ministry of Security and the Ministry of the Interior. Kazakhstan does not have any large-scale insurgent or violent movements, and activities by the Cossacks and Slavic movements were quashed in the early 1990s. Unlike its neighboring Central Asian states, the so-called threat posed by Islamism is voiced far less frequently. One apparent intervention in unrest by the political authorities in this period was during the outbreak of some local fighting that assumed interethnic properties; independent reporters observed that the authorities deliberately stoked tension to ethnicize the conflict. The opposition continues to accuse the authorities of being implicated in the murders of two opposition figures, Zamanbek Nurkadirov and Altynbek Sarsenbayev, whose murders have yet to be solved. While there is drug trafficking throughout Central Asia, the influence of the drug mafia in Kazakhstan is weaker than it is in first-transit states neighboring Afghanistan. A significant percentage of GDP continues to be spent on the military.

Monopoly on the use of force

In August 2007, Kazakhstan confidently marked the 10th anniversary of its new capital, Astana, which also coincided with the 65th birthday of the president. The creation of a multinational state – as opposed to a national identity – has been at the core of Nazarbayev’s rhetoric since he assumed office in 1991, and the 2007 – 2009 period was no different. The period saw the government continuing to pursue its parallel aim, namely, to strengthen Kazakh national identity. While the 1995 constitution grants equal civic rights to all ethnic groups, it also emphasizes that the Kazakh ethnos is considered the titular nation and should thus be accorded special rights. Defining citizenship is less of an issue than an unspoken perception of rights that has real consequences for political and economic participation. Politically, all major posts are held by ethnic Kazakhs and proficiency in the Kazakh language is required for all major political officeholders. The notion of Kazakhstan as home to all ethnic groups is thus contested by many non-ethnic groups, and the sense of being a “Kazakhstani” as opposed to being a Kazakh or Russian remains weak.

State identity

Kazakhstan has a secular regime, and its overall practice has been pragmatic rather than dogmatic as it relates to Islam. Church and state are separate, and the political process is secularized. There is little, if any, preferential treatment given to the Muftiat (Islamic High Council). With regard to other religions, the Kazakhstani regime has tightly monitored their activities, as it does with political opponents generally. For example, the Hare Krishna still find themselves in legal limbo following a dispute dating back to 2003. The dispute centers on a 116-acre plot of land in the village of Bereke, outside Almaty, and arose when Kazakhstan updated provisions regulating the privatization of farmland, which resulted in the demolition of 13 homes belonging to community members in November 2006. These members are still lobbying for their rights.

No interference of religious dogmas

Relative to its Central Asian neighbors, the Kazakhstani state has undergone substantial state reform, which was largely initiated by the World Bank in the late 1990s. Despite financial setbacks in 2007 – 2009, some of its basic financial and tax infrastructure remains among the best in areas once encompassed by the Soviet Union. At the same time, though, state reform has been hampered by substantial elite corruption and also by difficult center-regional relations. The centre fails to provide regions with adequate funding to implement national reforms, and central and regional political responsibilities remain poorly defined.

Basic administration

2 | Political Participation

Parliamentary and presidential elections in Kazakhstan have been repeatedly manipulated, and international election observation missions have repeatedly found shortcomings in Kazakhstani elections. The 2007 – 2009 period was no exception. In 2007, Nazarbayev indicated his desire to become president for life after the parliament removed a two-term limit on the country's first president. His party, Nur Otan, won all 98 seats in the August 2007 parliamentary elections for the Majlis, the lower house. By requiring all candidates to be party members, setting a high 7% electoral threshold for political parties, and allowing no provision for independent candidates to contest, the Nazarbayev leadership effectively legalized the exclusion of non-regime parties and individuals from the political process. Thus, while the country has paid lip service to the democratic requirement of elections, a round of open and competitive elections has yet to be held, nor has there been a change in presidential leadership since 1989.

Free and fair elections

The president enjoys a monopoly of veto powers, but his election is only de jure democratic. Strong veto groups do not exist. From early 2000, however, there has been a perceptible increase in the importance of elite groupings that lobby the presidential grouping. To a certain degree, this lobbying holds the president to account for his policies and forces an authoritarianism by balancing elite groups.

Effective power to govern

Nevertheless, the removal of the Aliyev grouping curtailed the influence of the strongest family grouping. The two-term limit on the first president was removed through a series of constitutional amendments in 2007.

Groups that attempt to influence the political process from below have been systematically harassed, isolated or imprisoned. The political center has been monopolized by the current regime, and individuals in movements that have formed from within the elite have often been co-opted. Opposition figures have been imprisoned and murdered. While Kazakhstan ranks ahead of Uzbekistan and Turkmenistan in terms of its degree of openness, the rights to hold meetings and protest have been carefully controlled. Union activity is still subject to regulations. Nationwide movements are also severely hampered by the sheer size of the country. Although the constitutional amendments in 2007 granted a greater voice to local legislators in the appointment and removal of regional governors, the dominance of Nur Otan at all levels of governance makes such measures ineffective. Amendments to the Law on Elections passed in April 2005, which prohibit voters and political parties from organizing any public meetings from the end of the election campaign until the official publication of the results, still hold.

Association /
assembly rights

The period under observation has witnessed a further curtailment of media independence rights. According to the 2007 Worldwide Press Freedom Index of the international media watchdog Reporters Without Borders, Kazakhstan ranked 131th out of 167. The media coverage of the August 2007 parliamentary elections remained biased in favor of the ruling Nur Otan party. The government sought to censor the media and Internet following the release of transcripts of taped conversations between state officials about campaign financing, which were posted on opposition Web sites. Bloggers publishing items critical of the government have been charged under clauses protecting the president's "honor and dignity." The independent newspaper "Law and Justice," one of the few remaining critical outlets then still functioning, closed in February 2008. By now, Kazakhstan's private media are predominantly associated with private elite groupings. This reality needs to be borne in mind when assessing liberalization law.

Freedom of
expression

3 | Rule of Law

The period between 2007 and 2009 has seen no change in the trend of tightening the control of the executive over the remaining branches of government. While the constitutional amendments of May 2007 may have given local assemblies a greater say in who is appointed as their regional governor, the already weak influence of these assemblies remains marginal. The country remains a unitary power, and the president also continues to appoint and dismiss regional heads. The amendments increased the number of Senate deputies appointed by the president from seven to 15, out of a total of 47. While the constitution refers specifically to the separation of

Separation of
powers

powers, in reality, such separation is still not guaranteed. Formal and informal methods are used to disrupt checks and balances. All branches suffer from a lack of professionalism in hiring and training, although there are pockets of elites that continue to be extremely well trained, primarily in the West, Turkey and, increasingly, China.

The May 2007 amendments empower parliament to nominate two-thirds of the members of the Constitutional Council, the Central Election Committee and the Audit Committee. The Constitutional Court and key members of the judiciary, however, are appointed by the president. Between 2007 and 2009, the political elite's practice of interfering in the judiciary's activities has continued. While the constitution states that the judiciary is independent, practical implementation of that independence is not guaranteed.

Independent
judiciary

Transparency International gave Kazakhstan scores of 2.1 and 2.2, respectively, on the 2007 and 2008 editions of its Corruption Perceptions Index (CPI), a strong indication that political corruption remains rampant. Combating Corruption Through Civic Education, a joint initiative of the local branch of Transparency International, Transparency Kazakhstan, has had some effect at the local level, but the effectiveness of the Extractive Industries Transparency Initiative (EITI), which was launched in October 2005 to increase the transparency of payments received by companies, remains negligible. The president has started a number of anti-corruption campaigns, the latest of which was launched in January 2009. There is, however, little public trust in these campaigns or that corrupt officeholders will be adequately punished under the law. Charges of corruption and the misuse of office tend to be leveled against highly placed government figures only after these individuals have entered into a personal or political rivalry with ruling elites or attempted to challenge Nazarbayev's authority. In 2007, the judiciary conducted an in absentia trial of the president's now deposed son-in-law, Rakhat Aliyev, and his associates, sentencing them to 20-year jail terms.

Prosecution of
office abuse

The judiciary's record in handling cases related to civil liberties and human rights remains poor. The controversial Laws on Extremism and anti-terror legislation, February and May 2005, respectively, continue to be in force. This legislation also introduced restrictions on political parties, mass media outlets and religious organizations. In 2007 and 2008, some arrests of members of so-called Islamist movements were given high publicity under this framework. Even NGOs that were not included in the list continued to be subject to severe penalties if they participated in unsanctioned demonstrations or unauthorized public events. Unions, while having the de jure right to freely organize, in practice do not.

Civil rights

4 | Stability of Democratic Institutions

The regime in Kazakhstan continues to be authoritarian rather than democratic. Any checks and balances meant to control the executive are extremely weak. The executive continues to preside over all other branches of government. Within the executive, the president, members of his close entourage and the presidential administration continue to dominate. The state is a unitary state. While this regime has been stable and effective, it prevents the accession of any new political group and creates longer-term instabilities.

Performance of democratic institutions

International organizations such as Human Rights Watch and the International Helsinki Federation for Human Rights, as well as independent media and civil society activists, have argued that precisely because Kazakhstan has failed to respect democratic and human rights credentials, the country is not fit to assume leadership of the OSCE. Even if the country does assume the chair now, it has been committed to establishing democratic institutions with political actors that do not abide by democratic rules.

Commitment to democratic institutions

5 | Political and Social Integration

The majority of key parties are formed top-down rather than bottom-up and, like the media outlets, are affiliated with key political groupings. The pro-presidential party Nur Otan now occupies a near monopoly of the political space in the party system. The political struggle for power involving Nazarbayev's son-in-law Aliyev significantly damaged the profile of his wife, Dariga Nazarbayeva. Ms. Nazarbayeva, who became a parliamentary deputy in 2004, was not on the list of candidates nominated by Nur Otan in the 2007 Majlis elections, and her party, Asar, was one of several parties to merge with Nur Otan. When the constitutional clause stating that the president is to be above party politics was amended in 2007, Nazarbayev was able to assume party leadership. Otan thus renamed itself Nur Otan in early 2007 and elected Nazarbayev as its leader. In November 2008, the government released a draft bill to parliament on reforms to the political party system. While the bill did promise a simplified procedure for verifying party lists and was couched in liberalization terms, overall it toughened already restrictive norms. For example, the bill suggests a two-step process of registration that first requires the formation of an organizing committee. The requirement that fractions of a split political party meet the numerical requirement of 40,000 members, with at least 600 in each region, threatens the survival of weaker parties and increases incentives to join parties with little factionalism, such as Nur Otan. The main oppositional parties are the National Social Democratic Party (NSDP), the largely inactive Azat, the Communist Party (KPK) and Alga! (Go Ahead!). Some –

Party system

including the Patriots' Party, Nagyz Ak Zhol and Adilet – also occupy the centrist ground and are basically loyal, though sometimes critical. In February 2008, Nagyz Ak Zhol renamed itself Azat, which created a second party with that name.

The topography of interest groups is meager and poorly represented. Informal networks of communication are more important than formal ones. Only a few players dominate interest groups that lobby the state, and they are fragmented and compete with each other. In anticipation of its OSCE chairmanship, Kazakhstan has increased the disbursement of funds to civil society. As a result, the number and strength of these groups has increased, but because this funding comes from the state, it allows increased state control of interest group activities.

Interest groups

Kazakhstan has an authoritarian system, and even in the run-up to OSCE membership consent to democratic norms remains largely at the level of rhetoric. While opinion polls do exist, they are generally unreliable. In addition, it is difficult to gauge the degree of consent in a system that punishes dissent. Furthermore, the absence of protest should not necessarily be equated with consent.

Consent to democratic norms

Less than 10% of associations are engaged in issues related to civil liberties, human rights and minority protection. They remain under the most stringent vigilance by the authorities. During the period under consideration, rural self-help networks were not very different from those in the previous one. Although they maintained some of the recovery they had enjoyed as a result of economic growth, they continued to be considerably less extensive and reliable than they were in the Soviet period. A notable development can be found with middle-class associational networks. One recent example is the successful lobbying by middle-class associations to allow right-side-driver vehicles on the road. This had been previously illegal, but enough lobbying by associations, which argued that only members of the upper elite can afford new left-side-driver cars, succeeded in getting the legislation overturned. These associational activities by middle-class groups are significant because they defy attempts by the political elite to reduce input and activities by the entrepreneurial class.

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

In 2006, the World Bank estimated Kazakhstan's overall poverty headcount ratio (at national poverty line) at 18% of the population. Kazakhstan has the least extreme socioeconomic inequality among Central Asian states. However, the Gini coefficient rose from 0.332 in 1999 to 0.339 in 2008, which suggests a rise in

Socioeconomic barriers

income inequality. The 2008 HDI ranked Kazakhstan 73rd out of 177 countries (using 2005 data). Considerable disparities remain between the disadvantaged rural south and the relatively well-off rural areas in other regions. Regional HDI discrepancies grew during the period under review, and while overall HDI indicators have continued to improve, they are still nowhere near their 1990 levels. Social exclusion and marginalization continue, as does fundamental exclusion through poverty and poor education. Discrimination on the basis of clan, ethnicity and class are more common than on the basis of gender or religion.

| Economic indicators | | 2004 | 2005 | 2006 | 2007 |
|---------------------------|----------|---------|---------|---------|-----------------|
| GDP | \$ mn. | 43151.6 | 57123.7 | 81003.9 | 104853.5 |
| Growth of GDP | % | 9.6 | 9.7 | 10.7 | 8.9 |
| Inflation (CPI) | % | 6.9 | 7.6 | 8.6 | 10.8 |
| Unemployment | % | 8.4 | 8.1 | 7.8 | 7.3 |
| Foreign direct investment | % of GDP | 9.6 | 3.5 | 7.8 | 9.7 |
| Export growth | % | 10.9 | 1.1 | 6.5 | 9.0 |
| Import growth | % | 14.8 | 12.5 | 12.1 | 25.5 |
| Current account balance | \$ mn. | 335.4 | -1055.8 | -1998.6 | -8226.4 |
| Public debt | \$ mn. | 3232.9 | 2176.8 | 2136.2 | 1697.7 |
| External debt | \$ mn. | 32814.7 | 43378.2 | 74147.9 | 96133.4 |
| Total debt service | % of GNI | 21.8 | 25.6 | 20.3 | 30.0 |
| Cash surplus or deficit | % of GDP | 0.2 | 2.6 | 1.6 | 1.2 |
| Tax Revenue | % of GDP | 13.9 | 17.1 | 14.9 | 12.3 |
| Government consumption | % of GDP | 11.6 | 11.2 | 10.2 | 10.2 |
| Public expnd. on edu. | % of GDP | 2.3 | 2.3 | 2.6 | 2.9 |
| Public expnd. on health | % of GDP | 2.3 | 2.5 | 2.3 | - |
| R&D expenditure | % of GDP | 0.2 | 0.3 | 0.2 | 0.2 |
| Military expenditure | % of GDP | 1.0 | 1.0 | 1.0 | 1.3 |

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Kazakhstan has one of the best-developed market-based systems of competition in the post-Soviet region. However, in 2008, the small- and medium-sized (SME) sector still accounted for only 10% of GDP, primarily in food and light industries. With the economic crisis, the amount of lending to the SME sector has also fallen, for example, from 83.2% in 2006 to 69.7% in 2007. While changes to the tax code in 2007 have lowered some taxes, notably value-added taxes (VAT), and changes in 2008 to business law have reduced some of the legalities surrounding company formation, SMEs are still hampered by considerable bureaucratic and political obstacles.

Market-based
competition

An anti-monopoly committee has existed since the 1990s, but it has generally been a marginalized body beholden to the presidential administration. However, the period under review saw the beginnings of the state's attempts to nationalize large parts of the economy that have hitherto been partly owned by foreign companies, including in the oil, chemicals and metals sectors. One principle example of this during this period is the state's takeover of the assets of the country's four leading banks: National Bank, Kazkommertsbank, Alliance and BTA. Part of the motivations for these actions were intra-elite disagreements, such as that between BTA's former head, Mukhtar Ablyazov, and the government. Another important example was the fusing of six key financial-industrial groups into one state-owned holding company, Samruk.

Anti-monopoly
policy

Foreign trade has contributed significantly to economic development by improving the balance of payments, attracting FDI and promoting competition. Foreign trade is liberalized in principle, but significant exceptions remain, including differentiated tariffs and special rules for individual companies or sectors. Its application to the WTO began in 1996; in June 2008, the negotiating round took place in Kazakhstan for the first time, largely as a result of increased support from the European Union. Membership talks continue to stall, mainly because of tariffs. In May 2008, the president announced the introduction of a new tariff, this time on oil exports, prompted by liquidity problems that had tempted Kazakhstan to dip into its National Fund (which has grown at the phenomenal rate of 162% over the past five years). The opening of a new route to China in late 2005 and some shipment through Azerbaijan via the Baku-Tbilisi-Ceyhan route have increased export opportunities, and Kazakhstan continues to embrace all pipeline routes with pragmatism. Astana's efforts to increase the state's share in energy projects have dampened foreign investment enthusiasm. In the first three quarters of 2008, FDI was up by 17% over the previous year. The National Bank's statistics showed that the greatest volume of FDI came from the Netherlands, at \$2.45 billion, followed by the United States and the British Cayman Islands.

Liberalization of
foreign trade

The financial sector was one of the strongest elements in Kazakhstan's overall economic reform program in the 1990s and was often admired by its neighbors. Unfortunately this record has been severely tainted by the reckless behavior and risk-taking of Kazakhstan's bankers, which have significantly contributed to the worsening of the financial crisis in the country. Two of the largest banks, Kazkommertsbank and Halyk Bank, were each to receive \$1 billion in state funds before the end of January 2009. The government was then also in the process of buying 25% of the shares of each of these banks in order to prop them up. Much of the funding is being drawn from the National Fund (whose total assets at end of 2008 were \$27 billion). Another of Nazarbayev's son-in-laws, Timur Kulibayev, is deputy head of the Samruk-Kazyna fund, which is overseeing the distribution of Kazakhstan's bank bailout package.

Banking system

8 | Currency and Price Stability

Controlling inflation and establishing an appropriate foreign exchange policy are recognized goals of economic policy. Nevertheless, already in 2006 and in the first half of 2007, the non-tradable sectors of the economy (e.g., construction and finance) became increasingly heated, reflecting extremely rapid growth in foreign borrowing and commercial credit expansion. Kazakhstan also had the region's highest inflation figures, which reached 17.4% in 2007. The National Bank spent around one-quarter of its reserves defending the tenge, and now it is depleting its National Fund. Global food prices, excessive domestic demand, increases in transport tariffs and structural rigidities have led to inflation.

Anti-inflation /
forex policy

The government supports macroeconomic stability. Likewise, while lobbying related to issues like industrial policies, tariffs and protection continue, the government and president have largely not succumbed to populist policy changes. Nevertheless, policies have come under severe strain with the need to draw on bank and National Fund reserves in attempts to maintain this stability.

Macrostability

9 | Private Property

Although property rights are well-defined, the period under review saw a creeping nationalization of property. Such nationalization often follows disputes with foreign companies over the terms of their involvement in the Kazakhstani economy. This is a reflection of a broader debate about the privatization years (1995 – 1997), when mass privatization was resented. Current rhetoric of renationalization is couched in terms of a reclaiming of what should rightfully be Kazakhstani.

Property rights

The process of large-scale privatization was stalled in 1998, and nothing like that scale of privatization has since followed. The effects of this large-scale privatization continue to be felt, however, particularly in the number of offshore companies that were formed in the 1990s to own the assets of metal and minerals companies. This has led to continued debates about transparency related to income and how this income is used. This period has also seen no change in the deliberate exclusion of middle-class entrepreneurs in the acquisition of bigger industries; instead, those owning large-scale enterprises have strong ties with the elite. Another government initiative of this period, “30 Corporate Leaders,” was designed to give preferential treatment to companies that promise particularly innovative projects, but it once again allows the government to closely control the business sector.

Private enterprise

10 | Welfare Regime

The HDI 2008 ranks Kazakhstan 73rd, slightly up from its 2006 of 71st out of 179 countries. In the Human Poverty Index, Kazakhstan was ranked 34th out of 135 developing countries. After the increase in welfare spending in 2005 to 2007, the period under examination witnessed a decline in the funds often used for bailout or stabilization packages. The pensions system in Kazakhstan is a success story in terms of reform, but they are still insufficient despite increases in recent years. Informal social networks, some of which are of a traditional nature and others a legacy of the Soviet era, remain weak. As a result, a significant part of the population is still at risk of living in poverty. Recent inflation has led to soaring food prices, affected the poor more than the rich and has led to increased income disparities in the state.

Social safety nets

Fundamental exclusion through poverty and education continue. However, according to the UNDP, gender-specific discrimination is relatively uncommon, and gender disparities in access to education are minimal but women are nonetheless considerably underrepresented in politics and business. Informal discrimination on grounds of ethnicity, sub-ethnicity (clan) or economic group affiliation continues. A decentralized system might be better able to cope with these inequalities by offering compensatory mechanisms, but the state remains unitary. Affirmative action policies remain underfunded.

Equal opportunity

11 | Economic Performance

Real GDP growth at 5% in 2008 was down from 8.5% in 2007. According to the Asian Development Bank, mid-2007 marked a turning point for the economy. The credit and construction expansion in the country had by then slowed considerably. In the prior two years (2005 and 2006), roughly half of GDP growth had been based on the finance and construction sectors. A sudden halt of capital flows to Kazakh

Output strength

banks triggered a reduction in lending and a downturn in the non-oil economy. Standard and Poor's credit rating in May 2008 was downgraded from stable to negative. Deteriorating bank assets and a shrinking pool of international lenders partly explained this downgrading.

12 | Sustainability

Environmentally compatible growth has been given increased attention since 2003, and environment-related NGOs and other organizations have had some influence on policy-making. Overall, however, environmental groups have only a weak institutional framework. This is despite the disastrous environmental legacies of the Soviet era, such as the desiccation of the Aral Sea, the Virgin Lands project and nuclear testing at Semipalatinsk. Still, the northern Aral Sea is seeing the fruit of environmental sustainability policies in that region, and the period saw the publication of the National Environmental Action Plan for Sustainable Development.

Environmental
policy

Education spending declined considerably, and the system is highly corrupt. There are a large number of private institutions, but low salaries make it difficult to attract good teachers. This period's discussions on educational policy were dominated by intentions to reform the higher education system so as to incorporate the Bologna process and to increase Kazakh language teaching at schools and in the workplace. Kazakhstan's government pledged \$4.7 billion for education in 2008, closed about 40 underperforming universities between 2004 and 2008, and was quite serious in introducing some liberalization. In the context of its "100 Schools, 100 Hospitals" program, new educational and health establishments have been built. Likewise, more government money is now invested in student scholarships abroad. Despite these important initiatives, there are concerns that these initiatives are not sufficiently thought-through or impartial. For example, a new Ph.D. system has been introduced without reforming the B.A. and M.A. systems preceding that level.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

Kazakhstan faces a medium level of structural constraints in its governance challenges. On the positive side, the government can continue to draw on a largely well-educated workforce from the Soviet era and on a pool of young, Western-trained political and economic leaders. It also enjoys abundant resources that are, in principle, available for reinvestment. However, the country's landlocked status makes its foreign policy highly dependent on the goodwill of its neighbors, particularly those of the two great powers sandwiching the country, China and Russia. Still, China's opening of an alternative pipeline route and its agreement to build a cross-country oil and gas pipeline can be viewed as an advantage, and the country's landlocked status may thus be viewed as less of a problem than it was in the 1990s. The country continues to suffer from poor transport infrastructure.

Structural
constraints

The Soviet legacy of internationalism is still an important factor in a general demobilization of nations and nationalism in the post-Soviet era, and indigenous movements do not appear to be growing. It may be that the republic's economic success is slowly reinforcing the sense of Kazakhstani identity. There is no fundamental contestation of the state, again probably because individuals retreat into privacy. The most vocal individuals left in the early 1990s.

The Gorbachev and early independence years did allow for some civil society to develop unlike in, say, Uzbekistan and Turkmenistan, where such liberalization did not occur. But the closing of this political space by an increasingly authoritarian political regime since 1995 has squashed this presence of public engagement. Trust in institutions is low, and civic culture barely exists.

Civil society
traditions

A redeeming feature of the top-down executive party creation and the current monopolization of parliament by Nur Otan is that opposition parties are still able to influence the political agenda through lobbying, and oppositional policies are often co-opted. That said, the Kazakhstani party system and, more broadly, civil society remain beset with problems of top-down creation, a lack of party identities, the personalization of such activity, the overlapping of programs and a low political culture.

Politics in Kazakhstan seeks consensus rather than confrontation, and vocal opposition is rarely viewed as constructive. Individuals who might have mobilized an opposition emigrated in the first few years after independence. The open elite fragmentation of November 2001 has not been repeated, and the splinter group that emerged from that open contestation split itself in 2005.

Conflict intensity

II. Management Performance

14 | Steering Capability

Long-term goals are pursued. While they do not correspond with the goals of democracy, they do partly to the goals of a market economy. The government has been consistent in its rhetoric about liberalization and keeping its economy open to outside investors, but both of these goals are subordinate to the elite's top priority, that is, maintaining its hold on power. This is not a short-term tactic but, rather, a long-term policy of keeping power in the hands of the incumbent president's relatives and friends. A key example of how the rhetoric of political liberalization differed from the reality of strengthening authoritarianism was in the lifting of the two-term limit on the presidential office and on the saturation of all political institutions by members of the president's party, Nur Otan. In the economy, the fusion of six key national companies into one holding company, Samruk, was another example of an increased concentration of power. In sum, democratization is secondary to power struggles and maintenance.

Prioritization

Although the autocratic government has implemented market reforms effectively, it has refrained from implementing democratic reforms. Despite its imminent chairmanship of the OSCE, during the period under review, the government was not committed to democratization and liberalization in its legislation; instead, there was a further tightening of authoritarianism and increased repression. It has also been inclined to intervene increasingly into the economy and polity.

Implementation

During the period under review, the government remained flexible and adaptive to huge changes in the global economy, but it has floundered somewhat in its reaction to the reckless behavior of the country's banks. Politically, the government seems increasingly unwilling to tolerate other voices in either the political or economic spheres. The formation of Samruk and the control of entrepreneurial activity during the period under review are symptomatic of this deepening trend.

Policy learning

15 | Resource Efficiency

Of the three indicators of resource efficiency (i.e., government administrative personnel, administrative organization and budget resources), the government continues to score highest on the latter. However, this period has seen attempts to completely overhaul how the state bureaucracy is organized. In particular, the government has attempted to run its affairs in a way that is more in line with those of a corporation, for example, with “managers” appointed to head certain departments. However, the initiatives were not always followed through with clear “job descriptions,” and unclear implementation has often resulted in job duplication rather than streamlining. Likewise, despite earlier civil service legislation, recruitment and dismissals continue to be dominated by concerns of personal loyalty. Responsible decentralization has not occurred, and the attempts in 2006 to make the center-regional budgeting more transparent have had no significant effect. Regions continue to rely almost exclusively on federal coffers.

Efficient use of assets

The executive’s dominance of the policy process aids policy coordination in the short run. The existence of several elite groupings within this political elite, however, may lead to mutual suspicion in some policy sectors. During the period under review, the government seemed to expect Nur Otan to assist in policy coordination across the country and across different branches of government.

Policy coordination

Nazarbayev’s administration seems to have made tangible progress, improving from 150th in 2007 to 145th in 2008 in Transparency International’s Corruption Perceptions Index. This is a better ranking than any of its Central Asian neighbors and two places above Russia. Its early 2009, anti-corruption policy includes promised pay rises of 25% for public servants, a 60% rise for local court judges and an almost 300% boost in salaries for traffic police. However, in overall terms, corruption remains rampant. Of notable interest is the ongoing controversy surrounding the so-called Giffen Affair, which remains unresolved. In the 1990s, American-born businessman James Giffen served as an adviser to the regime in its negotiations over several large oil deals. The U.S. government alleges that, during this period, Giffen paid \$78 million in bribes to two high-ranking officials. In 2004, the identities of these two officials were made public: President Nazarbayev and Nurlan Balgimbayev, a former prime minister and current president of the Kazakhstan Oil Investment Company. Nazarbayev thus became the first sitting foreign head of state to be accused under the U.S. Foreign Corrupt Practices Act since it was passed in 1977. From 2007 to 2009, customs and tax officials, police officers, healthcare workers and judges topped the list of bribe-takers. Corruption was also reportedly rife in the educational system. In October 2008, a corruption survey was published that showed that 58% of students thought good grades could be purchased.

Anti-corruption policy

16 | Consensus-Building

The major political actors agree on the overall goal of a market economy, even if there are disagreements over the degree of state involvement in that market economy. There is more disagreement on the overall aim of whether Kazakhstan should try to evolve into a democracy. During the period under review, the status of those in favor of democracy was further weakened when were unable to find a unified voice.

Consensus on goals

During the period under review, it continued to be the case that the Kazakhstani government was acutely adept at co-opting actors who might otherwise have advanced alternative reform paths. There remain very few influential actors who would advance democratic reforms.

Anti-democratic
veto actors

The political leadership's rhetoric has continued to be effective at minimizing the risks of hostile polarization, but it has not managed to expand consensus across dividing lines, primarily those of ethnicity and class. In other words, the measures that were adopted continued to be largely preventative rather than constructive. The government has been helped in these preventative measures by its large resource revenues, which have enabled the regime to co-opt dissenters and give some amount of assistance to poorer members of the population. Nevertheless, this period did see local clashes becoming ethnic ones, for example, between Kazakhs and Kurds in the village of Mayatas in south Kazakhstan and between Kazakhs and Chechens in Almaty Oblast. However, overall, these were still the exception rather than the rule.

Cleavage /
conflict
management

As detailed above (see 13.2 Civil society traditions), the country's political leadership has suppressed and excluded civil society actors from the political process, and its monopolization of key institutions through the president's party ensures that this will continue. The key actor in civil society remains the mass media, which continues to exert some degree of quasi-independence from the state. In particular, new forms of media can exert influence on government decisions. One example during the period under consideration was the open discussion on various popular blog sites related to the possible reintroduction of an ethnicity category into passports. Due to blog reaction against such an introduction, the proposal was shelved and, instead, the decision to only note Kazakhstani citizenship was retained. In the absence of strong leaders and alternative programs, political parties continue to garner little support from the population.

Civil society
participation

Dealing with past injustices is not a major topic in Kazakhstan's public debate.

Reconciliation

17 | International Cooperation

In the area of market reform, the government has been very adept at exploiting international know-how and integrating international assistance into the domestic reform agenda. However, when it comes to political reform, even in the context of its upcoming OSCE chairmanship, Kazakhstan's leadership considers external advice to be undesired political interference. NGO/INGO activities in the field of democratization continue to be hampered by a lack of support as well as open suppression by government. In January 2008, the Kazakhstani government renegotiated a deal regarding the offshore oil site Kashagan with Italian energy giant Eni S.p.A., doubling its stake in the project and gaining extra income of up to \$20 billion over the life of the project.

Effective use of support

During the period under consideration, the OSCE's decision to accept Kazakhstan as chair of its organization reflects the successes on the part of the elite to portray itself as a credible actor in the international community. Its credibility does not seem to have been tainted by either the Giffen or Aliyev affairs, which do, however, attest to a considerable lack of transparency and accountability in how public funds and income are used. Despite the OSCE's decision, large parts of the international democratizing community (e.g., international election observers) do not view Kazakhstan as having implemented its pledged reforms in the run-up to this chairmanship. Given the fact that the decision on chairmanship has been made, few in Kazakhstan's government seem convinced that they are now obliged to commit to implementing these pledges.

Credibility

As a landlocked state, it is in Kazakhstan's interest to nurture friendly relations with its contiguous neighbors and, in particular, with the major powers of Russia and China. Still, rather than depending on one or the other (or even both), Kazakhstan has also sought new partners further afield, notably in the Middle East and the West. This so-called multi-vector foreign policy was primarily motivated by the republic's need to secure alternative oil pipeline routes. Kazakhstan remains unwilling to commit itself to any one power. As in domestic politics, Kazakhstan's foreign policy has been multifaceted, straddling various interests, and with its direction devoid of strong ideological content. In April 2007, Nazarbayev reiterated that "pure pragmatism" drives foreign-policy decision-making. To date, Kazakhstan has succeeded in conducting a safe multi-vector policy that has managed to avoid intensifying geopolitical collisions between the United States, China and Russia or their respective allies. Although Marat Tazhin, in his new role as foreign minister (since January 2007), had declared his intentions to increase Central Asian regional cooperation, there have been few signs that the region has been developing this initiative seriously. As the economic engine of the region, Kazakhstan has been a magnet for labor migration (especially from Kyrgyzstan and Tajikistan). Although it has clamped down on illegal labor migration during the economic downturn, this trend is likely to continue.

Regional cooperation

Strategic Outlook

In the upcoming period, chairmanship of the OSCE is likely to dominate Kazakhstani foreign policy. It is unlikely that this new responsibility will place significant pressures on the regime to liberalize domestically, given its poor record so far in responding to this challenge. The lifting of the two-term limit on Nazarbayev's presidency and the official sanctioning of the president as chair of the Nur Otan party have marked a further strengthening of the executive and further dented liberalization efforts. Once in the rotating chair, however, Kazakhstan may be more open to Western governments' attempts to share experiences of liberalization informally and to demonstrate the sorts of benefits that a liberalizing club of this kind can give.

While the president is in no hurry to leave office, a political succession will occur, and we can expect the jockeying by key elite groupings to continue as they compete to ensure their place in the post-Nazarbayev era. Within this context, repression of civil society activity and the independent media are likely to continue. Any fundamental change in the direction of political reform will need to come from within the government itself. Again, it will be important to persuade the Kazakhstani leadership that an overconcentration of power in the hands of the president and his party will be an overall destabilizing element to the country's future. The deliberate slowing of an entrepreneurial class by keeping economic interests in elite hands is also likely to weaken rather than strengthen the polity.

In Kazakhstan, GDP grew by 3.1% in 2008, compared to 8.5% in 2007 and 10.6% in 2006. Most sources predict only a marginal increase in growth for 2009. Inflation is slowing; it is expected to be somewhere around 9% in 2009, as compared to 9.5% in 2008 and 18.8% in 2007. Unemployment was 7% in 2008 and is set to rise by 1%. In the context of these economic challenges, the nationalization of industry and the tightening of borders are likely to continue. Again the government needs to be mindful of the fact that a profitable foreign investment environment has been a key element in its growth. While labor migration in the face of rising unemployment does need to be controlled, Kazakhstan has also partly fuelled its construction and retail boom through the employment of migrants. Thus, an over-hasty renunciation of such a policy needs to be avoided, especially if Nazarbayev is to realize his goal, stated in January 2007, of making Kazakhstan one of the world's 50 most competitive countries. Additionally, the elite will need to focus on diversifying the economy.

The engine of Kazakhstan's economic growth will continue to be its abundant oil and gas resources. Prospects for exports are good, and Kazakhstan is still expected to become one of the top 10 oil exporters by 2012. However, to do this, it will need to continue to manage oil revenues effectively and to keep its National Fund working. Kazakhstan should simultaneously build on its relative success in parts of the agricultural sector by making further attempts at diversifying the economy. To do that, it will need to reduce red tape and rent-seeking behaviors. Transport infrastructure should also be a priority. Within the current climate, macroeconomic policies will

need to focus increasingly on mitigating risks in order to sustain economic performance, including the restraining of bank credit and external borrowing as well as fostering an overall tighter monetary policy and a stronger tenge. The elite has a strong positive record in such macroeconomic management, but much will also depend on its ability to manage corruption, and the prospects of that being successful are considerably less.