This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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<table>
<thead>
<tr>
<th>Index</th>
<th>Range</th>
<th>Score</th>
<th>Rank of 125</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status Index</td>
<td>1-10</td>
<td>5.53</td>
<td># 68 of 125</td>
</tr>
<tr>
<td>Democracy</td>
<td>1-10</td>
<td>4.23</td>
<td># 83 of 125</td>
</tr>
<tr>
<td>Market Economy</td>
<td>1-10</td>
<td>6.82</td>
<td># 32 of 125</td>
</tr>
<tr>
<td>Management Index</td>
<td>1-10</td>
<td>4.71</td>
<td># 76 of 125</td>
</tr>
</tbody>
</table>

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

Politically, the period under review is significant for several reasons: the re-election of President Nazarbayev, who has been in office since 1989, and initial preparations for his eventual successor; fragmentation of the opposition’s leadership and the strengthening of pro-presidential, top-down parties; and increased political suppression of civil society and political opponents. Nazarbayev’s re-election in December 2005 ensures that he is well-placed to steer any transfer of power in what is likely to be his last term in office. The reshuffling of the government cabinet in January 2007 was the first significant move to further increase the executive’s loyalty in this transition. In 2006, several key pro-presidential parties merged with the biggest one, the Fatherland party (OTAN), increasing the latter’s dominance of the political scene. Meanwhile, a key elite opposition party split. The government of Kazakhstan continues to keep tight control over its independent media; it has brought spurious criminal and administrative charges against opposition activists, and has been implicated in the murders of two key opposition figures. The decision whether Kazakhstan should chair the OSCE in 2009, originally scheduled to be made in January 2007, was postponed largely because of these negative political trends.

By contrast, Kazakhstan’s economic achievements were widely applauded, although signs of overheating were becoming more noticeable, largely because of high world oil prices and increased oil production. The rate of inflation increased to 8.5% and bank credit rose considerably, fueled by bank borrowing abroad. Property prices have also risen sharply in response to this increased liquidity. At the same time, a sizable share of the increase in oil revenue has been saved in the National Fund of the Republic of Kazakhstan (NFRK). The external position was also strong, and the National Bank of Kazakhstan’s official reserves almost doubled in the course of the period under review (amounting to six months of imports of goods and services). In foreign policy,
Kazakhstan has placed increasing emphasis on building stronger economic relations with China and, to a lesser degree, with Russia. Greater attention is also being paid to the country’s Central Asian neighbors.

**History and Characteristics of Transformation**

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

President Nazarbayev’s authoritarianism has become more marked since the end of 1994 when he dismissed parliament on a pretext and ruled by decree for nine months until new elections were held. In May 1995, his term in office was extended by national referendum. In August 1995, a second referendum approved a new constitution, which 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 process.

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

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

Mass privatization and the sell-off of large enterprises in the oil, gas, electricity and metals sectors in the mid-1990s, in which foreign investors could participate largely within management contracts, gave a significant boost to the economy. Kazakhstan achieved economic growth for the first time in 1996. The Russian financial crisis in 1998 only marginally affected Kazakhstan, leading to the devaluation of the tenge in April 1999. As a result of the steady increase in oil production, a surge in oil prices and large volumes of foreign direct investment, Kazakhstan has become one of the economic leaders of the former Soviet Union. It has seen annual economic growth of around 10% in recent years. The discovery of the giant Kashagan oil field in Kazakhstan’s sector of the Caspian Sea in July 2000 marked the beginning of a new chapter in the country’s development.

To reduce its vulnerability to price swings in world markets and to accumulate funds for future generations after the country’s oil resources are depleted, Kazakhstan set up a national fund in January 2001 to stabilize state income. It is designed to make up for budget shortfalls should oil prices fall below a certain level. In spite of the government’s many successes, considerable problems remain, including widespread corruption at all levels, a lack of transparency, and the absence of an independent judiciary.
Transformation Status

I. Democracy

1 | Stateness

There are few challenges to the state’s monopoly on the use of force. There are no insurgent or violent groups active in Kazakhstan and activities by the Cossacks and Slavic movements were quashed in the early 1990s. At the end of the 1990s, it was said that extremist Islamic organizations were operating in southern Kazakhstan, but those groups appear to have been contained. The late 1990s witnessed some popular protests about unpaid wages, pensions arrears and the role of foreign investors, but nothing large-scale. The opposition has accused the state of being behind the murders of two opposition figures, Zamanbek Nurkadilov and Altynbek Sarsenbayev. There is some speculation that several elite groups have their own security services, but these still operate within the framework of overall state security. While drug trafficking occurs throughout Central Asia, the influence of the drug mafia in Kazakhstan, with assistance from regional elites, is not (yet) a significant problem. Because of its economic growth, military spending consumes only 1.2% of Kazakhstan’s GDP, but total spending is reportedly among the largest in the CIS. This growing militarization of the region may pose an increased threat to regional stability.

While the 1995 constitution grants equal civil rights to all ethnic groups, it also emphasizes that the Kazakh ethnic group should be accorded special rights. Non-Kazakh ethnic groups feel discriminated against. This state of affairs bears heavily on political and economic participation. All upper-level government positions are held by ethnic Kazakhs and all major officeholders must have Kazakh language skills. Many non-Kazakh ethnic groups contest the notion of an inclusive Kazakhstani nation-state; the sense of being a “Kazakhstani” as opposed to being a Kazakh or Russian remains weak. The Soviet legacy of internationalism continues to undermine a sense of national identity and indigenous movements do not appear to be growing. It may be that the country’s economic success is slowly reinforcing the sense of a national identity.
The Kazakhstani regime is a secular regime and its overall practice has been pragmatic rather than dogmatic. The elite have used Islam for its own purposes, for example by using prayers to mark the opening of key national events or anniversaries, but overall the elite has made decisions that serve its own survival. Church and state are separate and the political process is secularized. There is little if any preferential treatment given to the Muftiat (Islamic High Council). Some elites have, however, conducted several large fundraising campaigns to finance building large mosques in major cities and towns in Kazakhstan.

The state’s basic infrastructures are largely a Soviet legacy. Relative to its Central Asian neighbors, the Kazakhstani state has undergone a substantial state reform, largely initiated by the World Bank in the late 1990s. Some of its basic financial and tax infrastructures are among the best in the post-Soviet region. But at the same time, state reform has been hampered by substantial corruption and by difficult center-regional relations in which the center fails to provide the regions with adequate funding to implement national reforms.

2 | Political Participation

Parliamentary and presidential elections in Kazakhstan have been repeatedly manipulated and cannot be called free or fair. International election observation missions have repeatedly observed shortcomings in the elections. Manipulation ranges from arbitrary changes in election dates (usually being called forward and thus reducing the time competitors have to campaign), depriving political opponents of the right to compete, tight requirements for political party registration, and increased state control of the media prior to and during the campaign. Thus, while the country has paid lip service to the democratic elections, a round of open and competitive elections has neither yet to be held nor has there been a presidential leadership change since 1989. To date, the opposition has failed to score any clear successes. Despite notable improvements in the 2005 elections, the contest remained highly unequal. In addition, amendments to the Law on Elections passed in April 2005 prohibited voters and political parties from organizing any public meetings from the end of the election campaign until the official publication of the results. Restrictions on campaigning were also enforced by a new law on extremism, amendments to the law on mass media, and new legislation pertaining to national security.

The president enjoys a monopoly on veto powers, but his election is democratic in superficial terms only. There are no powerful veto groups. Since early 2000, however, the importance of elite groups lobbying the presidency has grown. To a certain extent, their lobbying holds the president accountable for his policies, thus forcing authoritarianism by negotiation.
Groups that attempt to influence the political process from below have been systematically harassed, isolated or imprisoned. The political center has been monopolized by the current regime and members of other elite groups have often been co-opted. Opposition figures have been imprisoned and murdered. While Kazakhstan ranks ahead of Uzbekistan and Turkmenistan in the degree of openness, the right to hold meetings and to protest has been carefully controlled. Union activity is still subject to regulations. Nationwide movements are also severely hampered by the sheer size of the country.

Kazakhstan’s private media outlets are predominantly associated with private elite groupings. The state-run media is subject to a high level of government interference. A number of opposition newspapers were closed in 2005, including the re-closure of Respublika in May and Zhuma Times – Data Nedeli in December. Since 1993, Freedom House’s annual Freedom of the Press survey has consistently rated Kazakhstan’s media “Not Free.” In September 2005, control over the registration of Internet domains was also introduced.

3 | Rule of Law

While the constitution refers specifically to the separation of powers this separation is violated regularly. The president appoints the Constitutional Court and key members of the judiciary, and the period from 2005 to 2007 has seen continual interference by the judiciary in political affairs. While the president has not dissolved parliament as he did in the 1990s, parliament itself has become more subservient, partly because of the presidential right to appoint a certain number of members. Though less visible, the fusion of powers continues. Power in the country is concentrated in the center, with the president appointing and dismissing regional heads. Formal and informal methods are used to disrupt checks and balances. All branches suffer from a lack of professionalism in hiring and training, although there are pockets of elites that continue to be extremely well-trained.

The government does not respect the constitutional authority of the judiciary. While the constitution states that the judiciary is independent, practical implementation of that independence is not guaranteed. More than three-quarters of Kazakhstan’s lawyers continue to be state employed and, despite attempts to increase professionalism and salaries, corruption remains high.

Political corruption remains rampant. The president has in the past started a number of anti-corruption campaigns in various parts of government and this period was no exception, as a new anti-corruption decree was introduced in April 2005. There is little public trust in such campaigns or that corrupt officeholders will be adequately punished under the law. Furthermore, there is no assurance of
the independence of the judiciary in any investigations. Kazakhstan did, however, join the Extractive Industries Transparency Initiative (EITI) in October 2005 to increase transparency of payments received by companies.

In February 2005, a controversial law on extremism was passed, followed in May by strict anti-terror legislation, which promised to impose heavy penalties for “extremist and terrorist activities,” including “terrorist financing.” This legislation also introduced restrictions on political parties, mass media outlets and religious organizations. Although NGOs were not specifically included in the list of restricted organizations, they continued to be subject to severe penalties if they partook in unsanctioned demonstrations or unauthorized public events. Unions do not organize freely, though they have the right to do so, in principle.

4 | Stability of Democratic Institutions

The system in Kazakhstan continues to be an authoritarian rather than a democratic regime. 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. While this regime has been stable and effective, it prevents the accession of any new political groups and creates longer-term instabilities.

Political institutions have been maintained by a mix of co-optation and repression. Repression was stronger than co-optation during the period under review, and included the suspicious deaths of two key political opponents, Sarsenbaev and Nurkadilov.

5 | Political and Social Integration

The party system does not play an important role in forming opinions and political will, and thus in mediating. Most key parties are formed top-down rather than bottom-up and, like media outlets, are affiliated with key political groupings. The major opposition parties, Democratic Choice of Kazakhstan (DCK) and Ak Zhol, increasingly differed in their political viewpoints. DCK was banned in January 2005 and Ak Zhol split in April 2005. A key feature of the period from 2005 to 2007 was the increased fusion of existing parties, particularly those within the largest, pro-presidential party, OTAN.

The topography of interest groups is meager and poorly represented. Informal networks are more important than formal networks of communication. Only a few players dominate interest groups that lobby the state, but they are fragmented and compete with each other. Societal groups operating independently of the state are
generally weak, although they have been strengthened somewhat as a result of increased public spending on social infrastructure. That said, informal networks and elite groupings do provide for some kind of relationship between state and society and ensure overall short-term stability of governance. In general, while rights of association have been infringed upon more frequently, formalized channels of communication and representation have been strengthened.

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.

A vast number of the registered 4,000 NGOs remain inactive and less than 10% are engaged in civil liberties, human rights and minority protection issues. They remain under stringent observation by the authorities, and even more so following the new extremism and anti-terror legislation of 2005. Social capital is largely based on both traditional and Soviet-era patterns of interaction, whereby blood and social ties are an important source of interaction.

II. Market Economy

6 | Level of Socioeconomic Development

While Kazakhstan has the least extreme socioeconomic inequality among Central Asian states and absolute poverty rates have been declining, the 2006 HDI (referring to 2004 data) ranks it at 79th out of 177 countries. Considerable disparities remain between the disadvantaged rural south and relatively well-off rural areas in other regions. Regional HDI discrepancies have grown in the period under review and while overall HDI indicators have continued to improve, they are still nowhere near their 1990 levels. Social exclusion and marginalization continues, as does fundamental exclusion through poverty and poor education. Discrimination on the basis of clan, ethnicity and class are more common than on the basis of gender or religion.

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### 2002 2003 2004 2005

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<td>Import growth</td>
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<td>3,232.9</td>
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### 7 | Organization of the Market and Competition

Kazakhstan has one of the best-developed market-based systems of competition in the post-Soviet region. The market system’s institutional framework is strong, but a large informal sector also exists, and the rules of the game are not equal for all participants. Since 2001, the government has aimed to increase the role of SMEs, but structural reforms still fall behind those enacted in the late 1990s. Nevertheless, a law on private entrepreneurship was adopted in November 2005 to simplify the bureaucracy confronting small businesses. Liberalization of the capital account might also aid small businesses.

An anti-monopoly committee has existed since the 1990s. The formation of monopolies and oligopolies is regulated inconsistently. As part of the Innovative-
Industrial Development Strategy to 2015, the government has scheduled liberalization in the railroads, power and telecoms industries and is identifying the most suitable sectors for development, including oil and gas engineering, construction materials, food, logistics services, metallurgy, textiles and tourism.

Foreign trade has contributed significantly to economic development by improving the balance of payments, attracting foreign direct investment and promoting competition. Foreign trade is liberalized in principle, but significant exceptions remain, including differentiated tariffs and special rules for individual companies or sectors. Kazakhstan’s application for membership in the WTO, pursued since 1996, has stalled mainly because of tariffs. Kazakhstan trades very little with its Central Asian neighbors, accounting for only 3% of its exports and 2% of its imports. Export growth in 2006 was sustained by two main factors: maintenance of high world oil prices (coupled with expansion of oil production from new fields) and new export transport capacity (relieving existing constraints). Export opportunities have increased thanks to a new route to China opened in late 2005 and shipments through Azerbaijan via the Baku-Tbilisi-Ceyhan route.

The financial sector is one of – if not the – strongest, elements in Kazakhstan’s overall economic reform program. There are institutional foundations for a solid banking system oriented toward international standards established in Kazakhstan, including functional banking supervision, minimum capital requirements and market discipline. In 2005, the first credit bureau was established to help banks obtain information on the credit history of borrowers. A new budget code brought in significant changes to the budget system in 2005, streamlining center-regional budget administration and simplifying major tax procedures.

8 | Currency and Price Stability

Controlling inflation and establishing an appropriate foreign exchange policy are recognized goals of economic policy, but the period from 2005 to 2007 witnessed rising inflation and rapid real exchange rate appreciation. Though still in single digits (since 2001), consumer price inflation has accelerated. These increases have been accompanied by those in public wages (monthly wages are up by 25% in nominal terms), buoyant oil-related business incomes, an expansionary fiscal policy and a credit push. That said, the central bank took several measures to tighten monetary policy. The National Bank of Kazakhstan is largely independent, although less so under its current leader, Anvar Saidenov, than under his predecessor, Grigorii Marchenko.
The government supports macroeconomic stability and while certain industrial policies, tariffs and protections continue, the government and president have largely resisted populist policy changes. High world oil prices and improvements in tax administration helped lift general budget revenues in 2005, although the gains were somewhat offset by large budgetary spending prior to the December presidential election. The National Fund of the Republic of Kazakhstan (NFRK) saves a part of the government’s oil and mineral revenues for future generations. The 2005 budget code has streamlined budget procedures.

9 | Private Property

Property rights are well-defined. While disputes with foreign companies continue over the terms of their involvement in the Kazakh economy – a reflection of a broader debate about the mass privatizations of the 1990s – the risk of substantial re-nationalization remains minimal.

Some key strategic industries remain under state control, notably in the oil and gas, metals and minerals sectors. The process of large-scale privatization was stalled in 1998 and nothing like the scale of privatization previous to that has since followed. While the private sector accounted for a mere 25% of GDP in 1995, this share had increased to 65% by 2002.

10 | Welfare Regime

Spending on welfare during the period under review increased for three reasons: an increase in oil revenues; pre-2005 presidential election campaign promises; and some implementation of the 2015 commitments to increased social and welfare spending. The pensions system in Kazakhstan is a success story in reform but, although pensions have increased over the past years, they are still insufficient. Informal social networks continue to be weak. As a result, a significant part of the population is still at risk of living in poverty.

Fundamental exclusion through poverty and education continue. However, according to the UNDP, gender-specific discrimination is relatively uncommon and gender disparities in access to education are minor, although women are considerably under-represented in politics and business. Informal discrimination on grounds of ethnicity or sub-ethnicity (clan) or class 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 under funded.
11 | Economic Performance

In 2005 and 2006, the economy remained buoyant, boosted by high world commodity prices, healthy domestic demand and strong investment. GDP growth continued at a rapid pace, at 9.4% in 2005 and 8.5% in 2006. Agricultural growth was impressive at 6.7% in 2005, and much higher than the average 1.6% seen in recent years. This growth was largely due to good weather and the positive impact of state rural programs. Price inflation and exchange rate appreciation were due mainly to high commodity prices, but the central bank did take several steps to tighten measures. High world commodity prices increased exports by 40%, with oil and metals accounting for two-thirds of the increase, but imports (largely machinery) also increased, so the current account surplus remained reasonable. Official NBK reserves in 2005 fell for the first time in five years but rose again in 2006.

12 | Sustainability

Environmentally compatible growth has been given increased attention since 2003 and environment-related NGOs and other organizations have had some influence on policy-making. Overall, however, environmental groups have only a weak institutional framework. This is despite the disastrous environmental legacies of the Soviet era, such as the desiccation of the Aral Sea, the Virgin Lands project and nuclear testing at Semipalatinsk.

Education spending declined considerably in the 1990s and the educational system became highly corrupt. There are a large number of private institutions, but low salaries make it difficult to attract good teachers. Curriculum reform has been implemented unevenly and one key challenge in the educational sector remains the coordination between the center and the regions in the implementation of reform policy by the Ministry of Education. Regional education centers remain under-funded. In 2005 and 2006, however, the government of Kazakhstan has significantly increased spending on education. This includes increasing the number of students sent overseas under the Balashak state scholarship from 300 to 3,000.
Transformation Management

I. Level of Difficulty

Kazakhstan faces a medium-level of structural constraints in its governance challenges. On the positive side, the government can continue to draw on a largely well-educated workforce from the Soviet era and on a pool of young, Western-trained political and economic leaders. It also enjoys abundant resources that are, in principle, available for reinvestment. For example, every element of the periodic table can be found in Kazakhstan and a large oil field (Kashagan) was discovered in 2001 in Kazakhstan’s section of the Caspian Sea. However, the country’s landlocked status makes its foreign policy highly dependent on the goodwill of its neighbors, in particular those of the two great powers between which the country is sandwiched, China and Russia. That said, China’s opening of an alternative pipeline route and its agreement to build a cross-country oil and gas pipeline can be viewed as an advantage, and the country’s landlocked status may thus be viewed as less of a problem than it was in the 1990s. The country continues to suffer from severe infrastructural difficulties such as the absence of an east-west pipeline and the absence of good roads and rail links between the country’s north and south. The growing number of people infected by tuberculosis and HIV/AIDS is also of grave concern.

Kazakhstan underwent some liberalization under Gorbachev and during the first few years after independence in which elements of civil society developed. But restrictions on civil society by an increasingly authoritarian regime since 1995 have limited the presence of public engagement. Trust in institutions is low and civic culture is almost nonexistent. The 2005 anti-terrorism legislation and legislation limiting political parties have further undermined the cohesion of civil society, with government clearly favoring explicitly loyal organizations.

Politics in Kazakhstan seeks consensus rather than confrontation and vocal opposition is rarely viewed as constructive. Individuals who might have mobilized emigrated in the first few years after independence. There has been no repeat of the public political maneuvering by members of the political elite in November 2001, and the splinter group that emerged from that open revolt itself split in 2005. Voices of opposition are unable to unite, which is a key factor in explaining why political differences have not developed into sharply confrontational cleavages. No widespread violent conflict has yet occurred.
II. Management Performance

14 | Steering Capability

Long terms goals are pursued, but while they do not correspond to the goals of democracy – the elite continued to be quite explicit that it did not welcome outside powers’ pressure to democratize – they do correspond with the goals of a market economy. The government has been consistent in its aims to liberalize and keep its economy open to outside investors. Both of these goals are subsumed to elite’s number one priority: maintaining its hold on power. Maintaining power is not a short-term tactic but rather a long-term policy of keeping power in the hands of the incumbent president’s relatives and friends. In fact, in the most recent election period, the Nazarbayev regime acted to ensure its re-election. The January 2007 government re-shuffle, which included the resignation of the prime minister and his replacement by the Chinese-educated loyalist Karim Masimov, can be interpreted primarily as a means of ensuring that Nazarbayev’s associates occupy key positions when a transfer of power occurs. The 40 year-old Masimov will be responsible for the country’s long-term development strategy, and Kazakhstan’s increased emphasis since 2004 on China as a foreign partner may be partly responsible for his appointment. The January 2007 government re-organization, which followed Akhmetov’s resignation, also included the appointment of Marat Tazhin as the new foreign minister and his predecessor, Kasymzhomart Tokaev, as the new head of the senate.

The autocratic government has implemented market reforms effectively, but it has refrained from implementing democratic reforms. The regime has been enormously effective at implementing its market reform policies, and as previously noted, particularly so in the financial and pensions sectors. But the years 2005 to 2007 have seen the government even less committed in its efforts to democratize and liberalize, with a further tightening of authoritarianism and increased repression.

The government scores high in its ability to be flexible and adaptive to market issues, as seen in its reaction to some of the monetary and fiscal challenges it faced this period, particularly resulting from increased revenue flow. Politically, the government is highly pragmatic and flexible, but it has shown itself to be increasingly inflexible about allowing alternative movements to exist in the political arena.
**15 | Resource Efficiency**

Of the three indicators of resource efficiency – government administrative personnel, administrative organization and budget resources – the government scores highest on the latter. Its new budget law of 2005 attempted to streamline budget planning and implementation, and the national bank and government take expenditure targets seriously. That said, the most recent election campaign did lead to extraordinary payments and also a likely increase in the use of public offers to reward political supporters. While supplementary legislation addressing reform of the civil service was introduced in 2005, including the introduction of more competitive exams, recruitment and dismissals continue to be based on personal loyalties. There has been no significant decentralization, although there were attempts in 2006 to make the budgeting process between the center and the regions more transparent.

The government is often stymied by both vertical and horizontal barriers to implementation. In some sectors, such as finance, pensions and general macroeconomic reform, the government has been extraordinarily adept at coordinating objectives into a coherent policy. Its rural policy and the development of agriculture in 2005 and 2006 were also successful. But in other sectors, the working relationships between various branches of government are characterized by mutual suspicion and competition rather than cooperation.

Overall, this remains a highly corrupt regime and integrity mechanisms to control corruption remain weak. There is little public trust in anti-corruption campaigns or that corrupt officeholders will be adequately punished under the law. Kazakhstan joined the Extractive Industries Transparency Initiative (EITI) in October 2005 to increase transparency of payments received by companies, but there is no guarantee that the judiciary involved in the investigations is independent. Of notable interest is the ongoing controversy surrounding the yet to be resolved so-called Giffen affair. In the 1990s, American-born businessman James Giffen served as an advisor to the regime in its negotiations over several large oil deals. The U.S. government alleges that, during this period, Giffen paid $78 million in bribes to two high-ranking officials, namely Nazarbayev and Balgimbaev. Nazarbayev thus became the first sitting foreign head of state to be accused under the U.S. Foreign Corrupt Practices Act since its inception in 1977.

**16 | Consensus-Building**

The major political actors agree on the overall goal of a market economy even if there are disagreements over the degree of state involvement in that market economy. There is more disagreement on the overall aim of whether Kazakhstan
should aim to evolve into a democracy. The status and influence of those in favor of democracy was weakened during the period under review when they were unable to find common agreement. Nevertheless, there is a strong trend toward building consensus and of avoiding – at least in public – disagreement or real debate.

Veto actors in Kazakhstan are either actors who want to see less authoritarianism and more democracy or those who wish to slow the overall pace of market reform. In both cases, the regime continues to be extraordinarily adept at co-opting these actors.

The political leadership’s rhetoric has continued to be effective at minimizing risks of hostile polarization, but it has not managed to expand consensus across lines of division, primarily those of ethnicity and class. In other words, measures adopted continued to be largely preventative rather than constructive. It has been helped in these preventative measures by its large resource revenues, which have enabled the regime to co-opt dissenters or give some assistance to poorer members of the population.

The country’s political leadership has suppressed and excluded civil society actors from the political process. It has, however, continued to co-opt some of civil society’s agenda for its own purposes, for example, by adopting the rhetoric of democratization during the presidential election campaign.

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

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 agenda of reforms. But on political reform, it considers external advice as undesired political interference. NGO/INGO activities in the field of democratization continued to be hampered by a lack of support and suppression by government.

In a very short time period, Kazakhstan has established itself as a credible actor in its own right. But the regime’s reliability is often questioned by major transnational corporations, whose activities are often made extremely difficult as a result of government interference. The Giffen case has made Kazakhstan a highly unreliable actor in terms of transparent use of its resources. Certain members of the international community, such as international election observers, do not consider the government a reliable partner in terms of implementing their recommendations.
Domestic political actors’ willingness to develop good neighborly relations is enshrined in Kazakhstan’s so-called “multivector” foreign policy. Geography has also exerted a profound influence on foreign policy. As a landlocked state, it is in Kazakhstan’s interest to conduct friendly relations with its contiguous neighbors, of which, two, Russia and China, are great powers. But rather than depending on one or the other or even both, Kazakhstan has also sought new partners further afield, notably in the Middle East and the West. This “multivector” foreign policy, as it came to be known, was primarily motivated by the republic’s need to secure alternative oil pipeline routes. Kazakhstan remains unwilling to commit itself to any one power. As in domestic politics, Kazakhstan’s foreign policy has been multifaceted, straddling various interests, its direction devoid of strong ideological content. The relationship with Russia remains an important one for Kazakhstan. In January 2005, Russia and Kazakhstan signed a significant treaty delimiting the 7,500 kilometer-long frontier dividing the two states. Vladimir Putin’s attendance at Nazarbayev’s January 2006 inauguration ceremony was seen as an unprecedented gesture, because it was the first time the Russian president had attended such an event on foreign soil. In his March 2006 state-of-the-nation address, Nazarbayev referred to his country’s “strategic partnership” with Russia, and in May of that year, after talks with Putin in Russia’s southern Black Sea resort of Sochi, he said a strong Russia was important for its partners and allies. Furthermore, Nazarbayev was the only post-Soviet leader invited to attend the G-8 summit in St. Petersburg in July 2006. While the importance of the relationship with Russia is continually emphasized in both rhetoric and practice, the most significant development in Kazakhstan’s foreign policy orientation has been the growing relationship with China. This relationship is portrayed as part of a multivector foreign policy and such initiatives have often come either before or after overtures to other states, primarily Russia or the United States. In an agreement with the Chinese National Petroleum Company (CNPC), Kazakhstan began construction in October 2004 of a 962 kilometer-long oil pipeline from the Atasu settlement in the Karagandy region of Kazakhstan to Alashankou in China. It is expected that 10 million tons per annum will be pumped through the pipeline, thus making Russian oil shipments to China by rail economically non-viable. The deal was overwhelmingly in Kazakhstan’s favor, with nearly 60% of the workers on the project to be domestic, promising thousands of jobs in the Karagandy, East Kazakhstan and Almaty regions. The projected cost ($700 million) of the pipeline is to be covered equally. To date, Kazakhstan has succeeded in conducting a safe multivector foreign policy that has managed to avoid intensifying geopolitical collisions between the United States, China, and Russia and their allies.
Strategic Outlook

The re-election of President Nazarbayev marks the beginning of what will likely prove to be a protracted period of preparation for his political succession. He and his regime aim to ensure that when presidential transfer of power does occur, it takes place in an orderly manner and follows the course he desires. The jockeying among key elite groupings will intensify as they compete to ensure their place in the post-Nazarbayev era. Within this context, repression of civil society activity and the independent media are likely to continue and any fundamental change in the direction of political reform will need to come from within the government itself.

The emphasis on the relationship with neighboring powers, Russia and China, is likely to continue with the addition of increasing interest in the Central Asian neighborhood. Ensuring stability in the wider region is viewed as a key element in the country’s own continued security. Increased ties with Central Asia will become even more important as neighboring states face or are facing their first major political transition crises since independence. Nevertheless, Kazakhstan is likely to continue to adeptly apply its “multivector” foreign policy and will incorporate the West, particularly the United States, where strategically and politically expedient.

Two high-profile interactions with foreign organizations are a priority for Kazakhstan in the short-term: accession to the WTO and chairmanship of the OSCE. Former Foreign Minister Tokaev stated in March 2006 that Kazakhstan aimed to join the WTO in 2007 and, to further enhance the country’s global standing, Astana will seek the OSCE chair in 2009.

Political liberalization is unlikely in the immediate future, with the top leadership likely to emphasize economic over political reform. Addressing parliament in January 2007, Nazarbayev outlined his priorities for the new government: to pursue his project of making Kazakhstan one of the world’s 50 most competitive countries; continue administrative reform; improve state and budget planning; develop the regions; boost the pension system; continue the focus on macroeconomic policy; train a competitive work force; improve infrastructure; bring the best of corporate management in to run the state; and diversify the economy.

Global finance experts remain generally optimistic that Kazakhstan will be able to maintain its double-digit growth figures. A government economic development program for the period from 2006 to 2008 stated that the
government’s principle aim is to create “favorable institutional and economic conditions to raise Kazakhstan’s competitiveness in the international arena, as well as living standards.” The engine for Kazakhstan’s economic growth will continue to be its abundant oil and gas resources. With the start of oil production from the Kashagan oil field set to begin in 2008, prospects for exports are good. Kazakhstan is expected to become one of the top 10 oil exporters by 2012. Kazakhstan will also likely build on its relative success in parts of the agricultural sector through further attempts at diversifying the economy.

Within this context, macroeconomic policies will need to focus increasingly on mitigating risks in order to sustain the country’s strong economic performance, including the restraining of bank credit, external borrowing and an overall tighter monetary policy, along with a stronger tenge. The elite has a strong positive record in such macroeconomic management, but much will also depend on its ability to manage the likely accompanying rise in corruption. The prospects of this are not good.