

BTI 2016 | Kazakhstan Country Report

	scale	score	rank	trend
Status Index	1-10	4.88	# 85 of 129	
Political Transformation	1-10	3.73	# 98 of 129	➔
Economic Transformation	1-10	6.04	# 47 of 129	➔
Management Index	1-10	4.27	# 87 of 129	

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2016 – Kazakhstan Country Report. Gütersloh: Bertelsmann Stiftung, 2016.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Key Indicators

Population	M	17.3	HDI	0.757	GDP p.c., PPP \$	24204.7
Pop. growth ¹	% p.a.	1.5	HDI rank of 187	70	Gini Index	26.4
Life expectancy	years	70.5	UN Education Index	0.762	Poverty ³	% 0.3
Urban population	%	53.3	Gender inequality ²	0.323	Aid per capita	\$ 5.4

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

While the previous period (January 2011 to January 2013) was dominated by problems at home, as the country reeled from a series of shocks including such as Zhanozen in 2011, the years 2013 and 2014 were dominated by foreign economic issues, notably Kazakhstan's relations with Russia within the Customs Union. The economic crisis in Russia has had negative effects on the Kazakh economy, prompting the government to adopt urgent anti-crisis measures.

On 1 January 2015, the Customs Union of Russia, Kazakhstan and Belarus became the Eurasian Economic Union (EEU), with Armenia as a fourth member since January 2 and Kyrgyzstan declaring it would follow suit several months later. The jury is still out on the compatibility of EEU norms with WTO regulations, especially given Kazakhstan's planned accession to this organization by the end of 2015. It had been planned earlier that Russia, Kazakhstan and Belarus would join the WTO together at the same time, but Russia was the first to do so in August 2012.

Relations with Russia continue to be contradictory and paradoxical. On the one hand, political, economic, cultural, historical and linguistic ties between the two countries speak in favor of long-term strategic cooperation based on a common understanding of goals and shared principles. On the other, arguments that Russia may be an actual source of threat, in particular in light of its involvement in the Ukraine crisis and the support it has provided since early 2014 to rebels in the Donbas, are used by some nationalist elements in Kazakhstan to decry the EEU as an "imperialistic" project.

The new foreign policy concept presented in early 2014 in part responded to these ambiguities by reaffirming Kazakhstan's commitment to its multi-vector foreign policy. However, this concept does not contain much, if any, change from the country's previous foreign policy strategy and just stresses commitment to balanced and productive relations with partners other than Russia, such as China, the United States, the EU and the Persian Gulf monarchies.

The threat of terrorist attacks persisted in 2013 and legitimated further crackdowns, which were often unjustified. Along with containing the fallout from Zhanozen the authorities set about preventing similar threats in the future. New laws on religion, Internet and national security all adopted in 2011 and 2012 were used to provide legal justification for the state's heavy-handed approach towards security risk mitigation.

The 11 February 2014 tenge devaluation, causing the national currency to lose a fifth of its value, was one of the key economic events of the period under review (January 2013 to January 2015), provoking strong negative reactions from the population.

Debates about succession continued, albeit less intensely than before, and the authorities pursued their crackdown on dissent and tightened laws on religion and media freedoms. Civil rights protection worsened, but there were few incentives for organized protest. No parliamentary elections occurred during the period under review, with the Nur Otan Party being largely in charge of key decision-making in the legislature. The new Concept on Local Self-Government introduced previously was put to test with the first-ever round of local elections. Their political relevance is small, however, because the overwhelming majority of candidates came from Nur Otan party ranks.

In November 2014, President Nazarbayev presented a new anti-crisis strategy, Nurly Zhol, aiming at stabilizing the domestic economic situation and offsetting the international oil crisis and Russia's deteriorating relationship with the West. This program will draw on national reserves, which Central Bank Chairman Kairat Kelimbetov estimated at \$28.9 billion, up from December 2013 when they were \$24 billion. Its priorities lie in transport and logistics, industrial infrastructure, energy, housing, social services and SME support.

History and Characteristics of Transformation

Kazakhstan's independence in December 1991, following the breakup of the Soviet Union, was the starting point for the country's political and economic transformation. The early post-independence years were marked by initial steps towards political 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 ever 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 the 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 reshaped 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 of the 1998 financial crisis in neighboring Russia on Kazakhstan's economy, 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 results.

Political maneuvering among the country's elites 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. Parliamentary elections in September 2004, judged as neither free nor fair by the OSCE, saw the majority of seats go to the presidential party, Otan, and only one seat to the opposition. The president's elder daughter, Dariga Nazarbayeva, also gained a seat. She set up her own political party, Asar, which later merged with Otan.

Kazakhstan has been one of the most successful ex-Soviet republics to make the transition from a centralized economy to a free market one. The economy, previously 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 the mid-1990s, in which foreign investors could participate, gave a significant boost to growth. Kazakhstan achieved economic growth for the first time in 1996 and has ever since maintained it at acceptable levels. The discovery of the giant Kashagan oil field off the Caspian coast in July 2000 marked the beginning of a new chapter in the country's recent history. The same year, the president established the National Oil Fund, which currently has over \$70 billion of foreign currency reserves.

In May 2007, an unprecedented change in law was approved by parliament lifting the two-term restriction on the presidency and allowing Nazarbayev to be president for life. Simultaneously the president was given the right to head his own party, Nur Otan. Presidential prerogatives were further expanded to include, for instance, the right to dissolve the parliament of his own volition. He did so in June 2007, and the subsequent elections saw the victory of Nur Otan with 88.4% of the votes. The strengthening of the presidential system was mirrored in laws brought out in February 2009, concerning, among other things, the mass media and electoral rules, all of which failed to comply with OSCE obligations.

The period from 2009 to 2013 was characterized by the consolidation of Kazakhstan's international image in parallel with growing social unrest at home. In December 2011, at least 15 protesters were killed by the police when they staged protests in the western Mangistau region. Kazakhstan's first-ever suicide bombings also occurred in 2011, first in Aktobe and later that year in Atyrau, both in the west. This did not keep the authorities from holding an early presidential

election in April 2011 and parliamentary elections in January 2012, both of which were criticized by Western observers because they unsurprisingly yielded the victory to Nazarbayev and Nur Otan against the backdrop of nonexistent political competition.

In 2013 and 2014, Kazakhstan authoritarianism was further strengthened through a crackdown on outspoken opposition elements and some media associated with the former. Since late 2013, when protests started in Ukraine sparking a street revolution in Kiev in February 2014 and, two months later, a foreign-induced civil war in the east of the country, the Kazakhstan authorities have been trying to stave the spillover of Ukraine-styled instability. Turmoil in the world oil market and a commencing recession in Russia have allowed them to put aside earlier reforms in the name of domestic stability, which is only possible under a strong presidency, according to the official discourse.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The central government continues to keep its monopoly on the use of force. The National Security Committee (KNB) continued to be the main institution responsible for national security, working closely with the Ministry of Interior, and Kazakhstan's territorial integrity in the period under review was not threatened. The KNB is still headed by Nurtay Abykaev, President Nazarbayev's close associate.

Monopoly on the
use of force
10

While the use of force in the December 2011 Zhanaozen riots had in 2012 provoked searching questions over police training and the relationship between the government and the police, by 2013 these questions had been overshadowed by concern for countering two types of threats – social and terrorist. The first were the protests caused by the 11 February 2014 tenge devaluation. Authorities and the population alike feared that what began as socioeconomic grievances could spill over into ethnic tensions as many pointed to Russian behavior, the ruble and oil prices as the roots of the problem. In 2014, discussions about how Russia might attempt to control Central Asia led to growing anti-Russian sentiments at home. In May 2014, primarily in Almaty and Astana, protesters gathered to oppose Kazakhstan's joining the Eurasian Economic Union (EEU), calling it a direct threat to national sovereignty. A month earlier, Kazakh officials had introduced amendments to punish public calls for separatism with long jail terms. At the same time, local Russians continued to view Nazarbayev as sufficiently pro-Putin, as well as the guarantor of minority rights, peace and social stability to prevent a Ukraine-styled crisis in Kazakhstan.

That said, Kazakhstan continued to be free from any large-scale insurgent or violent movements, and activities by Cossacks and Slavic movements had been squashed in the early 1990s. Unlike in some of its neighboring Central Asian states, the so-called Islamist threat is voiced far less frequently. While drug trafficking occurs throughout Central Asia, the influence of the drug mafia in Kazakhstan is less visible than it is in first-transit states closer to Afghanistan.

In June 2013, the authorities declared that they had uncovered a terrorist plot in Astana. The draft State Program on Combating Religious Extremism and Terrorism until 2018 contains strategies to bolster existing policies, such as restrictions on extremist literature, video surveillance in places of worship, and monitoring students studying religion abroad, with the government allocating \$1.3 billion for the 5-year program. Freedom House reported that the death toll since 2011 in terror-related incidents is at least 67, mostly terror suspects and law enforcement officers.

The 2013-17 anti-terrorist program expressed concern that the risk of terrorism will grow after ISAF forces withdraw from Afghanistan in 2014. Abykaev, citing Russian intelligence in June 2014, stated that there were 100 Kazakhs fighting for Islamist groups on the Afghanistan-Pakistan border.

The rise of the Islamic State (IS) group and gains made by the Taliban have turned heads in Kazakhstan and the wider region. In late November, a video posted by IS, which has since been taken down, showed Kazakh children attending a school and participating in military training in Syria. “This is a major culture shock. We thought that Kazakhstan was immune to such things,” Foreign Minister Idrissov said in December 2014. As always, official statements of this kind need to be treated with caution. Russian and Kazakh authorities – and some Western governments as well – often see it in their interests to exaggerate threats so as to enable blanket repression and increase control over their populations. In terms of evaluating threats and exercising force, the challenge remains balancing official responses with a respect for civil liberties and freedoms. This balance has rarely been achieved in Kazakhstan.

Following the events in Zhanaozen, the government used all the repressive legislation at its disposal to target those it held responsible for the strikes, the violence and the spread of information about both. This applied particularly to its handling of the terrorist threat, perceived or real. This is likely the key reason for increased public spending on security measures, even as the government continues to delay the much-needed military reform during the financial crisis.

The national census, conducted every ten years, confirmed in 2009 that Kazakhs were the country’s dominant ethnic group. While according to the 1989 census Kazakhs were still a minority in their own country, the 1999 census revealed that they already achieved a majority of over 53%. The percentage of Kazakhs reached 63% by 2009, with Russians being the second-largest ethnic group at 12.3%.

Since its independence from the Soviet Union in 1991, Kazakhstan has sought simultaneously to develop an ideology of multi-nationalism by promoting a civic idea of Kazakhstan where all ethnic groups have equal rights and can freely practice their respective religions, and, at the same time, to cement the titular status of ethnic Kazakhs. This dual approach is found in the 1995 Constitution and in the 2010 Doctrine of National Unity, which also refers to the “primordial” Kazakh identity and

State identity
8

describes independence in 1991 as a result of a long struggle of the Kazakh people for statehood. Multiculturalism is symbolically promoted through the continued existence of the People's Assembly of Kazakhstan, a public organization set up in 1995. Nine of its members are appointed by the president to serve in the Mazhilis, the lower chamber of parliament.

The regime in the period under review has continued the delicate balancing act at home between the rhetoric of multi-nationalism and multiculturalism and growing Kazakh nationalism. Civic patriotism was given an unexpected boost by Russian President Vladimir Putin's remarks in August 2014 at the pro-Kremlin Lake Seliger Youth Camp in Russia, when he said that Kazakh statehood did not exist before Nazarbayev. Meant to be a compliment for the Kazakh president, this inadvertently not only had a threatening undertone in light of Russia's recent behavior vis-à-vis Ukraine, but also implied that Kazakh statehood may disappear when the Nazarbayev leaves office. Meanwhile, in the period under review, Russians in Kazakhstan seem to have felt increasingly torn between sympathy for Russia and Putin and loyalty to Nazarbayev.

In 2010, the National Language Program set the goal of teaching at least 95% of Kazakh citizens to speak Kazakh by 2020 (at that time 60% of the population spoke Kazakh). A year later, Nazarbayev announced that the Kazakh language's Cyrillic alphabet would be replaced by a Latin script by 2025. However, both debates became dwarfed by economic issues in 2013 and 2014. In March 2014, an official order was issued stating that members of the Kazakh diaspora – the Oralman – who return to their historical homeland were to be settled in the Akmola, Atyrau, West Kazakhstan, Kostanay, Pavlodar, North Kazakhstan and East Kazakhstan provinces. Nearly all these locations border Russia, and so the order was seen as another attempt to strengthen the ethnic Kazakh component in border regions. However, the order was later cancelled.

State programs championed by the president are consistently portrayed as a means to bolster state unity and statehood. The previous period ended with the unveiling of the Kazakhstan-2050 Strategy, which replaced the earlier Kazakhstan-2030 Strategy. The Kazakhstan-2050 Strategy's focus is on competitiveness, administrative reform, decentralizing state management and providing a clear division of power, new social policy and strengthening patriotism. The Nurly Zhol Program (see below) announced in November 2014 largely follows the same lines.

Norman Foster's Pyramid of Peace and Concord in Astana was designed to serve as a living symbol of Kazakhstan as a meeting place for world religions. While the period under review did not coincide with a new global Religious Tolerance and Interfaith Dialogue Congress (the congress is currently scheduled for sometime after January 2015), the authorities continued their clampdown on religion. This clampdown took the same forms as previously.

No interference of religious dogmas

9

The new Law on Religious Activity and Religious Associations of 13 October 2011 stipulated that religious organizations and faith-based civic associations had one year to re-register under new stringent criteria, or face closure. Only 17 of 46 officially recognized faith groups survived the registration process and one third of all faith-based civic associations were ordered to dismantle. In 2013, the Freedom House Index reported that in 2012 several prominent independent media lost appeals against legal bans imposed on their operations. In November of that same year, the Oslo-based religious freedom watchdog Forum 18 reported that at least 153 fines had been imposed on 126 individuals in 2013 for violating the 2011 religion law. The government also deported several foreign nationals suspected of illegal missionary activity.

Kazakhstan's regime, nevertheless, continues to be secular. Church and state are formally separated. However, while the political process is secularized, it nonetheless aims to control all religious activity in Kazakhstan. There is in fact little, if any, preferential treatment given to the Muftiat (Islamic High Council). The Agency for Religious Affairs established in May 2011 and transformed in August 2014 into a committee within the Ministry of Culture and Sports, in the period under review, has authority over most religious organizations, Kazakhstan has begun to lose its reputation as a tolerant country and to increasingly resemble neighboring Uzbekistan.

A continued distinction is made between "traditional" and "non-traditional" religions, with the implication that non-traditional ones are generally destabilizing and bad. Currently, 70% of Kazakh citizens identify themselves as Muslim and 25% as Orthodox Christian. Approximately 20 minority religious groups in this category include Jehovah's Witnesses, Hare Krishna followers, and some Islamic supporters viewed as deviating from the approved form of Islam.

Following the 2011 Zhanaozen events, the government established in January 2013 the Regional Development Ministry as a part of its strategy to decentralize public administration and ensure greater local outreach to citizens. Yet, the ministry disappeared during the last administrative reform in August 2014 when the overall number of ministries was reduced from 17 to 12.

Basic administration

8

This reform notwithstanding, the number of public servants has not decreased. The last big cut in state official jobs was in the late 1990s as per World Bank recommendations, with some limited improvements in the quality of work and the

training of civil servants. However, this never led to substantial progress in the general management of state affairs, especially at the local and regional levels.

Changes in early 2014 in the higher echelons of power in Kazakhstan indirectly confirmed the central government's inability to carry out meaningful reforms, instead of just continuous administrative reshuffling. Appointed as prime minister in September 2012, Serik Akhmetov was replaced in April 2014 by Karim Massimov, who had already headed the government in 2007-2012. This choice by President Nazarbayev demonstrates the limited options that he has to fill key decision-making positions, causing him to continuously rely on the same individuals within his inner circle.

In August 2014, the number of ministries was cut and the structure of government reorganized. Now 12 ministries exist in total. No independent agency structure remains within government, leading to so-called "superministers." One notable example is Erbolat Dossaaev, who in August 2014 became Minister of National Economics replacing the former Minister of Economics with newly increased powers. Dossaaev now controls the Statistics Agency, natural monopolies, competition protection, and, crucially, the former Ministry of Regional Development. Another beneficiary has been Aset Isekeshiev whose former Ministry of Industry and New Technologies portfolio was collapsed into the Ministry of Investment and Development, which includes important spheres such as transport and communications.

These changes may have fallen under the promised streamlining in discussion with OECD membership. In January 2015, Kazakhstan and the OECD signed a two-year memorandum of understanding – the program could lead to over 20 policy reviews, cooperation in capacity building projects, increased level of participation in six OECD Committees, and possible adherence to 28 OECD legal instruments, including the Declaration on International Investment and Multinational Enterprises.

2 | Political Participation

No national elections occurred in 2013 and 2014. The presidential election slated for late 2012 was moved up to April 2011 by the president in January 2011 and returned Nazarbayev into office with 95.5% of the votes. His term of office ends in December 2016.

To date, no Kazakhstan parliamentary and presidential elections have been free and fair, and international election observation missions have repeatedly found shortcomings in Kazakhstan's electoral process. Thus, while the country has paid lip service to democratic electoral standards, open and competitive elections have to date

Free and fair
elections

2

not been held. Nor has there been a presidential leadership change since 1991. Kazakhstan continues to ignore OSCE/ODIHR recommendations in this critical field.

Even though most observers agree that Nazarbayev would have in any case won the April 2011 re-election with a comfortable margin, calling the election early reduced other candidates' chances for organizing campaigns. Furthermore, Nazarbayev enjoyed unrivalled administrative, informational and political support. In the 15 January 2012 parliamentary elections, three main parties came out as winners, marking an end to Nur Otan's monopoly. The presidential party won 80% of the votes, compared with 7.47% for Ak Zhol and 7.19% for the Communist Party. Yet, it would be erroneous to view this as the establishment of a multiparty system, since the two parties that surpassed the 7% threshold are in fact loyal to the regime.

The legal amendment to the law on local self-government in the previous period was partly tested in this one. The election of mayors in August 2013 was symbolic insofar as it did not happen in Kazakhstan's major cities and all those voting for candidates were members of Nur Otan, with little if any margin for maneuver.

The president continues to enjoy exclusive veto powers. The two-term limit for the First President, as Nazarbayev has been legally known since 2000, was removed through a series of constitutional amendments in 2007. Debates surrounding presidential succession – its mechanisms, groups and individuals – continued in some quarters but in the context of urgent economic and foreign policy challenges, in a more restrained fashion than before. Unusually, following Vladimir Putin's allusions to weakened statehood after Nazarbayev's departure (see below), the Kazakh president tried to reassure the population that all will be fine after he retires from office, although he did not set a date for his retirement.

Effective power to govern

2

Despite the continued predominance of Nazarbayev and the Nur Otan Party, Kazakhstan is not run by one man. It has long been clear that the country's political system is composed of a large number of elite factions which all lobby for influence over Nazarbayev, and for access to key resources. The fallout from Zhanaozen accentuated elite factionalism, as those seen to be either more responsible for the unrest, or unable to deal with its consequences, were quickly removed from the race to succeed the president. Similarly, further jockeying for influence is likely to continue in the run-up to succession.

Zhanaozen did at least temporarily provoke some discussion about better governance, as later did the economic crisis in Russia and its impact on Kazakhstan. The decision to allow for what at least is some dent on Nur Otan's legislative monopoly suggests that the president and the government are aware that current ways of managing crises and carrying forward socioeconomic modernization are no longer acceptable. Still, the victory of pro-regime political parties and the regime's ability to vet eligible candidates is hardly conducive to effective power sharing.

Occasionally, the elite seems mindful of the fact that political modernization is failing to keep pace with parallel socioeconomic transformations. But it appears that such rare moments often flow from the need to garner Western attention or approval, particularly when domestic legitimacy is lacking or when Russia is becoming increasingly assertive (as in the period under review).

Groups that attempt to influence the political process from below have been systematically harassed, isolated or imprisoned. The ideological scene has been monopolized by the current regime, and both ideas and people continue to be successfully co-opted by the current leadership. If they cannot be co-opted, opposition leaders are imprisoned or assassinated. While Kazakhstan ranks ahead of Uzbekistan and Turkmenistan in terms of openness, the right to hold meetings and protests has been carefully controlled. In contrast to its neighbors (with the exception of Turkmenistan), Kazakhstan saw no major protest gatherings prior to the 2011 Zhanaozen unrest.

Since 1995, the Ministry of Justice has required all civil society groups to register and this law remains unchanged to this date. In the period under review there were some 30,000 officially registered NGOs in Kazakhstan, but only a fraction of these are operational and effective. Authorities place severe restrictions on these groups' rights to assemble: The Law on Public Assembly requires protesters to seek permission from the government ten days in advance for any public gatherings if there are more than 20 participants. Permission for opposition rallies is often refused, and, if granted, they are only allowed to take place in remote locations outside of the city center.

Even after a damning Human Rights Watch report in September 2012 that detailed allegations of harassment, intimidation and imprisonment of trade union leaders and strikers, the authorities have rather successfully managed the fallout from Zhanaozen. Official discourse discourages journalists from further discussing the unrest and trade union activists have come under intense pressure. In line with the country's 2010 Unity Doctrine, and its spirit of ideological renewal along prescribed lines, dissent continues to be viewed as destabilizing.

Kazakhstan's so-called private media by now are predominantly associated with private elite groupings and this reality needs to be borne in mind when assessing any new liberalization law. In any case, no major attempts to liberalize the media landscape occurred in the period under review.

On 18 January 2012, and despite domestic and international pressures, the government passed a law requiring all foreign television and radio stations to re-register, giving the state a new opportunity to evaluate and potentially ban their operation within Kazakhstan. Another law passed in 2011 requires media channels to produce at least 50 % of their programming in Kazakh, rather than translating

Association /
assembly rights

3

Freedom of
expression

3

programs into Kazakh. The 28 January 2012 Law on National Security particularly focuses on “information security.” Yet the text is vague as to the nature of the threats. It includes references to the banning of any material that undermines national security or discloses national secrets. It also forbids any foreign national or from owning more than 20% of a media company.

According to the 2014 Worldwide Press Freedom Index by Reporters Without Borders (RSF), Kazakhstan ranked 161st, down from its 160thth position in 2013. The media coverage of the April 2011 presidential and January 2012 parliamentary elections remained biased in favor of the president and pro-regime candidates. Press freedom deteriorated even further in 2013-2014. In 2013, several prominent independent media outlets lost appeals against legal bans imposed on them at the end of 2012.

While the government has initiated minor amendments to the highly restrictive Media Law, it has not so far implemented any significant liberalization of this law or the criminal code. Under Article 318 of the Criminal Code and Article 1 of the Law on the First President-Leader of the Nation, “publicly insulting or other encroachment on the honor and dignity of the first president” is an offense punishable with a fine of approximately \$10,000 and a maximum penalty of three years in prison. The two restrictive laws of August 2009 on the Internet and privacy are still in force, whereas the government failed in 2014 to decriminalize libel as earlier promised. While freed in the previous period, Yevgeniy Zhovtis, a leading human rights lawyer and activist, had at that time served a four-year politically motivated sentence for manslaughter.

3 | Rule of Law

The years 2013 and 2014 continued to see the constitution’s commitment to the separation of powers unrealized in practice. There were no major changes to legislation in either year. The constitution speaks of a separation of presidential, governmental, parliamentary and judicial powers. Despite a separation of powers in principle, President Nazarbayev wields considerable control over all three branches of government and dictates national policy priorities. He retains the right to appoint foreign, defense, interior and justice ministers under the constitution. The Prime Minister is nominated by the President and appointed following Parliamentary endorsement. Nazarbayev is exempt from the constitutional bar on presidents running for office more than twice in a row and from holding membership of a political party. Indeed, he is the head of the biggest political party in Kazakhstan, Nur Otan (which means “Light of the Fatherland”). Even if, in 2012, the pro-presidential party lost its monopoly in parliament, and in 2014 authorities agreed to hold direct elections of local and rural leaders in some districts, the executive continues to maintain tight control over both the legislative and the judiciary.

Separation of
powers

2

Key justices continue to be appointed by the president and major court cases against politicians remain politically motivated. Furthermore, the management of the prison system, which was transferred to the Ministry of Justice in 2002, was returned to the Ministry of Interior in the fall of 2011.

Formal and informal methods continued to be used to undermine the weak system of checks and balances. All branches of government suffer from a lack of professionalism, although a limited number of high-level officials continue to be extremely well-trained, primarily in the West, Turkey and increasingly in China. Deeply ingrained nepotism in various sectors prevent formal institutional separation of powers from functioning.

While the constitution states that the judiciary is independent, in practice its independence is not guaranteed. The May 2007 amendments enabled each chamber of parliament to nominate two members to the Constitutional Council and the Central Election Committee. However, the chairs of both bodies and key members of the judiciary are appointed by the president.

Independent
judiciary

3

In 2011, Nazarbayev sent the draft bill aiming to extend his rule until 2020 without the need for re-election for approval to the Constitutional Council. This action appears, therefore, no more than symbolic. Supreme court judges are appointed by the Senate on the recommendation of the president.

Eight major corruption scandals dominated 2013 and 2014. They involved former (deputy) regional leaders (Karaganda, Pavlodar, Atyrau), (deputy) ministers (Agriculture, Education) and three heads of committees (Statistics, Anti-Monopoly and Border Control). Charges of corruption and misuse of office tend to be leveled against highly placed government figures only after these individuals enter into a personal or political rivalry with the ruling elites or attempt to challenge Nazarbayev's authority. They may also come from regions or companies that represent significant economic interests. To date, all major political or public figures brought to justice on politically motivated charges have been convicted by the courts.

Prosecution of
office abuse

3

The international community lauded Kazakhstan's joining the Extractive Industries Transparency Initiative (EITI) in 2013. Membership in this group comes with expectations of increased accountability and openness in reporting and financing. Its regulations will, however, operate in a system where corruption is entrenched. Corruption is widespread in the judicial system, and in other parts of the government.

In Kazakhstan, corrupt behavior is widely accepted as natural, and many believe that the judiciary serves only the interests of the rich and powerful. For small and medium offenses, bribery is seen as an effective means of achieving a desired verdict. It is also widely understood that becoming a judge is extremely difficult without giving bribes to various officials and court administrators. Most guides to doing business in the country point to corruption as one of key obstacles to both getting businesses registered and then allowing them to grow and develop normally.

The bundle of laws on media freedom, the right of association and (re)registration of parties and religious groups continues to curtail civil liberties and freedoms. The period under review again demonstrates that individuals often remain unprotected against interference from the state or non-state actors and are not guaranteed due process under the rule of law. Cases against activists and lawyers involved in Zhanaozen in the previous period, as well as those charged with extremism and libel in the period under review, corroborate this trend. Despite flawed trials, courts upheld the prison sentences of people convicted in the aftermath of the violent clashes in December 2011.

Civil rights
3

Kazakhstan's poor human rights record continued to deteriorate in 2013, with authorities cracking down on free speech and dissent through misuse of overly broad laws. Authorities maintain strict controls on freedom of assembly and religion. Torture remains common in places of detention, even as authorities in July 2013 adopted a National Preventive Mechanism Against Torture (NPM) as law. The NPM will be funded directly from the government's budget.

4 | Stability of Democratic Institutions

Despite a veneer of new bottom-up approaches – the election of some rural and district heads, for example – these symbolic gestures were more than outdone by further legal and political attempts to crack down on dissent.

Performance of
democratic
institutions
2

Any checks and balances meant to control the executive are extremely weak. The executive continues to preside over all other branches of government and within the executive the president, his close entourage and the presidential administration continue to dominate. Kazakhstan is a unitary state. While the current regime has been relatively stable, it also prevents the emergence of new political forces, slows down the development of a middle class and creates longer-term stability risks.

In 2014, the emphasis on democratic rhetoric was decisively put aside in favor of one focusing on progress and modernization – officially, in order to strengthen Kazakh sovereignty. The law “On Local State Government” explains how regional administrations (akimat) elaborate and present to the regional parliament (maslikhat) regional (or in the case of Astana and Almaty – city) development plans. Maslikhats are required to approve these proposals and deputies have the right to address local executive bodies and organizations located in the territory under their jurisdiction with requests and petitions; to require and to hear reports of officials at the sessions of the maslikhats and to take part in the work of akimats. The reality however has been the monopolization of the maslikhats by the party of the executive – Nur Otan – which directly contradicts the separation of executive and legislative powers. Moreover, although the executive branch is in charge, its lack of vertical and

horizontal integration (see below) means that it is often an ineffective branch of power in terms of upholding the reform direction.

In March 2014, a former presidential advisor coined the term “authoritarian democracy” for Kazakhstan, a formula that nicely captures the duality of the reality and the rhetoric. Nazarbayev continues to say that Kazakhstan’s cultural specificities make it different from Europe, but at the same time Kazakhstan’s minority rights laws pertaining to over 130 ethnic groups are less restrictive than those in Europe. Starting in 2014, growing Russian external pressures increased incentives for Kazakhstan to seek support from the West through its democratic rhetoric, while the parallel economic fallout from the Customs Union encouraged further crackdown on dissent.

Commitment to democratic institutions remains at the level of rhetoric. The chairmanship of the OSCE in 2010 did not lead to any significant changes in the way the country is governed. Subsequent legal or programmatic changes either have contributed to strengthening authoritarian rule or introduced a form of managed democracy, which gives the semblance of a voice to other groups when in reality these groups are loyal to the regime. The fallout from the Russian crisis has given the regime reason to tighten rather than loosen its grip on power.

Zhanaozen did not impress upon the leadership the need to change governance; instead, it took the focus away from polity to society and socioeconomic challenges. Suicide bombings in the previous period and a foiled terrorist plot in the period under review (see above) further reinforced the repressive methods used by the Kazakhstan government to deal with threats. These entail ramping up control over society and narrowing freedoms, rather than finding new ways or devising new institutions to manage social grievances.

A large number of influential actors do not appear to view democracy as the most legitimate form of government partly because they favor authoritarianism, under which they have done well (including in some cases opposition leaders who have been successfully co-opted), and partly because they want to avoid instability purportedly fuelled by nascent liberalism, as in neighboring Tajikistan (1992-1997) and Kyrgyzstan (2005 and 2010).

5 | Political and Social Integration

The majority of key parties continue to be formed top-down rather than bottom-up and, like media outlets, are affiliated with key political groups. When the constitutional clause placing the president above party politics was amended in 2007, Nazarbayev was able to assume party leadership. Otan was thus renamed to Nur Otan in early 2007 and elected Nazarbayev as its leader. The pro-presidential party Nur Otan has quasi-monopoly within Kazakhstan’s party system. A carefully managed

Commitment to
democratic
institutions
2

Party system
2

introduction of “multi-partyism” in January 2012 ensured that Nur Otan’s pre-eminence was only slightly challenged and then only by parties loyal to the regime. The 2014 regional elections did not bring about any change to this.

The 2007 amendments to the Law on Elections and Political Parties meant the privileging of party loyalty over loyalty to voters, and also by virtue of requiring party membership, ruling out independent voices. The 7% threshold was aimed at blocking the rise of new parties. If in the run-up to its OSCE chairmanship Kazakhstan promised to reform the political party system, no fundamental changes have been made yet.

Discussions about NGOs were largely absent in the period under review. In attempting to address relations between the state and society, discussions instead revolved around the vaguer themes of state patriotism and discontent stemming from Russia’s continued dominance in the Customs Union and the Eurasian Economic Union (EEU), rather than Kazakhstan’s heavy-handed domestic regime.

Some participants blamed civil society itself for this lack of activity, pointing to civil society’s inertia and inexperience. Yet, it is clear that if most funding for interest groups comes from the government (the other two sources being international and domestic private actors), it is hardly surprising that these groups are often dependent on and subservient to the state. Nationwide movements are also severely hampered by the sheer size of the country and regional differences.

Zhanaozen reinforced the lack of cooperation between various civic groups. Sectors in which they work are isolated, their activities poorly coordinated and often temporary, as funding dries out. Trade union activity is still subject to regulations and remains weak. Isolated Cossack voices spoke of Russia and its long-term goals for Kazakhstan, but, as in the early 1990s, these pro-Moscow movements lacked unity and leadership.

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 does not necessarily mean consent. There is general popular support for the president which has helped so far to avoid the mayhem of neighboring Tajikistan and Kyrgyzstan, thanks to relative stability, social peace and economic growth. The authorities were able to manage the fallout from Zhanaozen by controlling the media and by diverting attention quickly to other pressing concerns, such as a series of border incidents in 2013, all masked as a fight against violent extremism.

Interest groups
3

Approval of
democracy
n/a

As in the previous two BTI periods and despite declarations to the contrary, less than 10% of the population remains engaged in civil liberties, human rights and minority protection issues. These activists are under the most stringent observation by the authorities. Rural self-help networks during the period under review were little different from the previous one, in that they maintained the recovery they had enjoyed as a result of economic growth but continued to be considerably less extensive and reliable than in the Soviet period.

Social capital
3

II. Economic Transformation

6 | Level of Socioeconomic Development

In the previous period under review, the 2011 Zhanaozen events led to considerable attention being paid to socioeconomic inequality. During the current review period, the fallout from the tenge's devaluation also led to discussions about how the degree of inequality between the country's richest and poorest could lead to substantial social divides, one source claiming a difference of 30:1 between the richest and the poorest, or even 100:1. The coefficient has fallen in the last ten years by 1.5 times. The two poorest regions are Mangistau and South Kazakhstan. Kazakhstan is rated 16th for the number of billionaires it houses. The minimum wage is twelve times lower than in the United States.

Question
Score

Socioeconomic
barriers
5

According to the UNDP, 3.8% of the population lives below the national poverty level, compared to 38% in neighboring Kyrgyzstan. The share of the Kazakhstan population living in poverty went down from 47% in 2001 to about 3% in 2013, as measured by the national poverty line. Despite this wide gap, social exclusion and marginalization linger, notably through poverty and poor education. Discrimination is more common on the basis of clan, ethnicity and class than on the basis of gender or religion, although the government normally puts an emphasis on non-ascriptive criteria, such as education, training and general professionalism, regarding high-level political offices. That said, access to major economic and political posts remains closed to outsiders, while open competition, for instance via civil service exams, is inadequate. The increased emphasis on socioeconomic policy in 2012 gave way to the hard reality of the falling price of oil and dwindling bank reserves, and exacerbated market dysfunctions.

Several factors continue to militate against widespread protests against inequality. According to two major social research studies conducted in 2014, around 41% of Kazakhstan's population is now labeled as middle class, with an average monthly income of \$540-\$1,080. This puts Kazakhstan's average income on the same level as

Russia's, and substantially higher than in most other post-Soviet states. While the president is associated with hypercentralized rule and a cult of personality, the average citizen also continues to see him as a guarantor of peace and stability, fearing that social tensions could result in civil war, as occurred in Ukraine beginning in 2014.

Amid high levels of inequality, Kazakhstan's ranking in the Human Development Index (HDI) fell in the period under review to 70 from its ranking at 68 in the previous period. Still, Kazakhstan remains the only Central Asian country in the "High Human Development" bracket. Considerable disparities persist between the disadvantaged rural south and west, where Zhanaozen is located, and relatively well-off rural areas in other regions. Measuring the composite dimensions of human development (health, education and income) shows that while the country is among the top 50 in the world in terms of competitiveness, Kazakhstan society is plagued with development problems. Kazakhstan's HDI 2013 continues to be above the average for countries in the human development group and below the average for countries in Europe and Central Asia. Ukraine and Russia come closest to Kazakhstan in terms of HDI ranking.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	57123.7	148047.3	231876.3	212247.9
GDP growth	%	9.7	7.3	6.0	4.3
Inflation (CPI)	%	7.6	7.1	5.8	6.7
Unemployment	%	8.1	5.8	5.2	-
Foreign direct investment	% of GDP	4.5	5.0	4.2	-
Export growth	%	1.1	3.1	-0.2	-
Import growth	%	12.5	2.9	5.8	-
Current account balance	\$ M	-1031.1	1410.9	-117.8	-
Public debt	% of GDP	8.1	10.7	12.9	14.9
External debt	\$ M	43857.0	119144.5	148456.1	-
Total debt service	\$ M	13158.4	39473.6	30903.5	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	11.2	10.8	10.3	-
Public expnd. on education	% of GDP	2.3	-	-	-
Public expnd. on health	% of GDP	2.5	2.5	2.3	-
R&D expenditure	% of GDP	0.28	0.15	-	-
Military expenditure	% of GDP	1.0	1.0	1.1	1.1

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Kazakhstan's compliance with the Extractive Industries Transparency Initiative (EITI) in 2013 was a key change in the period under review. Earlier in 2011, it became the 110th member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, the first state in Central Asia to do so. The flat income tax rate remains at 10% and the standard corporate tax rate is 20%.

Market-based
competition
6

Overall, the institutional framework for economic competitiveness has improved, but actual global competitiveness has declined in this BTI period. Kazakhstan was 69th (out of 142 countries surveyed) in the World Economic Forum's Global Competitiveness Report in the period under review, down from 67th and 72nd in the previous BTI periods. In the Heritage Foundation's 2014 Index of Economic Freedom Kazakhstan is ranked as "moderately free," down again from the previous year's index (from 68th to 69th). Its score has decreased by 0.4 point since 2013, with declines in property rights and business freedom outweighing a modest combined improvement in half of the 10 economic freedom indicators, including trade freedom, labor freedom and freedom from corruption.

With strong fiscal restraint, low taxes and stabilizing monetary policies, Kazakhstan has made steady gains in economic freedom. Over the past five years, its index score has advanced by 1.2 points with improvements in fiscal freedom, government spending, monetary freedom and investment freedom.

Kazakhstan's transition to a market-led economy has been steady, but further reforms are necessary to solidify past gains. Its overall investment and trade regime remains relatively closed to foreign investors, compared to regional and global peers. The

judiciary lacks statutory independence and is subservient to the executive branch. Corruption is prevalent and reaches into all branches of government.

In an attempt to promote diversified economic growth outside the energy sector, regulatory reforms have aimed at streamlining the business start-up process. The small- and medium-sized (SME) sector still accounted for an average of only 10% of GDP, primarily in food and light industries. In the period under review, banks once more issued a large number of bad loans to the private sector. Enforcement of labor laws is highly erratic. No minimum capital is required to start a company, which requires six procedures and 10 days, but obtaining necessary operating permits requires over five months on average. The labor market needs more flexibility to accommodate rapid economic transformation. Monetary stability is well maintained, but the government subsidizes agriculture and imposes price controls on fuel.

Changes to the tax law in the period under review generally increased rather than decreased the amount that private businesses have to pay and SMEs continue to face the politicization of business, as well as a stifling bureaucracy. Kazakhstan's political leadership remains wary of allowing an independent entrepreneurial class to develop, preferring to maintain the majority of political and economic power in its hands. The private sector continues to be dependent on the state sector for access to funds. The country still needs increased private participation in infrastructure and easier access to finance for SMEs.

Kazakhstan's central bank has kept the tenge tightly pinned to the U.S. dollar since February. As the ruble plunged, Kazakhstan's currency surged to its strongest for a decade relative to the ruble. Back in 1 January 2007, Kazakhstan eliminated licensing requirements and procedures for foreign currency operations, except for the need to license exchange operations. No distinction is made between residents and non-residents in opening bank accounts, but all account holders must have a Kazakhstan tax identification number.

A 2014 bankruptcy law improves insolvency processes by permitting accelerated business reorganization proceedings, extending the period for rehabilitation or reorganization, and expanding the powers of – and making more stringent the qualification requirements to become –insolvency administrators. The law also eases bureaucratic requirements for bankruptcy filings, gives creditors a greater say in continuing operations, introduces a time limit for adopting rehabilitation or reorganization plans, and adds court supervision requirements. In a further effort to encourage foreign investment, the government in 2013 established an Investment Ombudsman, who, it is hoped, will be able to resolve foreign investors' grievances by refereeing inter-governmental disagreements that hamper investors' activities. It is too early to evaluate the effectiveness of these measures.

An anti-monopoly committee has existed since the 1990s, but it remains a marginalized body beholden to the presidential administration. In the previous period, the Kazakhstan government pursued attempts to reappropriate large chunks of the economy previously in the hands of foreign companies, including the oil, chemicals and metals sectors. In addition to the establishment of four major banks and the consolidation of the large Samruk-Kazyna conglomerate, the government continues to press for better terms with foreign companies, as they relate to both taxation and ownership shares. The period under review thus saw a continuation of the same trend.

Anti-monopoly
policy
6

Samruk-Kazyna controls over 50% of the country's economy involving almost 600 state companies, including KazMunayGaz, Kazakhstan Railways, Kazakhtelecom, Kazatomprom, Air Astana and KazPost. While it stabilized the economy during the world financial crisis of 2008-2009 by bailing out troubled firms, Samruk-Kazyna has since stagnated due to heavy bureaucracy and inefficient management. The 2012 reorganization plan split the conglomerate into two parts, with Bayterek Holding now responsible for economic development. Under its 2014 optimization program Samruk-Kazyna planned to sell 64 subsidiaries of which only 12 were privatized. As in the 1990s, privatization often benefits the elites.

Like its predecessor, Strategy-2030, Strategy-2050 announced in December 2012 also views economic diversification as its key priority. However, Samruk-Kazyna's privileged status is unlikely to be challenged. The state continues to interfere with business processes, reducing the potential for private business to play a significant role in the economy. The implementation of deeper institutional reforms is critical to strengthening the foundations of economic freedom and securing long-term broad-based economic expansion. Property rights continue to be poorly protected, anti-corruption measures poorly enforced and an anti-monopoly policy that deserves the name is non-existent.

The 2010-2014 Investment Program encourages three investment regions. Kaznex Invest is the sole agency responsible for managing investment. An ombudsman for foreign investment was also created in 2012. The Foreign Investors' Council created in 1998 remains the main forum for investors to express their concerns to the president. Among the biggest investors in 2014 were the Netherlands, the United States, the United Kingdom, France, Italy, Russia, China and South Korea.

Liberalization of
foreign trade
7

Foreign direct investment (FDI) is officially welcome, but unclear legal codes, favoritism, strict rules for state stakeholderism and the inconsistent application of regulations (even if more were introduced in the period under review) are deterrents. In March 2012, the OECD Investment Policy Review stated that "attracting FDI into non-extractive sectors will require more than just eliminating red tape" in Kazakhstan. In the OECD FDI Regulatory Restrictiveness Index, Kazakhstan stands as the 12th most restrictive country out of 51.

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. In November 2014, WTO Director General Roberto Azevedo stated that Kazakhstan would very likely be able to join the WTO in 2015. To date, WTO membership talks have stalled mainly because of higher tariffs within the Customs Union (CU) and the EEU. Over 2011 and 2012, external tariffs were brought in line with the new customs code. Kazakhstan was quick to suffer from its weaker comparative advantage in a smaller market. The CU regulations have pushed up Kazakhstan's trade tariffs from an average of 6.7% to 11%, a World Bank study found.

While pressing ahead with CU integration, Kazakhstan continues its multi-vector economic policy. China, Kazakhstan's biggest export market, is not far behind Russia on imports. China is the country most prepared to invest in private equity in Kazakhstan. Importantly, in the first half of 2014, the EU was Kazakhstan's biggest (54.7%) export market, likely to be further strengthened by an enhanced partnership and cooperation agreement. Unlike in the previous period, however, and because of the deteriorating global environment and the economic crisis in Russia, the trade balance in Q3 2014 showed a current account deficit.

While Kazakhstan's financial sector is the only one integrated into the global economy, it continued in the period under review to display some of the weaknesses it had shown in the past. The glowing record it received at the start of this century was severely tainted by bankers' reckless behavior and risk-taking that have largely contributed to the worsening of the financial crisis. Fitch Ratings said in April 2014 that the outlook for Kazakhstan's banks was stable, as "a generally supportive operating environment offsets challenges arising from still sizable problem legacy corporate loans, rapid growth in consumer lending and tighter sector liquidity."

Non-performing loans in the banking sector continued to be high (23% in late 2014). The government has outlined several mechanisms for dealing with impaired bank loans, including the creation of a distressed asset fund managed by the central bank and a taxation window that removes tax disincentives for banks to write off bad debt. Potential risks were underscored in February 2014 as the 19% devaluation of the tenge and an information attack on some banks caused a 6% retail deposit outflow, forcing the central bank to provide additional liquidity to the market.

8 | Currency and Price Stability

In February 2014, the National Bank of Kazakhstan (NBK) devalued the tenge by 19% against the U.S. dollar, thus shifting its trading corridor from KZT145-155:\$1 to KZT185:\$1. This move was in response to the earlier weakening of the Russian ruble and the shrinking current account surplus, with Russia being Kazakhstan's major trade partner.

Anti-inflation /
forex policy

6

The 2014 devaluation was the second in five years after the tenge had lost 25% of its value in February 2009 under similar circumstances. As a result, annual inflation averaged 7.6% in 2014, up from 6.3% in 2013 and 6.0% in 2012. On the positive side, the NBK was able to decrease the sale of foreign currency to stabilize the tenge and, therefore, to halt the depletion of its foreign currency reserves.

While the devaluation was a positive development for Kazakh exporters, it hit both consumers and importers and the banking sector badly. Moreover, the ruble's depreciation in 2014, amid Western sanctions and the oil price slump, has made almost inevitable a new devaluation of the tenge.

Despite past attempts at diversification, Kazakhstan's economy is heavily dependent on the hydrocarbon sector. Oil production accounts for 25% of Kazakh GDP, 65% of total exports and up to 40% of aggregate budget revenues. In 2014, oil output declined to 80.8 million tons from 81.8 million tons the year before. In September 2013, production was halted at one of the country's largest oilfields at Kashagan after the discovery of gas leaks from two pipelines. It had previously been expected that Kashagan would bring online some 8 million tons of new crude in 2014 alone.

Macrostability
7

Thanks to a post-2009 recovery in the price of oil and substantial foreign currency reserves accumulated since 2000 in the National Oil Fund, Kazakhstan weathered the last financial crisis in the previous period rather well. However, its GDP growth has since been less impressive than prior to 2008 and stood at 4.3% in 2014 after 6% in 2013 and 5% in 2012. According to estimates by the government and several international organizations, such as the World Bank and the EBRD, the economy will grow by a meager 1.5%-1.8% in 2014, largely because of the low price of oil.

On 9 February 2015, Standard & Poor's downgraded Kazakhstan's sovereign rating from BBB+ to BBB with a negative forecast. The turmoil in the international oil market, a widely expected recession in Russia and the Ukraine crisis weigh down heavily on the Kazakhstan economy. A new devaluation would necessarily lead to uptick in inflation, social discontent and lower volumes of bank credit. Official unemployment is at 5%, but a considerable number of self-employed persons remain particularly vulnerable to the worsening macroeconomic outlook.

As in previous period, the government introduced a new package of stimulus measures, including the November 2014 Nurly Zhol (Bright Path) program presented by Nazarbayev. It foresees the allocation of an extra \$9 billion from the National Oil Fund in 2015-2017. In October 2014 and again in February 2015, the authorities reviewed the budget for 2015-2017, cutting expenses by \$1.4 billion and \$3.8 billion respectively. Budget oversight and fiscal discipline are undermined by poor policy planning at the central level and the parliament's limited supervision powers.

9 | Private Property

Property rights are well defined, but several post-2008 cases of nationalization and conflicts over ownerships mean that private and international rights are not secured. Nationalization rarely follows disputes with foreign companies over the terms of their involvement in the Kazakhstan economy, but is rather aimed at ensuring the survival of troubled entities after years of poor management. The reduction of state revenues as a result of the low price of oil since mid-2014 has pushed the government to intensify its privatization efforts. Thus it has been seeking to divest itself of many nationalized assets and withdrew in 2014 from Alliance, Temir and BTA Banks, nationalized in the wake of the financial crisis of 2008.

Nazarbayev has established extensive and uncontested personal control over the country's resources. The prime minister has little independent power to formulate policies, although Prime Minister Karim Massimov – in office 2007-2012 and since April 2014 – has accumulated considerable personal influence and is widely seen as an independent political player and power broker.

About half a dozen prosperous and powerful business groups form the backbone of the present regime, coalescing around the broad-based platform of the presidential party Nur Otan and indirectly controlling the parliament, key ministries and major media outlets.

Secured interests in property (fixed and non-fixed) are recognized under the 1999 Civil Code and the 2003 Land Code. The 29 December 2014 amendments to the civil code did not make any major changes to either. All property and lease rights for real estate must be registered with the Ministry of Justice at its service centers distributed throughout the country. According to the "Doing Business Report," Kazakhstan ranks 18 out of 189 countries in terms of the ease of registering property. In 2014, Kazakhstan introduced new procedures aimed at expediting property transfer and registration, but it is too early to evaluate the effects of this legal measure.

Property rights
6

The process of large-scale privatization was stalled in 1998. The effects of privatization continued to be felt, however, in the number of offshore companies that were formed in the 1990s to own the assets of metals and minerals producers. This later led to heated debates about income transparency. This BTI period has seen no change in the deliberate exclusion of middle-class entrepreneurs in the acquisition of bigger entities. Instead, those owning large-scale enterprises are closely tied to the elite. The privatization in the period under review of some Samruk-Kazyna subsidiaries is reminiscent of the nomenklatura privatization of the early 1990s and hence not market-based. Instead, it involves a transfer of state assets to elites employed by the state, for example, likely to the new “superministers.” By law and in practice, foreign investors can participate in privatization projects. The government and SK are currently preparing 103 state-owned enterprises (SOEs) for privatization from 2014-2016. These companies are mostly subsidiaries of large national companies operating in the energy, mining, transportation and service sectors. SK plans also to conduct so-called People’s Initial Public Offerings (IPO) from 2014-2016, the terms of which would allow citizens and institutional investors to buy up to 10% of the stock of national companies, such as those that operate Kazakhstan’s electrical grid (KEGOC) and national railway system (Kazakhstan Temir Zholy).

The government has periodically tried to encourage the development of domestic businesses and economy diversification. However, economic freedoms remain imperfect and domestic manufacturers are largely hampered by red tape. Officially, private enterprises compete with public enterprises under the same terms and conditions. In reality, however, SOEs generally enjoy better access to natural resources, markets, credit and licenses than private entities. The number of state-owned enterprises has increased in recent years. In addition to creating Bayterek in 2013, the government also established the National Company Astana Expo-2017, which is responsible for Expo-2017 preparations. The government also created KazAvtoZhol to operate a planned toll road network.

The Concept for Industrial and Innovative Development 2015-2019 and the national program to attract investments prioritize diversifying Kazakhstan’s economy away from its overdependence on extractive industries. In order to facilitate the work of foreign investors in these targeted non-extractive industries, the government has announced plans to improve visa and work permit acquisition procedures, as well as to streamline customs clearance and cross-border processes.

The government maintains a dialogue with foreign investors through the Foreign Investors’ Council under the president, the Council for Improving the Investment Climate chaired by the prime minister, and a recently created Investment Ombudsman (see below). The government is drafting a bill on the investment climate that would reportedly remove obstacles to increased foreign investment and expand incentives for investors, including simplification of work permit procedures, optional

tax exemption, and long-term contracts with national companies. But again the effects of these measures are as yet unclear.

10 | Welfare Regime

Kazakhstan in 2014 was again the only Central Asian state to be ranked in the second “high human development” HDI quartile. The HDI masks inequality, however. The 2010 HDR introduced the “inequality adjusted HDI” (IHDI). In this way, HDI can be viewed as potential human development and IHDI as actual one. When this is factored in, the difference between HDI and IHDI for Kazakhstan is higher than for Ukraine or Russia. It also introduced the Multidimensional Poverty Index (MPI), which identifies multiple deprivations in the same households in education, health and living standards. The most recent survey data that were publicly available for Kazakhstan’s MPI refer to 2006. The intensity of deprivation is just lower than in Russia, but for a country of 17 million compared to Russia’s population of 145 million this is striking. The data suggested that individuals living above the income poverty line may still suffer deprivations in education, health and other living conditions. Kazakhstan spends 3.6% of its GDP on health services, considerably lower than many other countries falling in the high human development bracket.

The State Health Care Development Program Salamatty Kazakhstan, adopted in 2010 for 2011-2015, recognizes health as one of the country’s major priorities and a prerequisite for sustainable socioeconomic development. Kazakhstan, however, faces challenges in restructuring its healthcare system. The country’s health outcomes lag behind its rapidly increasing income. The major causes of adult mortality are non-communicable diseases such as cancer, cardiovascular disease, other tobacco and alcohol-related diseases and injuries. Both spending and implementation of reforms remain erratic.

In 1998, Kazakhstan became one of the first countries in Eurasia to adopt a World Bank three-pillar system and was heralded as a success story in the field of reform. But in 2013 the system showed significant strains as the government announced a new policy whereby the country’s 11 pension funds would be merged into a single one under full state control. This, Nazarbayev explained, would mobilize pension assets to relieve pressure on the Kazakhstan National Fund, the central bank managed sovereign wealth fund set up in 2000 to finance development, to provide a cushion during periods of falling oil, gas and metals prices, and to invest into future generations.

The creation of a single pension fund has eliminated much of the earlier competition in the fixed income market and left pension savings with inefficient public management. Along with the currency devaluation of February 2014, this measure has reduced the population’s trust in their formal economic institutions. Informal

Social safety nets

6

social networks of the pre-1917 or Soviet eras also continue to be weak and unreliable. 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 and affected the poor more than the rich, further highlighting growing income disparities.

With regard to the wider social safety net, the Social Assistance scheme (TSA), a decentralized means-based social assistance scheme for poor households exists. It started operation in Kazakhstan in 2000. Local governments are fully responsible for organizing and delivering TSA, but as in healthcare, suffer from a lack of policy coordination and clumsy implementation. The unemployment rate in Kazakhstan at the close of the period under review remained unchanged at around 5%, having averaged 6% from 2003 until 2015, reaching an all time high of 9.7% in March of 2003 and a record low of 4.4% in December of 2011.

Kazakhstan was ranked 70th in the 2013 Human Development Index (HDI) (down from 68th in 2011), and has a Gender Inequality Index value of 0.323 (down from 0.334), ranking 59th (down from 56th in 2011). Kazakhstan is ranked 49th in the 2011 Global Gender Gap Index, with a score of 0.7010. The Gender Inequality Index (GII) reflects gender-based inequalities in three dimensions – reproductive health, empowerment and economic activity. The GII replaces the previous Gender-Related Development Index and Gender Empowerment Index. In Kazakhstan 25% of parliamentary seats are held by women, up from 18% in 2010.

Adult female participation rate in the economy was 67%. Even if female participation rates in education and enrolment rates in both primary and secondary education are relatively high, exclusion remains systematic. But it is not as common as in politics and business. Informal discrimination on grounds of ethnicity or sub-ethnicity (clan) or economic group affiliation continues. A decentralized system might better be able to cope with these inequalities by offering compensatory mechanisms, but the state remains unitary. Affirmative action policies remain underfunded. Rural residents (48.2% of Kazakhstan's population is rural) also have fewer opportunities than their urban counterparts.

Some reports continue to refer to an increase in traditional practices such as polygamy that prevent women from playing an active role in the workforce, but these trends are still lower than in other Central Asian states. Non-titular nationalities have fewer work opportunities than the ethnic Kazakh titular nationality and this may be either through overt or tacitly understood disadvantages. Particularly the political domains are understood as reserved for those of Kazakh ethnicity, while the business sector provides greater chances for non-Kazakhs such as Russians and Ukrainians.

11 | Economic Performance

With 30 billion barrels of crude, Kazakhstan has the largest proven hydrocarbon reserves in Central Asia and second largest among the Post-Soviet Eurasian countries. Oil output is projected to reach 2.1 million barrels a day by 2020. Kazakhstan has an estimated 15% of world uranium reserves and remains the world's largest producer of uranium. Dependence on commodity exports is excessive, but energy and manufacturing have recently shown solid growth.

The Kazakh economy had been expanding since 2000 at an annual rate of between 8-9%, making it one of the ten fastest-growing economies in the world. Growth tumbled in 2008 and has since remained bleak, at 4.3% in 2014. The previous high growth rate was largely due to the oil and gas sector. Yet the falling price of oil has dented its prospects. Currently oil exports alone represent 65% of the country's total exports. In addition, foreign direct investment – which accounts for over 80% of total FDI in the Central Asian region – is concentrated in oil- and gas-related companies.

The considerable slowdown in growth experienced in 2009, due to a sudden halt of capital flows into the Kazakh banking system, was followed by a period of recovery, driven by higher oil prices and increased spending with the help of government bailouts. Despite this, growth has not returned to double-digit figures of the early 2000s.

Standard & Poor's credit rating in 2012 went to BBB+/A-2 but in June 2014 the ratings company affirmed Kazakhstan's long-term sovereign credit rating at the lower BBB+, the third lowest investment grade and on a par with Mexico (to be further downgraded in February 2015 to BBB). They cited both the currency devaluation and the stalled production in Kashagan as key explanations. In its ambitious economic development programs, Kazakhstan is deterred by resource nationalism and corruption.

12 | Sustainability

Kazakhstan's development strategy has increasingly integrated environmental protection and sustainable development into national priorities. The Environmental Code adopted in 2007 remains the main source of legislation, based on best international practices, as does the Concept of Transition to Sustainable Development in 2007-2024.

Kazakhstan emerged from the Soviet period with disastrous environmental legacies, such as the desiccation of the Aral Sea, then controversial Virgin Lands project and nuclear testing at Semipalatinsk. The Northern Aral Sea is seeing the fruit of environmental sustainability policies in that region, but little has been implemented

Output strength

7

Environmental policy

4

of the National Environmental Action Plan for Sustainable Development published in the previous period. 358 per million people die every year from indoor or outdoor air pollution. Five percent of the population has no access to water and 3% none to sanitation. Fossil fuels supply 99% of total primary energy.

While international organizations sometimes congratulate the country for its environment-friendly policies, environmental NGOs continue to fare little better than their civil society counterparts.

Currently, 80% of Kazakhstan's energy is from coal. In 2013, the authorities pledged to spend 1% of GDP on a "transition to a green economy," in line with Strategy-2050 in which "a green economy is instrumental to [a] nation's sustainable development." But in October 2014, most observers noticed a U-turn in this policy, signaled by Nazarbayev's statement that "oil and gas is our main horse, and we should not be afraid that these are fossil fuels." Nuclear energy is touted as another alternative to oil and gas. In 2014, Kazakhstan initiated talks with a number of foreign companies, including Rosatom and Toshiba Westinghouse regarding the construction of a nuclear plant near Kurchatov, not far from the Semipalatinsk nuclear test site.

Despite overall limited human capital development, Kazakhstan's population has an adult literacy rate of 99%. Local primary and secondary schools continue to be regarded as strong by international organizations. In March 2010, Kazakhstan joined the Bologna Process, thus gaining access to the European Higher Education Area.

In 2011, the country began implementing a strategic ten-year program to overhaul its educational system after joining the Bologna Process. Thus embracing the European degree system, the newly formed Nazarbayev University set about trying to enforce Western procedures. Kazakhstan is proud of its academic mobility: In 2013, the Bolashak Scholarship celebrated its 20th anniversary, with over 10,000 scholarships awarded for top foreign universities since the early 1990s.

Despite all these efforts, education continues to be the most corrupt sector as of 2014. There are a large number of private institutions, but low salaries make it difficult to attract good teachers.

Education policy /
R&D
6

Transformation Management

I. Level of Difficulty

Labor productivity in Kazakhstan has surged dramatically since 2000, reflecting a significant reallocation of labor resources away from the oversized manufacturing sector towards services, on the one hand, and agriculture, on the other. Labor market flexibility is the country's main competitive advantage, while other Central Asian countries continue to struggle with underdeveloped financial markets, low competition, inefficient infrastructure and slow human capital development.

Structural
constraints

5

Kazakhstan faces medium-level structural constraints in governance. On the positive side, the government can continue to draw on a large Soviet-educated workforce and a pool of young, Western-trained leaders. On the negative side, its landlocked status makes the country highly dependent on the goodwill of its neighbors, in particular China and Russia. While the country continues to suffer from poor transit infrastructure, the implementation of several large-scale infrastructure projects in the late 2000s has alleviated the transport challenge.

In the previous period, the events in Zhanaozen revealed the extent of structural socioeconomic constraints, such as the wide gap between local and foreign workers, the insufficient protection of the domestic workforce and the lack of dialogue between employers and employees. While the creation of the Regional Development Ministry in early 2013 was partly aimed at addressing those issues, its abolition in August 2014 as a part of an administrative reform shows the limits of the government's post-Zhanaozen strategy.

Kazakhstan's carefully maintained image as a prosperous and stable country was shattered in 2011 by a series of violent incidents, including several bombings and killings, and a protracted labor dispute that ended with a bloody police crackdown in Zhanaozen. This image continued into the following period as the government kept up surveillance of religious associations and enacted new restrictive laws for both religious groups and NGOs.

Civil society
traditions

8

Kazakhstan's media regularly equate the instability and violence that followed the "color revolutions" of the early 2000s and the 2011 Arab Spring with chaos and bloodshed. Largely protected from socioeconomic problems in the regions,

Kazakhstan's rising middle class also views labor and civic unrest, such as those associated with Zhanaozen, as undesired outcomes.

The right to public assembly remains severely restricted in Kazakhstan, as any public appearance or gathering must be authorized by local government authorities. Citizens holding a public demonstration are required to notify the authorities 10 days in advance. Since the Law on Public Assembly was passed in 1995, permission to assemble peacefully in a downtown area or near government buildings has only been granted to pro-government parties and public associations.

Kazakhstan's party system and civil society are both characterized by tight government controls, a lack of alternative ideologies, poor coordination and a low level of political culture. While the perestroika and early independence years allowed some civil society groups to develop, unlike in Uzbekistan and Turkmenistan, the incrementally increasingly authoritarian Nazarbayev regime has left little space available for independent civic activism, especially since the mid-2000s.

Politics in Kazakhstan seeks consensus rather than confrontation and vocal opposition is rarely viewed as constructive. Individuals who might have progressively mobilized the masses against the ruling regime left the country for exile in the 1990s and 2000s. The open elite fragmentation of November 2001 has never repeated itself since a splinter group that emerged from that early contestation collapsed in 2005.

Open conflicts between various elites are contained through the president's personal influence, although the forthcoming succession to Nazarbayev may potentially lead to domestic instability in the absence of a carefully managed transition of supreme power.

Conflict intensity
3

II. Management Performance

14 | Steering Capability

The government has been consistent in its rhetoric to liberalize and keep the economy open to foreign investors, but both of these goals are secondary relative to the regime's number one priority – maintaining its hold on power. This is not a short-term objective but rather a long-term strategy. A key example of how rhetoric of political liberalization differs from the reality of growing authoritarianism was the cancellation of the two-term limit at the president's mandate. Meanwhile, the

Question
Score

Prioritization
5

presidential party Nur Otan has managed to preserve its de facto monopoly over the legislature despite the presence of two other parties in parliament since 2012.

On 22 January 2015, in Davos, the OECD and the Kazakh government signed a Memorandum of Understanding on a two-year Country Program, which will support an ambitious reform agenda in Kazakhstan. The latter is just one of the four partner economies together with Peru, Morocco and Thailand that have been selected for this program, which covers such areas as governance, environment, healthcare, taxation, competition and business environment, as well as statistics.

The lack of long-term planning remains a major obstacle to effective and efficient policymaking. Given the political weakness of the Audit Committee whose statutory task is to review and evaluate budget spending, the allocation of funding is often arbitrary and reflects internal competition between government bodies.

While the presidential administration is technically entrusted with overseeing government work and the execution of major reforms, its resources are too scarce to ensure regular follow-ups and to control public spending. Corruption also represents a sizable challenge since a large chunk of funds is embezzled through fraudulent public contracts and other procedures.

With regard to domestic economic objectives, as in the political domain they remain poorly implemented. Inconsistent implementation of laws and regulations bedevil all levels of government, combined with a tendency for courts to favor the government. With regard to foreign economic objectives, the government's local content strategy is widely considered to discriminate against foreign investors and international oil companies complain that implementation is uneven, irregular and non-transparent, particularly at the local level.

The government appears to have continued to learn from the 2008-2009 financial turmoil as it had to deal with a new phase of economic instability in the period under review. The central bank enacted stricter regulations for private-sector banks, aimed specifically at decreasing the share of non-performing loans and ensure better customer protection. Additional reforms were introduced following the Zhanaozen unrest in December 2011, for instance, the creation of the Ministry of Regional Development in early 2013.

However, the scope of innovative steps taken by the authorities to tackle socioeconomic challenges was not wide enough to encompass overdue political reforms. In this regard, the country's ability to maintain domestic stability thanks to high commodity prices without being required to implement deep structural reforms limited the available choices.

Implementation
5

Policy learning
5

Policy learning through the diffusion of democratic norms and standards, which some hoped would materialize during and after the 2010 OSCE chairmanship, did not occur. Kazakhstan's relative popularity in the West, which is largely due to its strategic energy resources and proximity to Afghanistan, allowed the regime in this BTI period to pursue what has since become known as "authoritarian democracy."

15 | Resource Efficiency

Of the three indicators of resource efficiency – government administrative personnel, administrative organization and budget resources – the government continues to perform best on the latter. In reaction to Zhanaozen and in a bid to reduce costs, the authorities continue to downsize the state apparatus and pursue civil service reform. Concerning the use of administrative personnel, competitive and standardized recruiting procedures are sometimes in place, but rarely followed, and politically motivated appointments and dismissals prevail. Moreover, there has been no real decentralization.

The same goes for earlier attempts to make central and regional budgeting more transparent to the public. The regions continue to rely on the center for financial assistance.

The Law on State Property defines national companies, national holding companies and national managing holding companies. While in 2014 the Concept Note on State Audits was published, the role given to the independent parliamentary audit system is weak and some investors report harassment by the Financial Police via unannounced audits, inspections and other methods. Instead budgetary planning continues to suffer from a failure to link strategic planning, the budget and human resources either at the whole-of-government or ministry levels; there is, according to the OECD, no clear multi-year financial framework for ministerial services and no joint planning and reporting on either performance or the budget. There is also no systematic review and evaluation of programs.

Targets and indicators are numerous and mainly output- and process-driven, which may dilute the focus on key priorities. Government officials stated recently that export customs duties add about \$3 billion to the budget, 95% of which comes from oil and oil products. Kazakhstan in 2013 recorded a government debt to GDP of 13.53% (over 2002-2013 it averaged 10.71%). The National Oil Fund was introduced to reduce these fluctuations and dependency on oil and gas.

Efficient use of
assets

5

Policy coordination remains largely unchanged from the previous period. The dominance of the executive over the legislature and of the presidential party, Nur Otan, within the legislature makes coordination technically easier, but not more efficient. Various interest groups operating on a regional basis limit the center's margin for maneuvering and should be taken into account on a case-by-case basis, thus militating against uniform policy standards and favoring some degree of arbitrariness in decision-making.

Policy
coordination
6

Overall, both vertically and horizontally, people and ministries are poorly coordinated to implement policy. Redundancies, frictions and negligence are frequent and horizontal forms of coordination are poorly coordinated. This is partly because the Cabinet of Ministers remains weak and partly because there is low transparency and accountability in government organizations. Ministries do not work together easily when faced with challenges that often require crosscutting responses. The responsibility of executive secretaries for the overall management of ministries needs to be clarified. The difference in status of the ministries and agencies was blurred in 2013, but with the folding of these agencies into ministries in August 2014 it remains to be seen whether this will help in the overall improvement of conflicting functions. Although this latter administrative change signals that the government seems to be making efforts to consolidate its central function, it is still too early to tell whether the still fragmented nature of policy functions is being addressed.

Kazakhstan's EITI compliance by 2013 has not fundamentally altered the entrenched nature of corruption in Kazakhstan's political system. Kazakhstan's improved ranking does not necessarily indicate a substantive change and corruption remains entrenched across the system, particularly in the judiciary.

Anti-corruption
policy
2

Those presidential appointees responsible for combating corruption, such as the Prosecutor General, the Ministers of Justice and Interior, the chairman of the National Security Committee (KNB) and the head of the Anti-Corruption Agency, are not accountable in practice to either the parliament or civil society. Kazakhstan has also adopted an anti-corruption strategy for 2011-2015 and tasked the country's Agency on Fighting Economic and Corruption Crimes (Financial Police) to coordinate its implementation. The Agency's staff are appointed and dismissed by the president. It has been criticized due to a lack of trustworthy and independent personnel. The Financial Police lacks effectiveness and fails to investigate and prosecute cases involving high-level officials. Its anti-corruption strategy remains poorly monitored and poorly implemented and the civil service, judiciary and the supreme audit institution remain politicized.

State financial control is opaque, but exercised by the Accounts Committee for Control of the Execution of the Republican Budget. This body is subordinate and refers directly to the president. Appointments may be politically influenced, and individuals appointed may have clear party loyalties. The Ombudsman Office is by law protected from political interference – however, the ombudsman is appointed by the president and is subject to excessive control by the executive.

16 | Consensus-Building

Democratization has been the official goal of the Kazakhstan authorities since the early 1990s, although in recent years another discourse emerged, claiming the uniqueness of Kazakhstan's political path. All major pro-democratic reforms have fallen short of challenging President Nazarbayev's authoritarian rule. Their goal has been to enable the regime to show its commitment to democratization to the Western world, despite little real change at home.

Consensus on goals
6

The 2008-2009 financial crisis, the events in Zhanaozen and the return of macroeconomic instability in 2014 have allowed the ruling regime to further tighten its grip on power, while marginalizing the opposition and civil society. The official discourse has evolved to include a strong focus on ensuring economic stability and social peace to the detriment of further reforms. Chronic instability in Kyrgyzstan and the civil war in Ukraine, following a pro-democratic regime change in February 2014, are used to justify this logic both domestically and internationally.

The Kazakhstan-2050 program promulgated at the close of 2012 sets for Kazakhstan the aim of entering the elite club of the world's top 30 economies. Its main emphasis is on industrial development and innovation in parallel with further economic liberalization. Therefore, a market economy remains the second declared objective of the Nazarbayev regime.

All major political actors agree on the overall goal of developing and strengthening a modern market economy, even if there is some disagreement over the degree of state involvement. In mid-2014, the parliament adopted a package of laws aiming to increase Kazakhstan's investment attractiveness. The state's role in economic management is also set to diminish with the ongoing reform of the Samruk-Kazyna national wealth fund and its withdrawal from the banking sector. However, key industries are still heavily regulated.

Kazakhstan did not see in the period under review the emergence of any alternative reform ideologies that could successfully challenge the ruling regime's limited reform agenda. The two opposition parties represented in parliament since 2012 – the Communist Party and Ak Zhol, which voices the interests of the business community – have supported the overwhelming majority of Nur Otan's initiatives and voted for them. While the Nazarbayev regime is not interested in real democratization, the government and the security apparatus are dominated by status quo holders who personally benefit from the concentration of political power and wealth in the hands of a small elite.

Anti-democratic
actors
2

The Zhanaozen unrest of December 2011 shattered the myth of Kazakhstan being “the island of stability” in Central Asia and revealed hidden structural problems within society. So far, relatively stable economic growth powered by the sprawling energy sector and the unifying role played by President Nazarbayev have permitted the avoidance of large-scale cleavage-based conflicts. Ethnic, linguistic and religious tensions exist, but are successfully mitigated by the regime through either crackdown on dissenters or their co-optation. Yet, the forthcoming succession to Nazarbayev and the rapid deterioration of economic conditions since 2014 might in the near future upturn this shaky balance.

Cleavage /
conflict
management
6

Civil society has historically played a hardly noticeable role in domestic political and economic affairs in Kazakhstan. Those public organizations that have a voice in such affairs are most often directly funded by the state and/or depend upon it. The Kazakhstan Academy of Sciences, the Literary Union, the Assembly of the People of Kazakhstan or the Trade Union Federation are all state-managed entities totally dependent upon the political leadership.

Civil society
participation
2

Some region-based grassroots associations deliver local services, but they normally live on (very) tight budgets and see little to no cooperation from the authorities. Unlike in Russia since late 2012 or in other Central Asian countries, such as Turkmenistan, Uzbekistan and Tajikistan, Kazakhstan tolerates Western-funded NGOs. However, most of them focus on social projects or technical reform and rarely address politically sensitive issues.

Dealing with past injustices is not a major topic in Kazakhstan’s public debate. One of the few historical issues that has been causing some controversy is the December 1986 crackdown on an anti-regime demonstration in Almaty, widely known as Zheltoksan (“December” in Kazakh). The authorities have never authorized an in-depth investigation into those events, fearing an eventual outburst of ethnic tensions because the demonstration occurred after the appointment by Mikhail Gorbachev of a non-Kazakh official to head the Kazakh Soviet Socialist Republic.

Reconciliation
4

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. But in terms political reform, even in the context of its previous OSCE chairmanship, it considers external advice undesired political interference. NGO/INGO activities in the field of democratization continued to be hampered by a lack of support and even active opposition from the government.

Effective use of
support
5

In terms of creating new market order reforms there were no significant successes in the period under review. The government instead focused on managing the fallout of

the ruble crisis. The previous period ended with the introduction of Kazakhstan-2050 designed to replace Kazakshtan-2030 emphasizing world competitiveness, administrative reform, decentralization of state management with a clear division of powers, the formation of new social policy, and the strengthening of Kazakhstan patriotism. The period under review saw the launch of Nurlı Zhol in November 2014 (mentioned above), which intends to use the National Oil Fund to finance major infrastructure and investment projects. As part of this program, the Concept for Industrial and Innovative Development 2015-2019 and the national program to attract investments prioritize the diversifying of Kazakhstan's economy away from its overdependence on extractive industries.

In order to facilitate the work of foreign investors, especially in targeted non-extractive industries, the government has announced plans to improve visa and work permit acquisition procedures, as well as to streamline customs clearance and cross-borders processes. The government maintains a dialogue with foreign investors through the Foreign Investors' Council under the president, the Council for Improving the Investment Climate chaired by the prime minister, and a recently created Investment Ombudsman. The government is drafting a bill on the investment climate that would reportedly remove obstacles to increased foreign investment.

During the previous period the OSCE Chairmanship did enhance Kazakhstan's credibility – not as a democratizing state, but as a country whose leadership could negotiate, lead and host. It managed even as late as the last month of its chairmanship to formulate ideas for peace brokering for the Caucasus. Despite Kazakhstan having not made any significant progress on the path towards democratization, its international credibility had increased by end of its chairmanship in January 2011. Kazakhstan frequently refers to its peaceful nuclear program as a model for other countries to emulate.

Credibility

6

The Kazakhstan regime continued to work hard at garnering external legitimacy and the period under review in particular saw a plethora of initiatives and ideas. Foreign Minister Erlan Idrissov in November 2014 launched a Brussels-based think tank, the Eurasian Council on Foreign Affairs, precisely to promote the country's international image. This came in the wake of the launch of KazAID, which was designed to engage Kazakhstan in the development initiatives involving poorer Central Asian neighbors and Afghanistan. The leadership is bidding for a non-permanent Security Council seat in 2017 when it will also hold the world's largest exhibition, EXPO-2017. It also applied with bids to host the 2022 Winter Olympics. This external legitimacy has gained additional importance as Kazakhstan seeks to distance itself from Russia to avoid international isolation.

Kazakhstan's efforts to remove bureaucratic barriers have yielded some progress, and the World Bank in 2013 ranked the country 50 out of 189 in its annual "Doing Business" report. Kazakhstan has also attracted significant foreign investment since

independence. As of 31 December 2013, FDI totaled \$129.5 billion, primarily in the oil and gas sector. It is widely considered to have the best investment climate in the region, with numerous international firms establishing regional headquarters in Kazakhstan. But although Kazakhstan's government has incrementally improved the business climate for foreign investors, corruption and bureaucracy remain serious challenges. The government's efforts to support local content requirements have restricted foreign investment, especially in the extractive sector. Attracting foreign direct investment (FDI) in the underdeveloped manufacturing sector remains difficult and requires more concrete actions from the government.

The period under review was dominated by the challenges posed by two neighbors: Afghanistan in the south and Russia in the north. Western withdrawal from Afghanistan sped up preparations for Kazakhstan's more active involvement in Afghanistan's security management. But the leadership sees opportunities in these threats; it hopes to raise its international standing through wider participation in the country's socioeconomic reconstruction.

Russia, however, has overwhelmingly dominated the period under review with its Customs Union (CU) with Kazakhstan and Belarus, in force since mid-2010, and the Eurasian Economic Union (EEU), active since 1 January 2015. Armenia joined the EEU on 2 January and Kyrgyzstan will follow in May 2015. The stated goal of the EEU is to ensure the free movement of goods, capital and people, and to harmonize economic policies. Russia also seeks to promote a common currency and common foreign policy, but Kazakhstan has made it clear it wants the bloc to be only economic.

The EEU is modelled on the European Union with a single market and supranational institutions: an executive (the Eurasian Commission) in Moscow, a court in Minsk and a future central bank to be established in Almaty by 2025. The February 2014 tenge devaluation left most Kazakhs worse off and, in anticipation of another devaluation, many now have converted their tenge deposits to U.S. dollars. The price of imports has risen and, while exports have become cheaper, they generally have limited price elasticity.

Additionally, Russia's international isolation in the wake of its action in the Ukraine has added urgency to Kazakhstan's pursuit of a multi-vector foreign policy. In the second half of 2014 authorities sent out mixed messages, stating their commitment to the EEU, but at the same time expressing doubts about how Russia's isolation has been causing serious trouble for the Kazakhstan economy. Furthermore, while it has been leasing the Baikonur Cosmodrome in central Kazakhstan (until 2050) since the mid-1990s, Russia hopes to have its own space station built in the Far East by 2018. However, it will be unable to leave Baikonur as quickly as initially expected.

Being a landlocked state, Kazakhstan is interested in maintaining friendly relations with its immediate neighbors, Russia and China. But rather than depending on one or the other or both, Kazakhstan has also sought new partnerships further afield, notably in the Middle East and the West. Kazakhstan's multi-vector foreign policy was initially motivated by the country's need to secure alternative oil pipeline routes. Kazakhstan is unwilling to commit itself to any single power and strives to avoid being in the center of regional geopolitical rivalries. In both 2013 and 2014, the country continued to capitalize on its potential for regional leadership, in particular as a magnet for labor migrants from other Central Asian countries, especially from Kyrgyzstan and Uzbekistan.

As in domestic politics, Kazakhstan's foreign policy has been multifaceted, straddling various interests and ideologies. In April 2007, Nazarbayev said that "pure pragmatism" drives foreign policy decision-making. In June 2012, the Shanghai Cooperation Organization (SCO) in Beijing launched a new antiterrorism program for 2013-2015. The signing in May 2014 of the EEU treaty came just days after the Conference on Interaction and Confidence-Building Measures in Asia (CICA) Summit in Shanghai where the Kazakh president unveiled a new initiative to establish the Organization for Security and Development in Asia. In October 2014, Foreign Minister Idrissov initialed an enhanced Partnership and Cooperation Agreement with the European Union (EU). Amid Russia's international isolation because of its involvement in the Ukraine crisis, all these initiatives are aimed at balancing Kazakhstan's close integration into Moscow-led supranational structures.

Strategic Outlook

As in the previous period, succession to Nursultan Nazarbayev will top the domestic policy agenda, with the incumbent having not designated a successor yet. Jockeying for influence among key clans and interest groups will continue and intensify as the president gets older. While foreign players, especially Russia and China, may have some indirect influence on the succession process, it is likely to be determined by internal power play. In any case, Nazarbayev's successor would have to put up with the need to pursue good governance and democratization, however slowly, in order to preserve the trust of Western governments and international investors.

Prospects for liberalization in the coming period are low, not least because the authorities will focus on crisis management and socioeconomic stability, estimating any serious reform to be fraught with high political risks. In the meantime, Kazakhstan will pursue its campaign for wider international recognition by seeking a non-permanent seat on the UN Security Council and further competing for the right to host the Winter Olympics in 2022. Kazakhstan's expected accession to the WTO in 2015 may give another boost to its international credibility, but would have to be viewed through the lens of its membership in the Eurasian Economic Union (EEU), with which some incompatibilities may quickly appear.

The implementation of the Nurlı Zhol anti-crisis package will be the regime's key tool for preventing the drastic deterioration of living standards and to support embattled manufacturers. The banking sector and agriculture are likely to benefit most from this program, but a new devaluation of the tenge would nonetheless keep the whole financial system under strain with increasingly narrow access to cheap lending and, therefore, limited investment. The state will continue to reduce expenses, sell non-core assets and develop the domestic private equity market, notably via the People's IPO, although recent market instability bodes ill for a new wave of privatization announced by Nazarbayev in 2013.

Kazakhstan's principal challenge in the years to come will be to spearhead real diversification of the national economy by moving away from the hydrocarbon sector and towards both traditional manufacturing and new innovative industries. However, such a change would require significant improvements in general economic management with a reduction of the state's presence in key sectors and more liberalized policies for domestic and foreign entrepreneurs. Widespread corruption and the very deficient judiciary, which is totally dependent on the executive, are the main obstacles to a successful transition from a hydrocarbon-based economy with a few big actors to a vibrant middle-class economy with ample opportunity for development and growth.

Kazakhstan will also need to operate a careful power transition with a view to ensuring not only internal stability, notably by way of neutralizing potential cleavages, but also good relations with the major foreign partners. The country is keen to develop closer ties with Russia, at least under Nazarbayev, but is increasingly weary of its foreign policy adventurism and afraid to see its relationship with the West sacrificed to a pro-Russian orientation. Thus, multi-vector foreign policy is likely to retain all of its significance into next BTI period and even beyond.