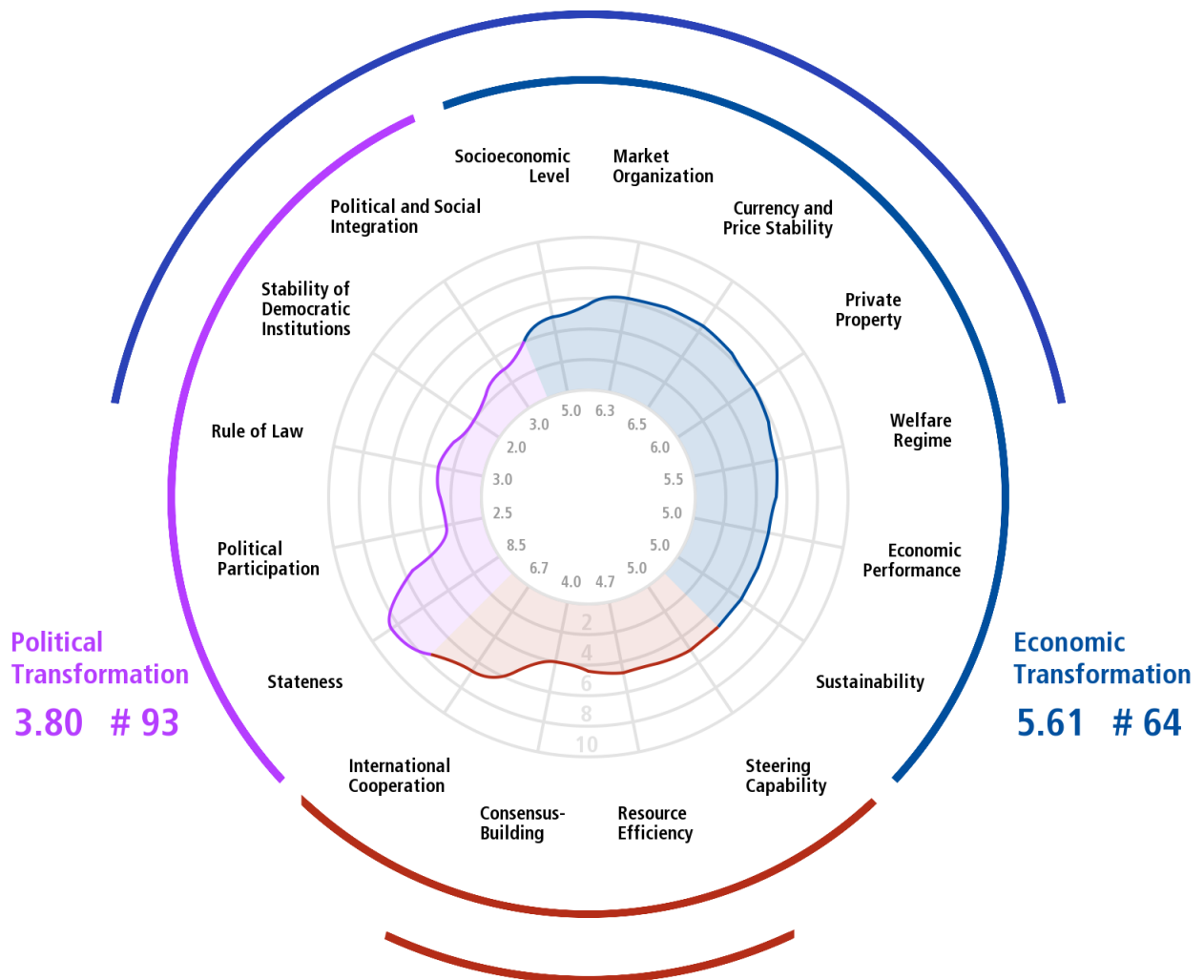


# Kazakhstan

## Status Index

**4.70 # 88**

on 1-10 scale out of 129



**Political Transformation**  
**3.80 # 93**

**Economic Transformation**  
**5.61 # 64**

## Governance Index

**4.41 # 81**

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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>.

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## Key Indicators

Population	M	17.8	HDI	0.794	GDP p.c., PPP \$	25264
Pop. growth <sup>1</sup>	% p.a.	1.4	HDI rank of 188	56	Gini Index	26.5
Life expectancy	years	72.0	UN Education Index	0.823	Poverty <sup>3</sup>	% 0.4
Urban population	%	53.2	Gender inequality <sup>2</sup>	0.202	Aid per capita \$	4.7

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

The period under review (2015-2017) marked one of the most tense and difficult periods in Kazakhstan's 25-year history as an independent state. Economically, external pressures weighed on domestic stability as the sharp drop in both oil prices and the Kazakh tenge reverberated throughout the country. The country, renowned for consistent 8-9% annual growth since 2000, its currency was now dubbed as one of the world's worst-performing currencies.

The government tried to spend its way out of trouble. It continued its commitment to the Nurlı Zhol infrastructure program announced in the previous period and, for the first eight months of 2015, propped up the tenge. But by the end of this review period, the tenge had freely floated to an all-time low and President Nazarbayev declared that for other than the Expo-2017, no further drawing on national reserves was permitted. The country's economic exhaustion showed little sign of ending as the BTI period ended.

Politically, 2016 brought Kazakhstan's most substantial terrorist attack and largest anti-government protests to date. In June 2016, a series of terror attacks took place in the western region of Aqtobe; and in July, another terrorist attack occurred in Almaty. A couple of months earlier, and largely in reaction to proposed changes to land legislation introduced at the end of 2015, protests broke out simultaneously in several regions of the country. Authorities did not react as they had in Zhanaozen in 2011, but they did use labor and media laws to clamp down on dissent. Protests in the period indicated growing overall discontent among the people.

Internationally, two major achievements went almost unnoticed in the context of these challenges. The first was Kazakhstan's accession as the 162nd member of the WTO, the result of 20-years of negotiations; the second was the win of a non-permanent seat on the U.N. Security Council for two years. The population, however, predominantly viewed external involvement as problematic. For one, Kazakhstan's multi-vectorism, reaffirmed in 2014, has been tested by the country's integration into the Eurasian Economic Union (EAEU) on January 1, 2015, under continued Western sanctions toward Russia. The tariff regime of the Customs Union has not been in

Kazakhstan's best interests, and the contradictions of joint EAEU and WTO membership lie ahead.

In the face of soaring prices of domestic goods and imports, the state has encouraged a Buy Kazakhstan policy, but consumers prefer to buy cheaper Russian imports or cars in Russia. At the same time, Russia's own weakness has enabled China to increase its economic presence in Kazakhstan, increasing its ownership in an oil company and continuing its construction of One Belt. Although the election of Donald Trump may make it easier for Kazakhstan to have good relations with the United States, the country still remains constrained by its EAEU membership.

Faced with these challenges, the leadership has used elections, state patriotism and soft international prestige projects as attempts to shore up legitimacy and support. Domestically, it called two snap elections. Both elections returned the leadership more or less as it was, with Nazarbayev receiving 98% in the presidential elections and the presidential party Nur Otan securing the majority in parliament. It also attempted to increase patriotic feeling in October 2015 through elaborate celebrations of Kazakhstani statehood, which President Nazarbayev said had a "long history" of 550 years. Other attempts at prestige included a failed bid for the 2022 Winter Olympic Games, the January 2017 Universiade, peace talks on Syria and preparations for Expo-2017.

By February 2017, the state's ruling formula combining international prestige, coercion and elite-driven top-down management was overtaken by pressing economic challenges. A repetition of the hard-hitting tactics of Zhanaozen of 2011 seemed out of the question and carrots were preferred as the government did its best to continue to create employment through infrastructure and railway projects. To this end it drew on substantial national bank reserves, but the population saw few of its benefits.

## 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 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.

President Nazarbayev's authoritarianism has become more evident 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.

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. Democratic Choice, 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.

Kazakhstan has been one of the most successful ex-Soviet republics to make the transition from a centralized economy to a free market. The economy, which had been controlled by Moscow, collapsed following independence. Kazakhstan achieved economic growth for the first time in 1996 and maintained this for ten years. The discovery of the giant Kashagan oil field in Kazakhstan's sector of the Caspian Sea in July 2000 marked the beginning of a new chapter in the country's oil explorations, and a new deal brokered in 2008 was significantly to the advantage of the Kazakhstani government. Kazakhstan set up a national oil fund in January 2001 to reduce its vulnerability to price swings in world markets and accumulate funds for future generations.

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 officially head his party Nur Otan, strengthening therefore presidential influence in parliament, government and society. Presidential representation was also boosted by increasing the number of senators in parliament from seven to 15, and by incorporating into parliament nine members of the pro-presidential body, Assembly of Peoples' Deputies.

2009 to 2013 was characterized by the country's chairmanship of the OSCE in 2010, strengthening its profile in Central Asia and internationally, while at the same time facing unrest at home. The chairmanship did not, however, lead to stronger commitments for improved human rights or more open and free elections. In December 2011, at least fourteen protesters were killed by the police when they protested for unpaid danger money, higher wages and better working conditions. Kazakhstan's first ever suicide bombing also occurred in 2011, in the western oil city of Aktobe, continuing in October with another botched attempt in Atyrau, also an oil city.

In 2015 to 2016, Kazakhstan's economic downturn dictated the leadership's domestic policies and external reactions. The joining of the EAEU in January 2015, and the accession of two more members, Armenia (January 2015) and Kyrgyzstan (May 2015), increased Kazakhstan dependence on its Russian neighbor. The country faced its greatest currency crisis and lowest international oil prices since the mid-1990s. The 2015 proposal to introduce new land privatization laws led to wide-scale protests in April 2016.

The holding of a snap presidential election in April 2015 and snap parliamentary elections in 2016 did little to provide the reassurance to the population that the leadership was steering a clear and safe course. Reaffirming the status quo, these elections failed to accommodate voices of growing popular dissatisfaction. In January 2017, the president announced institutional changes to strengthen the government and parliament, yet implementation and efficiency of this artificial reform are widely questioned in the country.

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

The executive maintains a monopoly on the use of force across governmental institutions and regional administrations. The National Security Committee (KNB) remains the main public body responsible for domestic security, working closely with the Ministry of Interior. Significantly, in September 2016, long-time KNB veteran Vladimir Zhumakanov was succeeded by former Prime Minister Karim Massimov. This change is important in that Massimov has no prior experience in security services (apart from rumors that he might have been an undercover KGB and later KNB agent in the late 1980s and early 1990s).

In 2016, unprecedented protests occurred in several cities over a planned land reform which would have resulted in the legal option to sell land to foreigners. However, the government was able to avoid any violence and successfully restrained the most active protest leaders. In contrast, the authorities were caught completely off-guard by a series of terrorist attacks in the summer of 2016. Roughly 25 people died in June 2016 in a rare act of terror in the Aqtobe region.

Simultaneous incidents in the city center and at a nearby military base put the Aqtobe region on high alert, and “counterterror operations” were launched as authorities closed down some businesses and encouraged people to remain indoors. One neighborhood of Aqtobe, a regional hub with between 300,000 and 400,000 residents, remained initially cordoned off with security inspections of those who enter and leave. The Kazakh government’s narrative was reminiscent of that following Zhanozen, arguing that the group was organized from abroad. In July, a further lone wolf attack occurred in Almaty (8 people killed).

The use of force in the December 2011 Zhanozen riots continued to provoke searching questions over police training and the relationship between government and the police. When protests, civilian and terrorist attacks occurred in 2016, authorities did not respond with hard tactics. Instead, to retain their monopoly on the

Question  
Score

Monopoly on the  
use of force

9



1

use of force, they used a series of control and legal tactics to contain any further spillover or activism. The protests following the botched land law resulted in the arrest of several activists. Sadly, the old method of using activists as pawns in what were ultimately intra-elite struggles manifested itself in the detention of a Shymkent businessman, Tohtar Tuleshov, who was later sentenced to 21 years for high treason.

On the whole, Kazakhstan continued to be free from any large-scale insurgent or violent movements. Unlike in some of its neighboring Central Asian states, the so-called Islamist threat is far less prevalent. The rise of the self-proclaimed Islamic State (IS) and gains made by the Taliban have also turned heads in Kazakhstan and the region, but the 2016 terrorist attacks did not show typical signs of IS operations.

The last national census, conducted every ten years, confirmed in 2009 that Kazakhs are the majority ethnic group. While the 1989 census showed that Kazakhs were a minority in their own state, a 1999 census confirmed them as the majority at 53%. By 2009 they had reached 63%, with Russians the second largest ethnic group at 12.3%.

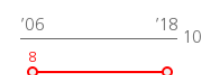
Since independence in 1991, the Kazakhstani state has aimed simultaneously to convey two conflicting identities: 1) a rhetoric of multi-nationalism by promoting a civic idea of Kazakhstan where all ethnic groups have equal rights and where the country has multi-confessionality and 2) cementing the newfound leading status of ethnic Kazakhs. This dual-pronged approach is found in the 1995 constitution and in the 2010 Doctrine of National Unity, which also refers to the primordial ethnic Kazakh identity and describes the Kazakhstani state and the 1991 independence as natural outcomes of a long struggle for national sovereignty. Multiculturalism is symbolically promoted through the continued existence of the Assembly of Peoples of Kazakhstan, a forum set up in the early 1990s whose members are picked by the president to represent their respective ethnic groups.

State programs championed by the president are consistently seen as a way to bolster state unity and identity. While the 2014 BTI period ended with the introduction of Kazakhstan-2050, emphasizing world competitiveness, and the 2016 BTI period with Nurly Zhol, 2015 to 2016 saw the celebration (September-October 2015) of 550 years of Kazakh statehood. Kazakhstan held poetic contests, horse races, musical performances, wrestling competitions and even a marathon. A 10-episode historical TV epic, *Kazakh Khanate*, made by director Rustem Abdrashev, recounts how two leaders, Zhanibek and Kerей, broke away from an Uzbek kingdom to found a khanate in the steppes of southern Kazakhstan.

While in 2010 the Language Program intends for 95% of Kazakhstanis to master the Kazakh language by 2020 (the current level of knowledge is reportedly 60%), the president announced in 2011 that the Kazakh Cyrillic alphabet would be replaced with the Latin script by 2025. However, both debates were sidelined by economic issues in 2015 and 2016. Another law passed in 2011 requires media channels to produce at least 50% of their programming in Kazakh, rather than translating

State identity

8



1

programs into Kazakh. Still, most Kazakhstanis prefer Russian-made TV programs and films to those made in Kazakhstan, either in Russian or Kazakh.

As part of its international legitimization efforts, Kazakhstan hosted the Congress of Leaders of World and Traditional Religions in June 2015. Initiated in 2003 by Nursultan Nazarbayev, the congress has been convened in the capital, Astana, every three years since its founding.

There was a noteworthy discrepancy concerning the gathering's composition as it included the leaders of religious groups with large global followings but an extremely small presence in Kazakhstan (including Buddhism, Taoism and Hinduism), while many movements that have a significant presence in the country were deliberately excluded after being classified as "non-traditional."

The Kazakh authorities' attempts to control the religious environment continued. In the context of a government shake-up in September 2016, the Ministry of Religion and Civil Society was established. This is a sign that religious issues were elevated – possibly in the wake of the violence that can often be unhelpfully conflated with religious extremism – as previously they had been within the purview of the Ministry of Culture and Sport. Despite the rhetoric, it is unlikely that the ministry will be associated with increased freedoms because it was created several months after seemingly Islamist-inspired shootings in the western city of Aktobe that laid bare the authorities' apparent lack of an anti-radicalism strategy.

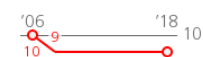
Kazakhstan remains a secular regime. A new law on October 13, 2011, gave religious denominations and faith-based civic associations one year to re-register under stringent new criteria or face closure. Only 17 of 46 officially recognized faiths survived the registration process. In 2013, Freedom House reported how several prominent independent media outlets lost appeals against legal bans imposed on their operations in 2012. In November of the 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.

As part of the government shake-up in September 2016, and along with the new Ministry for Religion and Civil Society, a new anti-corruption agency was established. Its establishment outside of a ministry is significant in that when ministries were reorganized back in 2014, 12 so-called super-ministries absorbed all existing agencies. It is too early to tell whether the new structure will have the wherewithal to combat bribery effectively.

Some significant elite reshuffling also occurred in September. The Kazakh president's elder daughter, Dariga, was removed from her deputy prime minister duties and moved to the Senate, sparking talk of her being the next incumbent (which of course could be a smokescreen). A notable promotion arrived for Imangali

No interference of religious dogmas

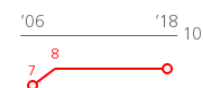
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Basic administration

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Tasmagambetov who is also often touted as a possible incumbent as he took over from Dariga. However, he was demoted to ambassador to Russia in February 2017. Saken Zhasukov, a former deputy defense minister, filled Tasmagambetov's old job as Minister of Defense. This is unusual and perhaps a sign of desired increased professionalism. A couple of new ministries were created in this period but the authorities were mostly busy dealing with the economic crisis rather administrative reform.

By this period's end, Kazakhstan's accession to the OECD, which is one of its top priorities to be among the world's top 30 economies by 2050, seemed less likely than at the end of the previous period. In 2015 and 2016, Kazakhstan and the OECD were operating under a two-year Memorandum of Understanding (MoU), with accession expected by early 2017. The initial findings of the multi-dimensional review in January 2016 suggested that the country needs "deep structural reforms."

The president began 2017 with promises of a reduction in presidential power and the introduction of a greater role for parliamentary democracy. Cynics say these changes are a way of distancing the president from the economic mayhem, others say the changes are paving the way for greater sharing of power where foreign policy would remain the domain of the president but the institutions of government and parliament would be given greater power. Overall, local onlookers remain skeptical that these changes will happen, given the weakness of these institutions and the continued presence of presidential appointees in all leading posts.

## 2 | Political Participation

2015 and 2016 saw early presidential and parliamentary elections. The presidential elections of April 26, 2015, had originally been scheduled for December 2016 but authorities saw a snap vote as a convenient means to divert attention from the economic crisis. Nazarbayev won by almost 98% and even found himself apologizing for this near unanimity. "I could do nothing. If I had interfered, I would have been undemocratic," he explained. After the death of Uzbek President Islam Karimov in 2016, Nursultan Nazarbayev (77 in July 2017), is now the region's only leader who was in charge when the Soviet Union collapsed in 1991.

Similarly, on March 20, 2016 (instead of February 2017), President Nursultan Nazarbayev's Nur Otan party secured 82.15% of the vote in early parliamentary elections. While Nur Otan's monopoly was dented, it would be erroneous to view this as the establishment of a multiparty system since the two parties that exceed the threshold are loyal to the regime. Only two other parties – the only ones already having seats in the Mazhilis, the lower house of parliament – overcame the 7% threshold. As in previous elections, Nur Otan monopolized media access. Even the Central Election Commission of Kazakhstan confirmed that Nur Otan was most active in publications, TV channel airing and campaign material. The Central

Free and fair elections

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Election Commission (CEC) remained the main organ managing the election law in which there had been no change since the last elections. The election remains administered by a four-tiered system of commissions, headed by the CEC with 14 Territorial Election Commissions and the City Election Commissions of Astana and Almaty, 207 District Election Commissions and several Precinct Election Commissions (PECs).

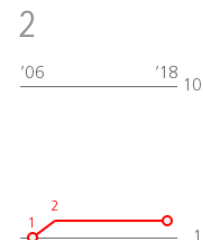
To date no OSCE/ODHIR mission has deemed any Kazakh parliamentary or presidential election as free and fair, and these latest examples were no exception. Thus, while the country has paid lip service to the democratic requirement of elections, a round of open and competitive elections has not been held, nor has there been a presidential leadership change since 1989. In response to the 2015 presidential elections, an OSCE spokesperson said the electorate had been pressured, with “credible reports of pressure on voters to attend rallies and vote.” Even though most observers agree that Nazarbayev would have in any case won the April re-election with a comfortable majority, the early calling of elections reduced other candidates’ chances to organize themselves. Furthermore, Nazarbayev enjoyed unrivaled administrative, informational and political support.

The president continues to enjoy extensive veto powers and the democratically elected political representatives therefore do not have the power to govern without substantial input and agreement from the president and his close entourage. The two-term limit on 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, they occurred in a more restrained fashion.

Despite the continued predominance of Nazarbayev and the Nur Otan party, Kazakhstan is not run by one man. It has been long noted that the Kazakh state is composed of a large number of elite factions who lobby for influence over Nazarbayev and for access to the country’s resources and their distribution. The fallout from Zhanaozen accentuated this elite factionalism as those seen either more responsible for the outbreak or unable to deal with its consequences were tarnished as likely successors. The imprisonment of a powerful local Shymkent businessman in 2016 revealed how these elite factions had penetrated deep into Kazakhstan’s regions and how national struggles were also playing out at the intra-regional level. Similarly, positioning and jockeying is likely to continue in the run-up to succession.

Economic difficulties mean that the country’s leadership faces particularly tough questions about its future course. Previous oil revenues allowed for the delay of resolving these questions. Zhanaozen continues to remind the leadership that brutal crackdowns are not a serious sustained possibility for effective governance. The lack of a brutal crackdown during the 2016 protests shows policy learning in this regard.

Effective power to govern



The presidential party Nur Otan, was again not permitted a complete monopoly of legislative power. That said, the majority of seats held by loyal parties and the ability to control who is put forward as locally electable candidates is hardly an attempt to introduce more power-sharing. Occasionally, the elites seem mindful that political modernization is failing to keep pace with rapid socioeconomic modernization, but those occasions in this period were often dictated by the need to garner western attention or approval, particularly when domestic legitimacy is lacking or when Russia is particularly dominant (as in this period). Even with Nazarbayev's proposed changes of January 2017, the president retains veto powers over any decisions adopted by the government and prime minister.

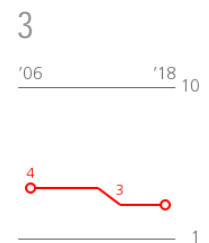
The government in this period did its best to prevent further unrest following protests in 2015 reflected anger at the government's decision to change legislation governing foreigners' ability to rent land for lengthy periods of time. Public anger is rooted mostly in concerns that Chinese firms will exploit this legislation to slowly lease ever larger tracts of Kazakhstani land. After the formation of the Shanghai Five in 1996 (with the addition of Uzbekistan to become the Shanghai Cooperation Organisation (SCO) in 2001), Kazakhstan agreed in 1999 to cede nearly half of the 34,000 square kilometers China had claimed as disputed territory. At the time, it was a very unpopular decision in Kazakhstan.

Protests ensued ten years later in 2009 when Kazakh President Nursultan Nazarbayev said that China had requested renting up to one million hectares of land, and Kazakh officials spent the next months denying Kazakhstan planned to "give" land to China. The potential for the May 2016 discontent had been percolating since November 2015, when legislative changes were approved to extend the maximum period for which farming land could be rented to foreigners from 10 to 25 years. Emotions only began to run high in late April 2016, after the government started a public information campaign on plans to make new land available for Kazakh buyers and foreign renters, starting in the summer of 2017.

Protests targeting the land law should serve to remind the government of the consequences of systematic marginalization and repression of the legal opposition and independent media. But nonetheless, groups that attempt to influence the political process from below have been systematically harassed, isolated or imprisoned. The ideological center has been monopolized by the current regime, and ideas and people continue to be successfully co-opted by the current leadership. If they cannot be co-opted, opposition figures are imprisoned or assassinated.

Despite freedom of association and assembly being constitutionally guaranteed, the government imposes considerable restrictions. While Kazakhstan ranks ahead of Uzbekistan and Turkmenistan in the degree of openness, the right to hold meetings and protests has been carefully controlled. In contrast to its neighbors (with the exception of Turkmenistan), Kazakhstan had seen no major significant assembly of

Association /  
assembly rights



protest groups prior to Zhanaozen, and five years on, 2016, was now notable for being a year that had seen the most number of protests.

Since 1995, the Ministry of Justice has required all civil society groups to register and this law remains unchanged to this date. In this period, 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 public assembly: The Law on Public Assembly requires protest groups with more than 20 participants to seek permission from the government ten days in advance for any public appearance or gathering broadly seen as an assembly. Permission for opposition rallies is often refused, and if granted they are allowed to take place in remote locations outside city centers.

Kazakhstan's so-called private media 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 this period. Instead, the authorities did their best to control media coverage and expression. According to the 2016 Worldwide Press Freedom Index of the Reporters Without Borders (RSF), Kazakhstan ranked 160th, up by one place from its position in 2014. The media coverage of the 2015 presidential and 2016 parliamentary elections remained biased in favor of the incumbents.

While the government has initiated minor amendments to the highly restrictive media law of January 2012, it has not initiated any significant liberalization of this law or the criminal code. The January 28, 2012, law on national security placed "informational security" at the core of national security. In this period, it remained unclear from the text what precise information threat the law is securing the country against.

Under Article 318 of the criminal code and Article 1 of the Law on the First President-Leader of the Nation, "public 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 place. In 2015, parliament passed new draconian measures giving local authorities wide room to block any website and social media without a court order during a declared state of emergency. Websites and social media accused of hosting "extremist" content were blocked; for example, the editor of Central Asia regional site Fergana.ru says his site has been blocked starting in August 2015.

Libel has not been decriminalized and Nakanune.kz's fate in this period is a case in point. Nakanune.kz – set up by former journalists from Respublika newspaper – reported about alleged fraud in Almaty's construction sector but was accused of damaging the reputation of the biggest bank, Kazkommertsbank. The site insisted the story served public interest and was consistent with the spirit of President Nursultan

Freedom of  
expression

3

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Nazarbayev's much-hyped war on corruption. An Almaty court decreed that the post should be removed and imposed a fine of 20 million tenge in favor of the bank.

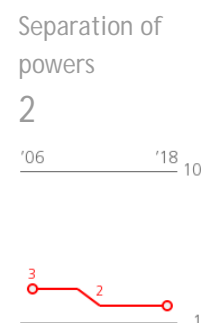
Journalists who express oppositional views continue to be hounded. In February 2016, head of the Kazakh Journalists' Union, Seitkazy Matayev, along with his son Aset Matayev, were arrested on embezzlement charges and although both strongly denied the charges they were imprisoned in October. In this period some attempts to squash press freedom backfired, however. Serikzhan Mambetalin and Yermek Narymbayev were on trial on charges of inciting ethnic enmity via Facebook posts. A hearing in January 2016 was suspended when sympathizers disrupted proceedings with cacophonous protests over how the men were being treated and Narymbayev was rushed to the hospital in an ambulance, before being returned to court to continue the trial against his will, prompting ill-tempered outbursts from the gallery. All this scandal sits uncomfortably with image-conscious Kazakhstan.

This period showed that western efforts to foster liberalization could also sometimes backfire. In May 2014, the European Court of Justice (ECJ) ruled that search engines, including Google, must consider removing from search results information that a party mentioned in those results finds "inadequate, irrelevant or no longer relevant, or excessive." This ruling was invoked during a parliamentary discussion over proposed amendments to Kazakhstan's information law in 2015. The ECJ ruling could be potentially cited in efforts to scrub information that reflects poorly on governments and/or their leaders.

### 3 | Rule of Law

2015 and 2016 continued to see the constitution's commitment to the separation of powers unimplemented in practice, even if the president hinted that such changes might be on the way. There were no major constitutional changes to the legislation in 2015 to 2016.

The constitution speaks of separation of presidential, governmental, parliamentary and judicial powers. Yet 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. Both he and the party scored resounding victories in 2015 and 2016. Even with the pro-presidential party in the elections of 2016 reduced its monopoly of seats to a majority, and even with authorities allowing rural and district elections of their



heads in some areas starting in 2014, the executive continues to have a tight control over the legislative and judicial organs.

While the constitution states that the judiciary is independent, practical implementation of that independence is not guaranteed. The May 2007 amendments empowered parliament to nominate two-thirds of the Constitutional Council, Central Election Committee and Audit Committee. The Constitutional Council and key members of the judiciary, however, are appointed by the president. Supreme court justices are also appointed by the president upon recommendation of parliament.

Corruption is entrenched within the Kazakhstani judicial system, where bribes are accepted and the courts are often controlled by the interests of the ruling elite. Recruitment is also plagued by corruption, and becoming a judge requires giving bribes to high-level officials and court administrators. Almost two-thirds of citizens perceive the judiciary to be corrupt and companies perceive the courts to perform poorly in regards to the settlement of commercial disputes.

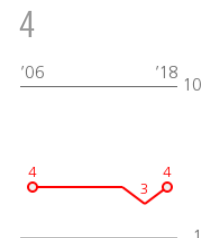
In a March 2015 speech, President Nazarbayev described the current system for selecting judges and the inefficient qualification requirements of judges the “weak links” of the system. Judges now will require five years of experience in the judicial system and will need to pass a difficult selection test going forward. On May 19, 2015, Nazarbayev issued a new decree establishing an independent financial court which will hear business and trade disputes, house foreign judges and may allow foreign lawyers to appear, modeled on the Dubai Financial Center Court.

Despite constant anti-corruption rhetoric, the country was plagued in this period by old and new corruption scandals. Some observers criticized Almaty’s choice of Alexander Vinokourov as an Olympic ambassador, noting that a “confirmed cheater” sends a mixed message about dedication to transparency. Vinokourov, an Olympic gold medal-winning cyclist, had been banned from the sport for two years for doping at the Tour de France in 2007.

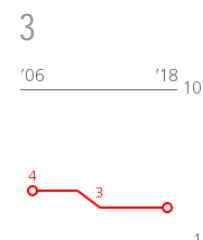
For some observers it was only a matter of time before preparations for the Expo-2017 (an international exhibition previously staged in Milan, Shanghai and Hanover) would reveal significant embezzlement. The government had lobbied hard to win this exhibition which opens in June 2017. In June 2015, the former CEO of Astana Expo-2017, Talgat Yermegiyayev, was sentenced to 14 years in jail with embezzlement charges of some \$31 million. On June 19, his associate Sulambek Berkinkhoyev was detained. Sulambek was accused of collaborating with others who had previously been arrested in an embezzlement scheme to misappropriate \$1.15 million. Among those was the former head of the exhibition organizer’s construction department, Kazhymurat Usenov, who was detained in May 2014.

In January 2016, the Global Fund to Fight AIDS, Tuberculosis and Malaria reported that public health officials in Kazakhstan conned the organization out of more than

#### Independent judiciary



#### Prosecution of office abuse



\$5 million through a network of “smokescreen companies” used to rig bids and overcharge for goods and services.

In other spheres, charges of corruption and misuse of office tend to be leveled against high-ranking government figures only after these individuals enter into personal or political rivalry with ruling elites or attempt to challenge Nazarbayev’s rule. A case in point was Serik Akhmetov, prime minister from September 2012 to April 2014, who was sentenced to ten years in prison in late 2015 on corruption charges relating to his time as Karaganda regional governor.

The legal anti-corruption framework in Kazakhstan is in place but the government in this period has not implemented laws to fight corruption effectively. The Criminal Code of Kazakhstan criminalizes active and passive bribery, attempted corruption, extortion, money laundering, and abuse of office – and acceptances of bribes are prohibited by the Law on the Fight Against Corruption. Even if this law contains special penalties for failing to report corruption cases, there is no mechanism in place to deal with these conflicts when they arise.

The bundle of laws on media freedom, rights of association and (re)registration of parties and religious groups continues to curtail civil liberties and human rights. This period showed again how individuals remained often unprotected against state interference or non-state actors and were not guaranteed due process under the rule of law. The cases of the activists and lawyers around Zhanaozen in the former period, and those charged with extremism and libel in this period, reinforced this tendency.

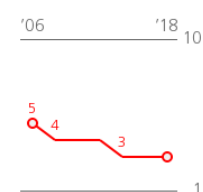
Kazakhstan’s poor human rights record continued to deteriorate in 2015 and 2016 with the authorities cracking down on free speech and dissent through misuse of overly broad laws. In January 2015, restrictive amendments to Kazakhstan’s criminal code, criminal procedural code and code on administrative violations came into force. Other restrictive legislation adopted in 2015 included a new labor code restricting labor rights, and a law on the funding of NGOs which effectively granted the state a veto on deciding which NGOs receive funding and for what types of activity.

Harassment and discrimination continue to plague the everyday lives of LGBT people in Kazakhstan. State institutions fail to provide consistent care and protection. While Kazakhstan decriminalized consensual same-sex conduct in 1998, a climate of intense homophobia remains. More generally, national human rights bodies such as the National Commissioner for Human Rights and the National Center for Human Rights, which have a specific mandate to cover human rights issues, have been criticized for insufficient action.

The country’s new criminal code (signed in July 2014, entering into force in 2015) contains articles relating to the rights to freedom of speech, assembly, religion and association that do not meet international human rights standards set out in treaties ratified by Kazakhstan. In the process of its 2015 bidding to host the 2022 Winter

Civil rights

3



Olympics, Kazakhstan's parliament moved to adopt anti-gay legislation that would have directly contravened the Olympic Charter's rule that discrimination is incompatible with the Olympic movement. The legislation was not signed into law, but one member of parliament has proposed introducing it.

Ethnic Kazakhs continue to be favored in government employment and in the process of privatizing state enterprises. While women can have high profile political and entrepreneurial positions and enjoy equal access to higher education, laws offering protection on domestic violence, rape, trafficking and prostitution continues to be weak. Overall, the constitution states that everyone is equal before law and court. However, the government continued in this period not to enforce this provision on a consistent basis.

#### 4 | Stability of Democratic Institutions

Nazarbayev's promise of institutional change at this period's close was more than outdone by further legal and political attempts to crack down on dissent. The government was preoccupied in this period with grappling with the economic downturn and trying to accommodate the increasing pressure from both of its neighbors, Russia and China.

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. The state is a unitary state. While this regime has been stable, it prevents the accession of any new political group, slows the development of a middle class and promotes longer-term instability.

The Law on Local State Government explains how regional administrations (akimat) elaborate and present to the regional parliament (maslikhat) development plans. Maslikhats are required to approve these proposals and deputies have the right to send requests and petitions to local executive bodies and administrations; to hear reports from officials at the sessions of maslikhats and to take part in the work of akimats. The reality however has been the monopolization of maslikhats by the ruling party Nur Otan, which directly contradicts the separation of executive and legislative powers.

Nazarbayev continues to say that Kazakhstan's cultural specificities make it different from Europe. He appeared to welcome the election of Donald Trump as U.S. president because he is uncharacteristically disinterested in democratization issues. Moreover, better relations between Russia and the U.S. under Trump could make it easier for Kazakhstan to maintain its autocracy but at the same time reduce channels for the provision of U.S. aid to local civil society.

Performance of democratic institutions



Commitment to democratic institutions





The commitment to democratic institutions remains at the level of rhetoric. The OSCE chairmanship in 2010 did not lead to any significant changes in the way the country is governed and any legal or programmatic changes have either sought to strengthen authoritarian rule or introduce a semblance of democratic voice.

The Zhanaozen unrest in 2011, whose memory is fresh five years on, did not impress upon the leadership the need for liberalization and democratization. It instead resulted in increased control and narrower freedoms. Given the age of the incumbent, the looming succession, the country's economic crisis and the continued power of financial and industrial elites, it was not altogether surprising that Nazarbayev spoke of a likely democratization impetus in January 2017.

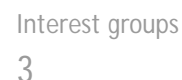
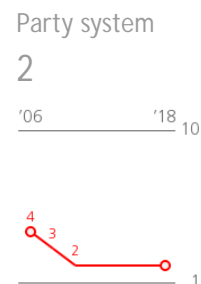
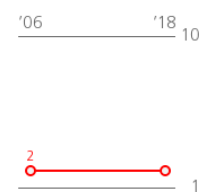
A large number of influential actors do not appear to view democracy as the most legitimate form of government partly because they approve of authoritarianism from which they have done well and partly because they want to avoid what they saw as instability in neighboring Tajikistan (1992-1997) and Kyrgyzstan (2005 and 2010) and the outright political crisis in Ukraine (since 2014). The population values the stability associated with the Nazarbayev regime, and its rhetorical promotion of interethnic harmony. The president enjoys high popularity, but is increasingly aware of the danger of letting the crisis become a protracted phenomenon.

## 5 | Political and Social Integration

Leading parties continue to be primarily formed top-down rather than bottom-up and, like media outlets, are affiliated to key political groupings. When the constitutional clause that the president is to be above party politics was amended in 2007, Nazarbayev was able to assume party leadership. Otan thus renamed itself Nur Otan in early 2007 and elected Nazarbayev as its leader. The pro-presidential party Nur Otan occupies a near monopoly of the political space in the party system, and a carefully managed introduction of "multipartyism" in January 2012 ensured that Nur Otan's pre-eminence was only slightly challenged in 2016 and then only by parties loyal to the regime.

The 2007 amendments to the Law on Elections and Political Parties meant the privileging of loyalty to the party over voters, and also by virtue of requiring party membership, ruling out the possibility of independents. The high 7% threshold, temporarily also introduced in Russia's State Duma, has been aimed at blocking the rise of new parties. If in the run-up to its OSCE chairmanship Kazakhstan promised to amend the political party system, no fundamental changes have been made.

Trade Unions dominated discussions of interest groups in 2015 and 2016. In 2015, parliament adopted legislation placing severe restrictions on independent trade union activity and criminalizing any action deemed to provoke illegal strikes. Trade unions were also deeply unhappy about a new labor code which came into force on January



1, 2016. In January 2017, Human Rights Watch reported that police in western Kazakhstan had arrested two trade union leaders.

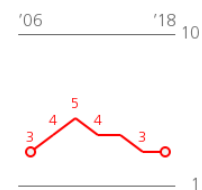
The country's largest independent trade union, the Confederation of Independent Trade Unions of Kazakhstan, has been unable to fully register under the law. As a result, a court in southern Kazakhstan shut down the confederation at the request of the Justice Ministry. The government also banned three affiliated unions – for domestic workers, health care employees and metal industry workers.

The ruling to close down the union confederation triggered protests. Within days, more than 400 oil workers went on a hunger strike. They were also angry at criminal charges of embezzlement raised against confederation president Larisa Kharkova. The charges appeared to be aimed at forcing her to resign, which she refused to do.

Discussions about NGOs more generally were largely absent in this period. In attempting to address relations between the state and society, discussions instead revolved around vague themes of state patriotism and Kazakhstan's relationship with Russia within the Eurasian Economic Union. Some observers have blamed civil society itself for its inertia, but the truth is that most local NGOs depend on state funding for their own survival.

The most important interest groups remain the financial-industrial groups that lobby for political power. The key components are housed under the conglomerate, Samruk-Kazyna. These groups' assets are either controlled by Kazakhstani officials or belong to foreign investors who work in the country with the permission of the president. Most are involved in extracting natural resources or providing services for extractive industries. These interest groups are all loyal to the president but curry favor with the inner circle. Their influence continues to wax and wane according to how pressing presidential succession is perceived at any moment in time. Some argue that the president has continued to be mindful of balancing these interest groups in any major decisions on privatization or political reshuffling. The regime incorporates social interests through these groups in so much that it tries to work with these groups to negotiate their larger contribution into social welfare and ensure that they provide adequate labor conditions, particularly with rising labor unrest noted again in this period.

While opinion polls exist, they are generally unreliable. In addition, it is difficult to gauge the degree of consent in a system that punishes dissent. The absence of protest does not necessarily mean consent. There is general popular support for policies that avoid instability as in neighboring Tajikistan and Kyrgyzstan. The authorities were also able to manage the continuing fallout from Zhanaozen, and the newer cases from Aqtobe, Almaty and other areas, by controlling media reporting and diverting attention quickly to other pressing concerns.



Approval of democracy

n/a

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As in the three previous BTI periods and despite declarations to the contrary, less than 10% remain engaged in civil liberties, human rights and minority protection issues. They remain under the most stringent observation by the authorities. Rural self-help networks during this period were little changed from the previous one, in that they continued to be considerably less efficient and reliable than in the Soviet period.

This period did, however, for the first time witness the growth of more widespread protest. The protests were born out of growing socioeconomic dissatisfaction, of draconian trade union legislation and of a sentiment of gradually losing sovereignty to Russia and China. The belief that authorities would not resort to the sort of harsh clampdown they used in 2011 emboldened groups to express themselves and set limits for the government on how it could handle such expressions.

## II. Economic Transformation

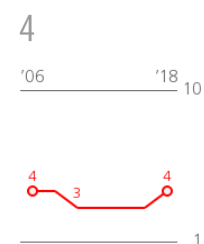
### 6 | Level of Socioeconomic Development

Economic downturn and labor law dissent placed the economy in the spotlight with the economic crisis affecting middle income groups the most and therefore narrowing the gap between them and the poorest segments of the population. According to the 2016 UNDP Human Development Report, 36.4% of the population is below the national poverty line, compared to 47% in 2001 and to 38% in neighboring Kyrgyz Republic. Nevertheless, social exclusion and marginalization persist, as does the 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. Access to major economic and political posts remains a largely closed system, whereby open competitions, such as civil service exams, do not yet constitute a major recruitment filter. The leftist turn seen in the emphasis on social policy in 2012 has given way to hard realities of falling oil prices and depleted bank reserves plus an increased stress on finding private solutions to market imperfections. Questions of efficiency and effectiveness trumped those of equality in this period.

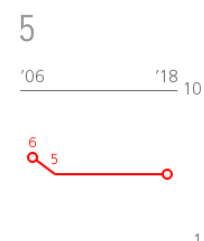
Several factors continue to militate against widespread protests over inequality. According to two major social research studies conducted in 2014, 41% of Kazakhstanis are now labeled as middle class (said to compute to an average income of around 100-200,000 tenge/month). This makes an average Kazakhstani income the same now as Russia's and higher than in the majority of other post-Soviet states. While the president is associated with hyper-centralized rule and a cult of personality,

Social capital



Question  
Score

Socioeconomic  
barriers



the average citizen also continues to link his image with peace and stability and is conscious that social disharmony can easily become ethnic civil war, pointing to the example of Georgia, Kyrgyzstan and Ukraine.

Faced with the economic downturn and increased spending in the previous period, the Human Development Index (HDI) rose in 2014, this time to 56th from 68th in the previous BTI period, still making it the only Central Asian country in the “High Human Development” bracket. Considerable disparities remain between the disadvantaged rural south (and indeed west, notably the Mangistau region) and relatively well-off rural areas in other regions. Kazakhstan’s 2014 HDI of 0.7888 is still above average for countries in its human development group and below the average for countries in Europe. Ukraine and Russia come closest to Kazakhstan in terms of HDI ranking. When the value is discounted for inequality, the HDI falls to 0.694, a loss of 11.9% and this loss is higher than that shown for Russia.

The Gini Index at 26.3 (2013) and the Gender Inequality Index at 0.267 (2014) both indicate that the country continues to face serious inequalities. While urban poverty has fallen more than rural poverty, a sizable proportion of the poor (around 14%) live in large cities. Regional disparities continue, although have slightly narrowed.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	236634.6	221415.6	184388.4	<b>133657.1</b>
GDP growth	%	6.0	4.2	1.2	<b>1.0</b>
Inflation (CPI)	%	5.8	6.7	6.6	-
Unemployment	%	5.2	5.1	5.0	<b>5.2</b>
Foreign direct investment	% of GDP	4.2	3.3	3.5	<b>13.2</b>
Export growth	%	2.7	-2.5	-4.1	-
Import growth	%	7.8	-4.0	-0.1	-
Current account balance	\$ M	1187.1	5957.4	-5463.7	-
Public debt	% of GDP	12.6	14.5	21.9	<b>21.0</b>
External debt	\$ M	149703.9	157695.0	153381.2	<b>163757.7</b>
Total debt service	\$ M	30916.8	31164.4	34952.6	<b>20310.0</b>

Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	4.9	3.3	-2.4	-
Tax revenue	% of GDP	16.0	14.2	9.8	-
Government consumption	% of GDP	10.2	10.7	11.6	<b>12.2</b>
Public education spending	% of GDP	-	-	2.8	-
Public health spending	% of GDP	2.2	2.4	-	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	1.1	1.0	1.1	<b>0.8</b>

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

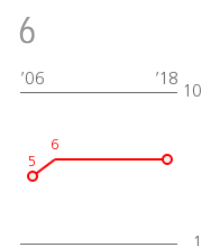
Kazakhstan's broader international agreements and networks were providing insufficient incentives for the country to make its competitive environment stronger, more transparent and a more-level playing field. Few accountability or transparency benefits were visible as a result of Kazakhstan's compliance with the Extractive Industries Transparency Initiative (EITI) in the previous period (2013) or in the prior period as it became the only Central Asian member of the Global Forum on Transparency and Exchange of Information for Tax Purposes.

The flat income tax rate remains 10%, and the standard corporate tax rate is 20%. The amount private businesses have to pay remained more or less stable in this period and SMEs continue to face politicization of business and stifling bureaucracy. Kazakhstan's political leadership remains wary of allowing an independent entrepreneurial class to develop, preferring to hold political and economic power in its hands. The private sector continues to be dependent on the state for access to funds. The country still needs increased private participation in infrastructure and easier access to finance for SMEs.

Neither the institutional framework for economic competitiveness nor actual global competitiveness has improved in this BTI period. Kazakhstan ranks 53 out of 142 countries in the World Economic Forum's Global Competitiveness Report in this period, losing ground almost exclusively as a result of the worsened situation of public finance, linked to the loss of oil export revenues. The report continues to place Kazakhstan as the only Central Asian country in transition from a factor- to efficiency-driven economy.

The Kazakh government continues to subsidize agriculture and imposes price controls on fuel. Its free-floating exchange rate released the fiscal and monetary

Market-based competition



commitments of the first part of 2015. The freedoms obtained for foreign currency operations continued, with no licensing required since 2007. No distinction is made between residents and non-residents in opening bank accounts, but all account holders must have a Kazakh tax identification number. Overall, Kazakhstan's transition to a market economy led the region in early independence years and also in periods where oil gains were fueling growth.

The government has tried to encourage the small- and medium-sized (SME) sector by streamlining the licensing process. Launching a business takes six procedures, but completing licensing can take over 180 days. No minimum capital is required to start a company, which takes six procedures and 10 days, but obtaining necessary operating permits requires over five months on average. The SME sector still accounted, however, for an average of only 10% of GDP, primarily in food and light industries. In March 2015, the World Bank approved a \$40 million loan (until 2020) to help enhance the competitiveness and management capacity of SMEs in Kazakhstan.

Trends noted in the previous period continued. Banks again in this period issued a large number of bad loans to the private sector many of which still have to come good. The New Bankruptcy Law introduced in 2014 has improved the 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 the context of economic restructuring and downturn, necessity-driven self-employment has increased. Evidence reveals that a significant portion in the informal sector are self-employed, mainly own-account workers and that women are “pushed” into self-employment.

Entering this period, the sovereign wealth fund Samruk-Kazyna comprising 600 state companies such as KazMunayGaz, Kazakh Railways, Kazakhtelecom etc. accounted for 56% of the national GDP. An anti-monopoly body that has existed since the early 1990s, remains beholden to the presidential administration and with little teeth to reduce Samruk's monopoly.

Samruk-Kazyna, created in 2008, has performed various roles over the past decade. In the global financial crisis of 2008 to 2009, the company helped to stabilize the economy by buying stakes in crisis-hit entities. In more recent years, the conglomerate has tried to re-appropriate large parts of the economy previously partially in the hands of foreign companies, including in the oil, chemicals and metals

Anti-monopoly  
policy

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sectors. The government has consistently pressed for better terms with foreign companies as they relate to both taxation and ownership percentages.

In this period (July 2015) and in a dramatic reversal of a previously announced privatization agenda, Samruk-Kazyna's privatization was put on hold in a curious decision whereby the sovereign wealth fund dipped into its own funds to buy 16.8% of KazMunayGaz (KMG). This purchase released \$4.7 billion in cash with the purported aim to lower KMG's debt burden, which stood at \$19.7 billion in January 2016. Shortly thereafter, the National Bank of Kazakhstan became a direct shareholder of KMG after buying 10% from Samruk-Kazyna. This marks a stark departure from core mission of Kazakhstan's national bank to ensure monetary and fiscal stability and is proof of the government's inability to devise more orthodox ways to boost KMG.

The Kazakh state continues to interfere in business processes, reducing the potential for private business to play a significant role in the domestic economy. 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 and anti-corruption measures poorly enforced. The OECD, with whom Kazakhstan signed a two-year MoU 2015-2017, has been strongly recommending a mixture of diversification, privatization and tighter environmental regulation.

A major recognition of Kazakhstan's efforts to liberalize trade came in November 2015 when Kazakhstan became the 162nd member of the World Trade Organization. The country seems determined to embrace broader integration in global trade. During the VIII Astana Economic Forum, President Nazarbayev suggested the establishment of a common Eurasian economic space and called for greater cooperation between the EAEU, China and the European Union.

The institutional reforms announced by Nazarbayev in early 2015 seek to establish an independent role for Kazakhstan as an economic center of Eurasia, a financial and transportation hub and an open and modernized country, based primarily on Western standards, sound institutions and British law in the financial center of Astana. This vision depends on more diversified and open links within the region including the Chinese Silk Road Economic Belt.

With lower prices in Russia, Kazakh producers are finding it hard to compete. Kazakhstan's imports from Russia rose by 7.3% in 2015 on year-on-year terms, while exports plummeted by 41.2% over the same period. Even if Kazakhstan's economy is more than twice the size of the economies of non-Russian EAEU members – Armenia, Belarus and Kyrgyzstan – it is only 10% the size of Russia's. Kazakhstan's overall external trade turnover fell by 37% in 2015, and by 29% within the EAEU.

Liberalization of  
foreign trade

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Three main non-tariff barriers continued in this period. First, the country continues to experience capacity shortfalls in infrastructure (especially railroad transport) and in state agencies regulating trade (procedural shortfalls). Second, the transition to the EAEU has led to drawbacks in the legal framework and difficulties associated with the transition of Kazakhstan from national regulation to supranational. Third, supply constraints have affected exports. That said, Kazakh exports are destined to markets with less stringent regulations, partly linked to its export portfolio being primarily mineral-based and non-perishable agro-based goods.

Foreign investment is officially welcome, but unclear legal codes, favoritism toward Kazakh companies, the increased requirements for state stakeholders and inconsistent application of regulations (even with more introduced in this period) are deterrents. In March 2012, the OECD Investment Policy Review stated that in order for Kazakhstan to attract FDI in non-extractive sectors, it would require more than just eliminating red tape. On the OECD FDI Regulatory Restrictiveness Index, Kazakhstan is the 12th most restrictive country out of the 51 countries in the sample.

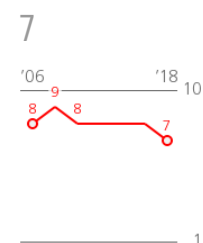
Kaznex Invest is the sole agency responsible for managing investment. An ombudsman for foreign investment was also created in 2012. The Foreign Investors' Council established in 1998 remains the main forum for investors to express their concerns to the president. The biggest investors as of 2016 were the Netherlands, the United States, the United Kingdom, France, Italy, Russia, China and South Korea.

China stands out. It has invested more than \$10 billion in the Kazakh economy over the past five years. At the start of 2016 there were 35% more Chinese companies working in Kazakhstan than in 2013. China controls around 30% of oil extraction in Kazakhstan. Chinese companies have pledged to invest \$1.9 billion into Kazakhstan's food-processing industry as a way to offset the economic decline brought on by falling oil prices. China is the country most prepared to invest in private equity in Kazakhstan.

Because Kazakhstan's financial sector is the only sector fully integrated in the global economy, it suffers as much as it benefits from such integration, being vulnerable to the types of shocks seen in 2008 and now more recently with the global drop in oil prices. The National Bank's unorthodox investment into KazMunayGas shows that the bank is resorting to desperate measures that lie outside its remit. Bankers' reckless behavior and risk-taking may account for the possible parlous state of the National Oil Fund. In October 2016, Fitch Ratings gave the Banking Sector a B rating due to the large number of distressed loans and the lack of available government capital to feed into the system.

Non-performing loans in the banking sector – 2016 at 7.9% - continued to be above world average. 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

Banking system





off bad debt. In March 2017, President Nazarbayev approved the allocation of \$3.4 billion from the National Oil Fund for the resolution of banking sector problems.

This period's financial crisis revealed serious weaknesses in the banking system's supervision and disclosure rules. The resolution framework relies on the approval of depositors and creditors, suffering from the absence of a special authority. The external shocks of this period revealed how banking oversight has too little emphasis on risk and there was too little supervisory scrutiny to countenance unrealistic valuations. The IMF has recommended training in collateral valuation, access by supervisors to available information on real estate and hiring staff with expertise in appraisals.

## 8 | Currency and Price Stability

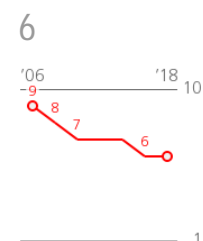
In February 2015, all eyes were on the National Bank of Kazakhstan as to whether it would repeat its actions of February 2009 and 2014 when it devalued the tenge by 25% and 19% respectively. In August 2015, the government stopped propping up the tenge and it was allowed into free-float, plunging by 50%. The tenge became one of the world's worst-performing currencies, losing half its value between August 2015 and February 2016. The vast majority of mortgage holders (85%) hold their loans in tenge, but debtors were struggling with job losses and falling wages in tenge terms, as currency depreciation caused prices to rise.

The Kazakhstani government has been less able to make prudent fiscal policy a priority in this period, given the absence of revenue coming into the state budget and its high spending commitments under the Nurly Zhol program. Consumer price inflation for the whole of 2016 was 7.9%, down from a monthly record of 17.7% in July 2016. Net external reserves continued to increase, as did the National Oil Fund assets. At the same time, Nur Zholy was heavily drawing on these funds. Economists say Kazakhstan "imported" inflation from Russia, but domestic goods continued to be far more expensive than Russian or Chinese imports.

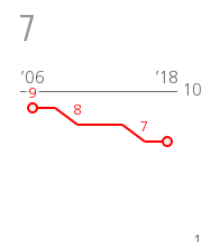
While the National Bank remained a separate institution, its policies continue to follow government policy, and it is overall accountable to the president.

Badly hit by the global slump in oil prices and weaker growth in China, Russia and the Eurozone, the government, as in previous periods, has opted to spend its way out of the crisis by drawing on its vast reserves. A key proposal to this end was the Nurly Zhol (Bright Path) strategy which envisages an additional \$9 billion in public spending over 2015-2018 from the oil fund established back in 2001. The plan aims to reduce Kazakhstan's dependence on energy-export revenue – now a bigger priority than ever, given the precipitous decline in oil prices. Yet Kazakhstan's economic

Anti-inflation /  
forex policy



Macrostability



diversification efforts to date have not borne fruit. With the exception of Expo-2017, many programs had already been suspended while economic problems continued.

The oil sector dominates the economy, accounting for one-fourth of GDP, 65% of total exports and 40% of total budget revenues. The Kashagan oil field was scheduled to come online in 2013 (recoverable reserves are estimated at nine to 13 billion barrels of oil and it was expected to produce up to eight million tons in 2014). It did not start production after the North Caspian Operating Company consortium (NCOC) realized it needed to replace the total network of oil and gas pipelines, almost 200 km (125 miles) long.

Kazakhstan's economy had been recovering steadily since 2009, generally growing at 8-9%, largely because of increased oil and gas production, but in 2016 it reached only 1%. The banking sector, while continuing to borrow abroad, remained still cautious about making further loans and many real estate projects remain unfinished. The service sector is a big employer in Kazakhstan and accounts for over half of total employment.

## 9 | Private Property

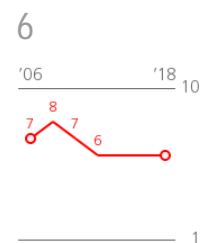
Secured interests in property (fixed and non-fixed) are recognized under the 1999 civil code and the 2003 land code. There were no major changes to the civil code in this period. All property and lease rights for real estate must be registered with the Ministry of Justice through its service centers distributed throughout the country. According to the 2017 World Bank's Doing Business Report, Kazakhstan continued to rank very high: 18 out of 189 countries in terms of the ease of registering property.

Property rights are well defined but creeping nationalization and now more open declarations of state stakeholders mean that private and international rights are not secured. However, this period could not afford such nationalization as the government sought to withdraw from many poorly performing or non-core entities.

President Nazarbayev has established extensive and uncontested personal control over the country's resources. The prime minister has little independent power to formulate policies, especially the current one, Bakyzthan Sagintaev, who unlike his predecessor, Karim Massimov, is not very influential. About half a dozen prosperous and powerful business groups continued to form the backbone of the present regime, coalescing around the broad-based platform of Nur Otan and indirectly controlling the parliament, ministries and major media outlets.

The process of large-scale privatization was stalled in 1998, announced again in 2014 as the government scrambled to find existing funds to prop up the tenge and fund Nurly Zhol, and pursued in 2015 and 2016. The privatization in this period of some of Samruk-Kazyna outlined earlier is reminiscent of the nomenklatura privatization

Property rights



Private enterprise

6

of the early 1990s and hence is not market-based. Instead it involves a transfer of state assets to elites employed by the state. The government prepared a list of 103 SOEs owned by Samruk-Kazyna for privatization from 2014 to 2016, but not many were sold. These companies are mostly subsidiaries of large national companies operating in the energy, mining, transportation and service sectors.

The authorities periodically tried to encourage the development of domestic business and economic diversification. But economic freedoms remain imperfect and domestic manufacturers are 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.

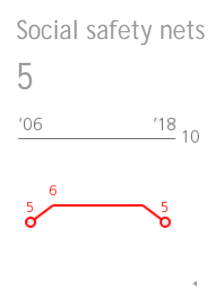
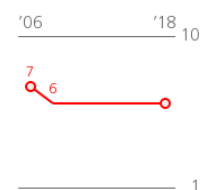
The government's primary industrial development strategies, such as the Concept for Industrial and Innovative Development 2015-2019 and the national program to attract investments, prioritize diversifying Kazakhstan's economy away from its overdependence on extractive industries. This program is part of Kazakhstan's overall aim to become a member of OECD and among the top 30 economies by 2050.

Since the early years of Kazakhstani independence, the government has maintained a dialog with foreign investors through a variety of channels which now include 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. This dialog remained important in this period where big shocks were knocking investor confidence.

## 10 | Welfare Regime

In November 2015, President Nazarbayev approved a new labor code which made it much easier for employers to lay off workers. Government officials have been frank in admitting that the laws were in response to the economic downturn. The code, which came into force 1 January 2016, contains a provision that gives private sector employers the ability to sack retirement-age workers with as little as one month's notice and one month's severance pay, and it does not give workers an avenue for appealing against forced retirement decisions.

On 4 August 2015 Nazarbayev signed into law a new pension reform as part of a long-term initiative to modernize the pension system under social security and ensure adequate income for retirees. At present, retirement benefits primarily consist of a flat-rate basic pension funded by general revenue, plus individual defined contribution (DC) accounts funded by employee contributions equal to 10% of pay. The new law will create a second old-age pension theoretically based on notional defined contributions (NDC) accounts beginning in 2018, to be funded by employer



contributions. The law will also modify the basic pension benefit by linking amounts payable to the minimum wage and years of social security coverage.

Kazakhstan spends 3.6% of its GDP on health provision, considerably less than many other countries falling in the high human development bracket. The State Health Care Development Program, Salamatty Kazakhstan (2011-2015), failed to make any significant inroads into restructuring its health care system.

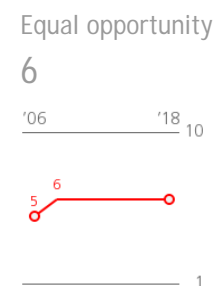
Informal social networks of the traditional or Soviet eras continue to be weak and unreliable. As a result, a significant part of the population is still at risk of living in poverty. Recent inflation has led to soaring food prices and affected the poor more than the rich and has led to further increased income disparities. With regard to the wider social safety net, there is the social assistance scheme (TSA), a decentralized means-based social assistance scheme for poor households. It started its operation in 2000. Local governments are fully responsible for organizing and delivering TSA, but like health, suffer from a lack of funds, policy coordination and clumsy implementation.

The unemployment rate in Kazakhstan at the close of this period 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. However, independent assessments put the real number of unemployed and those in highly precarious jobs at over 20%. Youth unemployment, officially at 4%, is also deemed by independent experts to be at least four times higher.

In 2014, HDR introduced a new measure, the Gender Development Index (GDI), based on sex-disaggregated HDI, defined as the ratio of female to male HDI. GDI reflects gender-based inequalities in three dimensions – health, education and command over economic resources. The 2010 Gender Inequality Index, replacing the previous Gender-Related Development Index and Gender Empowerment Index, measures reproductive health, empowerment and economic activity. Kazakhstan ranked 52 out of 155, down from the previous period. In 2015 20.1% of parliamentary seats were held by women, down from 25% in the previous year and only slightly up from 18% in 2010.

The adult female participation rate in the economy was 67% in this period. While figures are unreliable, 5% of the male labor force is unemployed, compared to 6% of the female labor force.

Even if female participation rates in primary and secondary education are relatively high, exclusion is not rare. Informal discrimination on grounds of ethnicity or sub-ethnicity (clan) or economic group affiliation is prevalent. 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% of the population) have less opportunity than their urban counterparts.

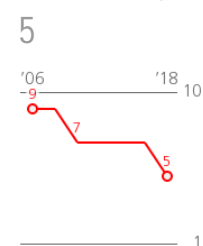
Kazakhstan has a literacy rate of 99.8% (2015 estimate), female to male labor participation of 0.91 (2015 estimate). 74% of women as opposed to 81% comprise the overall labor force.

## 11 | Economic Performance

The significant drop in the price of oil since mid-2014 has led to a severe contraction of domestic growth. Kazakh GDP grew by only 1.2% in 2015 and 1% in 2016, in nominal terms. Official statistics are expressed in the national currency, the tenge.

Given the significant contribution of dollar-denominated revenue streams to domestic economic growth, Kazakhstan's economy actually contracted in 2015 and 2016. International institutions such as the World Bank and the IMF expect a gradual economic recovery from 2017 onwards, but it will be largely predicated on the future direction of oil prices.

Output strength

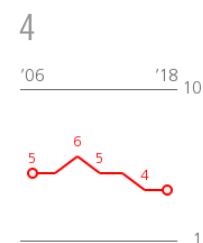


## 12 | Sustainability

In May 2015, Kazakhstan saw devastating floods in northern areas of the country, affecting over 3,000 homes in five Kazakh regions in the north. Almost 18,000 people were evacuated in advance from the affected regions. Damage in the Karaganda region amounted to \$81 million, but only a small fraction of this amount was paid out by end of 2016.

Kazakhstan emerged from the Soviet period with disastrous environmental legacies of the Soviet era. 358 per million people die from indoor or outdoor air pollution; 5% of the population are without access to water and 3% without sanitation. Fossil fuels supply 99% of total primary energy supply, including 80% from coal.

Environmental policy



Kazakhstan's development strategy has increasingly integrated environmental protection and sustainable development considerations. The environmental code adopted in 2007 remains the main code, based on best international practices, as does the Concept for a Transition to Sustainable Development 2007-2024.

In 2013, Nazarbayev pledged to spend 1% of GDP on the transition to a greener economy, reflecting some of the Strategy Kazakhstan 2050 concept paper. Renewable energy is the theme of the Expo-2017 international fair. Yet, Nazarbayev publicly declared in October 2014 that "oil and gas is our main horse, and we should not be afraid that these are fossil fuels," casting doubts over the seriousness of the nascent renewable energy policy.

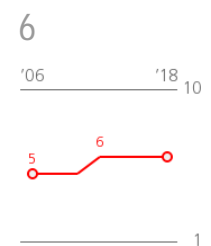
Despite serious environmental challenges – degraded agricultural land (about 13% of total land), the drying of the Aral Sea and disposal of nuclear and biological waste from past testing programs – popular concern about them remains low. Even if the environmental legislative and policy framework (The Strategic Plan for the Republic of Kazakhstan 2011-2015) attempts to address these, these concerns remain a lesser priority than economic restructuring. Academic centers and civil society continued to place the environment as a lower point of concern.

Nazarbayev University is central to the strategic ten-year plan launched in 2011 to overhaul the education system after having joined the Bologna process in March 2010. In June 2015, the first crop of bachelor students graduated after five years of study. This came only two years after the Bolashak scholarship celebrated its 20th anniversary, with over 10,000 awards having been made to students to attend top universities abroad.

Despite overall limited human capital development, Kazakhstan's population has an adult literacy rate of 99%. The systems of primary and secondary schools continue to be regarded as strong by international organizations.

Kazakhstan has been investing heavily in its education system, which it sees as crucial to transforming the country into a technologically advanced and diversified economy. In its most recent budget projections for 2015 to 2017, the government estimated education expenditure over the three-year period would reach 1.7 trillion tenge. Paradoxically, at the same time, authorities cut the subsidization of school meals.

Education policy /  
R&D



## Governance

### I. Level of Difficulty

On the positive side, Kazakhstan continued to draw on its considerable resource wealth, its strong human capital with high literacy rates and overall interethnic and sociopolitical stability. On the negative side, it still failed to economically diversify with a poorly performing agricultural sector, an increasingly restive labor force that feels legally unprotected and a location that makes it particularly dependent on great power cooperation, investment and intervention.

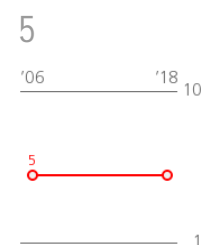
Labor productivity in Kazakhstan has surged dramatically since 2000, reflecting a significant re-allocation of labor resources across the region, away from the oversized manufacturing sector toward the services sector on the one hand, and toward agriculture on the other. Labor market flexibility is the main competitive advantage across the region, since most countries in the region continue to struggle with underdeveloped financial markets, low levels of competition, inefficient infrastructures and fairly poor human capital development.

Despite these significant gains, 2015 to 2016 witnessed the highest number of work-related strikes and unrest since independence. Poor union rights, inadequate legal protections for workers and easier layoff procedures have created a deep-seeded malaise among blue-collar workers.

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. On the negative side, its landlocked status makes its foreign policy highly dependent on the goodwill of its neighbors, in particular those of the two great powers between whom the country is sandwiched, China and Russia. The country continues to suffer from poor transport infrastructure.

Developments continue to underscore that the country is facing an unhealthy imbalance between foreign investment practice and domestic protection of labor. This is part of a broader framework of an absence of a strong regional policy that would allow for greater participation financially and politically from the regions and enable the introduction of greater accountability. In 2016, unrest occurred again in Zhanaozen but this time it was in a single company and, most significantly, worse economic conditions make people more hesitant to strike for fear of losing their jobs.

Structural  
constraints



At the same time, workers also seem unwilling to accept that during an economic downturn companies have less room for maneuver.

As in 2011, Kazakhstan's carefully maintained image of prosperous stability was compromised in 2015 and 2016 by a series of violent public incidents, including a series of bombings and killings, and recurring labor disputes. This continued into the following period as the government continued to heighten its monitoring of religious associations, enacting new laws that force all religious groups to re-register and denying re-registration to many. In rare cases, local authorities, trade unions and companies have worked together to solve labor disputes.

When contentious land reforms led to peaceful demonstrations in May 2016, social media lit up on May 21 with images of masked riot police officers manhandling demonstrators in several cities across the country as they attempted to voice dissatisfaction over the land reforms. On May 24, human rights campaigners in Almaty accused authorities of committing massive violations of civil liberties for arresting hundreds of people as they peacefully protested.

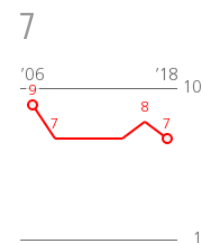
On December 1, 2016, the International Trade Union Confederation sent a letter to Nazarbayev, urging him to respect freedom of association and to "ensure that workers have the right to establish trade unions without previous authorization." Six days later Human Rights Watch called on Kazakh authorities to revise restrictive laws against trade unions and immediately stop legal action to liquidate an independent trade union confederation. The trampling on basic labor rights makes managing labor relations that much harder as there is always the latent possibility of revolt, strikes and dissent.

The heavy-handed control of society that authorities have chosen to adopt is in direct opposition to what stability requires, namely listening to the population and practicing a conciliatory, careful and measured approach. In addition, the right to public assembly remains severely restricted in Kazakhstan, as any public appearance or gathering broadly defined as an "assembly" must be sanctioned ahead of time by local government authorities. Citizens holding a public demonstration are required to notify the authorities 10 days in advance.

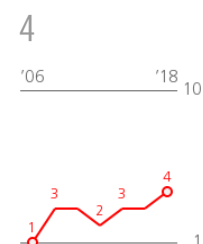
High politics in Kazakhstan has generally sought consensus rather than confrontation and vocal opposition is rarely viewed as constructive. Individuals who might have mobilized emigrated in the first few years after independence. The open elite fragmentation of November 2001 has not been repeated and the splinter group that emerged from that open contestation itself split in 2005. Open conflict between elite groups is abated by a current obsession with the succession issue and the opinion that a managed, carefully handled transition is the better way forward.

Events at the local and societal level pointed instead to increasing conflict intensity. In 2015 and 2016, there was a series of violent public incidents, including a series of

Civil society traditions



Conflict intensity





bombings and killings. In part, this is because an economic downturn is feeding a popular sense of powerlessness to influence the course of events. At the same time protesting citizens do not encounter a governing authority willing to take onboard notions of transparency, accountability and power-sharing. Social tensions are simmering, not near boiling point, but occasional unrest reveals underlying difficulties.

## II. Governance Performance

### 14 | Steering Capability

The government has been consistent in its rhetoric to liberalize and keep its economy open to outside investors, but both of these goals are subsumed under the elite's main 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. A key example of how the rhetoric of political liberalization differed from the reality of strengthening authoritarianism was in the lifting of the two-term limit on the presidential office and on the saturation of all political institutions by the presidential party Nur Otan. In sum, democratization remains secondary to power struggles and maintenance.

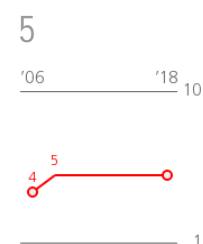
On January 22, 2015, the OECD and Kazakhstan signed a MoU for a two-year country program in Davos, which will support an ambitious set of reforms of Kazakhstan's policies and institutions. Kazakhstan is one of the four partner economies along with Peru, Morocco and Thailand, which have been selected for this bilateral work program covering areas such as public sector integrity and governance, environment, health, taxation, competition and business climate and statistics.

During this period, external shocks exposed the government's inability to effectively gain and organize expertise or draw on evidence-based policymaking (other than in drawing on lessons from disproportionate use of violence in Zhanaozen). In this period, the government was more reactive than active, responding to markets or public protest, rather than agenda-setting.

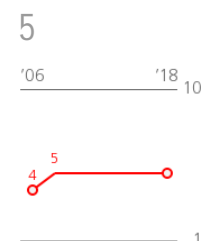
In the run-up to the OSCE chairmanship in 2009, a few legislative changes were made but these were largely cosmetic. Despite chairing the OSCE in 2010, the government did not end up implementing any major democratization policies, instead tightening authoritarianism and increasing repression. Its reaction to external pressures in this period has been to tighten authoritarian clampdowns. The more recent promises in early 2015 and then again early 2017 are treated with skepticism. As stated earlier, the one reason why these objectives might change is that the president, turning 80 in

Question  
Score

Prioritization



Implementation



2020, might see it in his interest to distance himself from the political and economic morass.

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. 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.

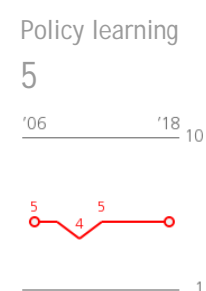
The government appears not to have continued the lessons it was learning in the previous period on economic crisis management. On the one hand, the economic crisis is blamed on factors outside its control, such as low world oil prices and the crisis in Russian-Western relations. Its attempts to spend its way out of the crisis through large international projects such as Expo-2017 have provided opportunities for graft and have not helped the ordinary citizen. The structure of the polity, where financial groups' interests remain entrenched and fear of dissent remained ingrained, continued to weaken the government's ability to replace failed policies with innovative ones.

The experience of Zhanaozen has taught authorities the value of more efficient negotiation. Since those events, the government has pressured oil companies to come to terms with strikers on the rare occasions that industrial action occurs. A strike at a company servicing the massive Karachaganak field in northwestern Kazakhstan was swiftly ended with a pay offer. Frequent strikes and dissatisfaction suggest that policies are not being learned, and social and media control show that the government is still ready to wield the stick.

When Zhanaozen raised questions about the current path of international investment and centralization, the government preferred to concentrate instead on programmatic changes than far-reaching institutional ones. The ability of the country to benefit from rising commodity prices without being forced to make any major structural reforms limits policy learning. Politically, and despite the shocks of this period, the government seems increasingly unwilling to tolerate other voices in either the political or economic spheres. The decision to form the conglomerate Samruk-Kazyna and control entrepreneurial activity in the previous period has still not been overturned and talk is of strengthening rather than dwindling state ownership.

## 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.



Efficient use of assets

5

Concerning the use of administrative personnel, competitive and standardized recruiting procedures are 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.

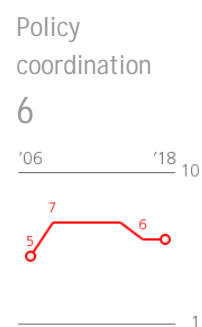
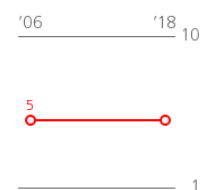
Instead, budgetary planning continues to suffer from a failure to link strategic planning, the budget and human resources either at the whole-of-government or ministry levels; there is, according to the OECD, no clear multi-year financial framework for ministerial services and no joint planning and reporting 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. While the National Oil Fund was introduced to manage the fluctuations in assets as a result of high price elasticity of oil, the period showed that its coffers had been rapidly depleted to the point where the National Bank had to bail out a state company.

Policy coordination was hampered by external and domestic shocks but the two elections seemed to tighten the cohesion of the elite response. The executive dominance of the policy process aids policy coordination in the short run but the existence of several elite groups within this political elite does, however, make for mutual suspicion in some policy sectors.

Overall, both vertically and horizontally, people and ministries are poorly coordinated to implement policy. Redundancies, frictions and negligence of tasks 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 these 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 merger of agencies into ministries in August 2014 did not have a tangible impact on 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. Nazarbayev's reshuffling of key government positions in the latter part of 2016 largely addressed positions rather than ministries and had no noticeable effect on policy coordination, other than disrupting policymaking in the immediate process.

Authorities are keen to point out various anti-corruption strategies and this period was no exception. Scandals surrounding Expo-2017 were given high prominence and new programs and agencies formed. But the results have been lackluster. The Agency on Fighting Economic and Corruption Crimes (Financial Police) showed few results. The agency's staff are appointed and dismissed by the president, and 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 remains politicized. 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.

State financial control is exercised by the Accounts Committee for Control of the Execution of the Republican Budget but remains opaque. 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

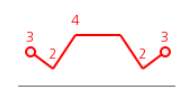
Domestic and external shocks made consensus-building harder. The goal of democratization gave way to domestic socioeconomic management and stability in the face of a repeated series of violent occurrences, including killings, bombings or suicide bombings. These perpetrators, however, are not considered major political actors and they do not agree on democracy as a long-term goal. During this period, President Nazarbayev referred twice to possible democratization efforts but with no visible effect. The approaching prospect of succession has contributed to political jockeying. This is outweighing a focus on long-term goals, and keeping individuals in power takes precedence over any real measures to liberalize.

The major political actors that comprise the president's inner circle together with the leaders of the financial-industrial groups agree on the overall goal of a market economy, even if there are disagreements over the degree of state involvement. There is more disagreement on how best to overcome problems of unaccountability, social inequality and regional disparities. While the last period appeared to legitimize

Anti-corruption  
policy

3

'06 '18 10



1

Consensus on goals

6

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Kazakhstan’s path as an authoritarian state, the events of these last two years saw how fragile parts of the state’s organization and infrastructure have become and how dissent continues to be ignored, rather than its underlying reasons being addressed.

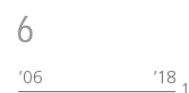
It continues to be the case in this period that the Kazakhstani government has been acutely adept at co-opting actors who might otherwise advance alternative reform paths. There remain very few influential actors who would advance democratic reforms, even in the context of this period’s protests.

Anti-democratic actors



The political leadership’s rhetoric has continued to be effective at minimizing risks of hostile polarization but it has not managed to seriously expand consensus across dividing lines, primarily those of ethnicity and class. In other words, measures adopted continued to be largely preventative rather than constructive. The government’s preventative measures have utilized remaining significant revenues, which have enabled the regime to co-opt dissenters or give some assistance to poorer members of the population.

Cleavage / conflict management



As detailed above, the country’s political leadership has suppressed and excluded civil society actors from the political process. Its monopolization of key institutions through the presidential party ensures this will continue. The protests by the population and workers did make the government think carefully about pushing through its new legislation, but it continued to use repressive measures to dampen opposing views.

Civil society participation



While new forms of media can exert influence on government decisions, the mass media remains in the hands of either the presidential ruling group or the loyal heads of financial-industrial groups.

Reconciliation



Authorities remain uncomfortable with discussing past acts of violence that occurred in Kazakhstan, notably Zhanaozen in 2011. In December 2011, police put down a strike by oil workers, leaving at least a dozen shot dead. The government’s immediate reaction to the protests and terrorist acts of 2016 was to silence the media. It also creates a general discourse of danger when these acts occur, suggesting that they are either created by so-called third forces or would lead to political instability if discussed.

## 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. However, in terms of launching new market reforms there were no significant successes in this period, the government instead focused on managing the fallout of the tenge crisis.

Worse still, on political reform, even in the context of its 2010 OSCE chairmanship, Kazakhstan considers external advice as undesired political interference. NGO/INGO activities in the field of democratization remained hampered by a lack of support and open suppression by government.

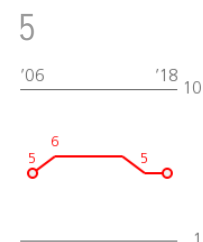
The government's use of support is without consistent and enduring effect. On the one hand, it capitalizes on high prestige projects to gain its memberships in leading economic and security fora, for instance the WTO and U.N. in this period. The case of the OSCE was interesting in that it showed how Kazakhstan was able to extract maximum credibility with minimum sacrifice. The same might be said for the Extractive Industries Transparency Initiative (EITI) and the current WTO membership. On the other hand, because the government refuses to fully embrace what these organizations represent and can achieve, it is also denying Kazakhstan the opportunity to use these organizations' support to the fullest extent. As a result, the local population sees few benefits.

During this period the Kazakhstani regime continued to work hard at garnering external legitimacy. It pulled off a major diplomatic coup in 2016 when it secured a vacant non-permanent member seat on the U.N. Security Council for two years, beginning in January 2017. Its role in peacemaking in Syria was widely lauded and it frequently refers to its peaceful nuclear program as a model for other countries to emulate. This external legitimacy has gained additional importance as Kazakhstan seeks to distance itself from Russia's confrontation with the West.

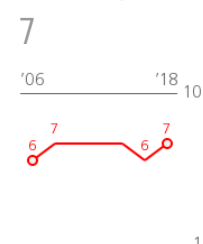
Although not successful, Almaty's bid to host the 2022 Winter Olympics was only four votes short of those cast for Beijing – a sign again of how Kazakhstan is taken seriously as a place where international events may be hosted. Despite the corruption scandal and the tragic death of three construction workers, the government still sees Astana Expo-2017 as a chance for Kazakhstan to showcase itself to the world. It is estimated to have cost around \$3 billion, financed by a mix of public and private money. To attract large numbers of visitors it has abolished visa requirements for several countries. In January 2017, the Winter Universiade, or World Student Games, saw \$330 million worth of investment in related infrastructure.

Kazakhstan's high prestige projects exposed serious shortcomings in other areas of compliance, however. For example, as mentioned, the 2022 bid revealed proposed

Effective use of support



Credibility



anti-LGBT legislation and the WTO accession serious shortcomings in labor laws. With the upcoming Expo-2017's theme of Future Energy, Kazakhstan signed the December 2015 Paris Agreement on climate change, but its implementation remains unseen.

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. Although Kazakhstan's government has incrementally improved the business climate for foreign investors, corruption and bureaucracy remain serious challenges for foreign investors. The government's efforts to support local content requirements have restricted foreign investment, especially in the extractive sector.

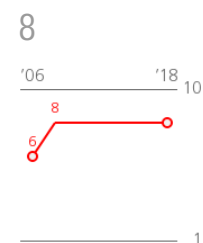
As a landlocked state, it is in Kazakhstan's interest to conduct friendly relations with its contiguous neighbors of which two, Russia and China, are great powers. But rather than depending on one or the other or even both, Kazakhstan has also sought new partners further afield, notably in the Middle 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. In this period, it held to this strategically, but in practice the government found it harder to implement in its growing integration into the EAEU.

Russia continued to dominate regional cooperation in this period, not least by the Eurasian Economic Union, which came into effect on January 1, 2015. The stated ultimate goal of the community is the free movement of goods, capital and people, as well as harmonization of macroeconomic and structural policies. Russia has mentioned political goals of common citizenship and foreign policy, but Kazakhstan has made it clear that it wants its remit to be only economic.

Kazakhstan's ordinary citizens and its businessmen have for the most part seen only negative effects of the EAEU. The uneven economic relationship with Russia has created a growing dependency on Moscow but at the same time has been threatening Kazakhstan's multivector foreign policy. The Ukraine crisis and strained Russian relations with the United States in this period placed Kazakhstan in a very uncomfortable position. In February 2016, Nazarbayev outlined an argument for closer integration with both China's Silk Road Economic Belt and the European Union. Kazakhstan has found it necessary to guard strategic sectors from currency volatility, with Moscow offering a single currency as a solution.

The country's signed enhanced Partnership and Cooperation Agreement in 2014 with the EU failed to bear fruit in 2015 and 2016 as both parties struggled with their own domestic and regional challenges, and Russia continued to operate under Western sanctions.

Regional  
cooperation



## Strategic Outlook

It is hard to see how Kazakhstan will be able to implement far-going constitutional reforms due to the lack of favorable conditions. It is clear that the aging president wants to distance himself from the poor state of the economy and the possibility of domestic unrest. According to the IMF, recovery will be put off until at least 2018, for reasons frequent readers will find familiar: the Russian recession and low oil prices. The government decision to keep supporting the tenge through to August 2015 led to depleting currency reserves that the government will be busy trying to recover. The Nuryly Zhol program of this period will further draw on these funds in the upcoming period. While the program promises to put money into basic infrastructure, the benefits of diversification if implemented will likely not accrue in the upcoming period.

To further take the heat off central government coffers, the authorities envisage budgetary decentralization in 2018. The 1990s saw similar such de facto decentralization which led to greater regional autonomy. At that time, the government still resisted the election of local authorities, but pressures to pass a law on self-government may rise in the added context of top-down elite changes. The attendant uncertainties surrounding succession increase political risk and will continue to be strongly influenced by the competition among the various large political groups.

The EAEU import and tariff regimes are likely to continue to push prices up, as imports are more expensive and local production costs rise. Economically, the EAEU will continue to disadvantage Kazakhstan vis-à-vis its Russian neighbor, and its trade deficit with Russia is unlikely to shift. Additionally, the government must deal with balancing EAEU and WTO demands. Politically, however, and with the growing economic influence of China in Kazakhstan, closer integration with Russia is seen as a way of stabilizing a post-Nazarbayev future. Those jockeying for power will assess the likelihood of Russia backing their candidacy.

Relations with Russia will continue to be contradictory and paradoxical. On the one hand, the foreign, political, economic, cultural, historical and linguistic links with Russia continue to be emphasized and used to explain common interests and goals. On the other hand, arguments that Russia may be the actual source of threat have become increasingly frequent.

The country will continue to be plagued by a growing socioeconomic gulf. Even if Kazakhstan is likely to remain the only Central Asian country in the high human development category of the Human Development Index, the gap between the middle class and lower income groups is likely to grow. The government will be keen to steer a route away from the chasm that exists between profits accrued by private oil companies and living standards of people in oil-rich territories.

International prestige projects will continue to feature in Kazakhstani foreign policy, but the influence of international organizations on domestic reform is likely to be limited. Kazakhstan may soon experience negative international blowback as a consequence of its crackdown on independent trade unions. However, it is unlikely that the country's leaders will change course to one respectful of basic labor and human rights in this period.