

# Kazakhstan

<b>Status Index</b> (Democracy: 4.18 / Market economy: 6.79)		<b>5.48</b>	<b>Management Index</b>		<b>4.15</b>
<b>HDI</b>	0.761		<b>Population</b>		14.9 m
<b>GDP p. c. (\$, PPP)</b>	6,671		<b>Population growth<sup>2</sup></b>		0.2%
<b>Unemployment rate<sup>1</sup></b>	9.3%		<b>Women in Parliament</b>		9.5%
<b>UN Education Index</b>	0.94		<b>Poverty<sup>3</sup></b>		<2%
			<b>Gini Index</b>		31.3
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. <sup>1</sup> Unemployment rate according to ILO data; <sup>2</sup> Annual growth between 1975 and 2003; <sup>3</sup> Population living below \$ 1 per day (2003).					

## A. Executive summary

The political transformation of Kazakhstan has seen significant setbacks since 1995, when President Nursultan Nazarbayev disbanded parliament and ruled by decree for nine months. During this period, he passed a new constitution by national referendum that ushered in a presidential republic. Since then, the president has tightened his grip on power, while the opposition and the media have been subject to harassment frequently. President Nazarbayev was re-elected in 1999 and has declared his intention to run for another term in the January 2006 elections. Even so, discussions about whether he is preparing the ground for his own successor – potentially his daughter Dariga – persist.

The peaceful “Rose Revolution” in Georgia in 2003 and the “Orange Revolution” in Ukraine in 2004 have had an indirect impact on the political life of Kazakhstan by increasing the authorities’ nervousness about any opposition. While the three opposition parties formed a Coordination Council of Democratic Forces at the end of 2004, and intend to jointly put forward a single candidate for the upcoming presidential election, the opposition is still relatively weak.

While the country’s leadership initially tried to emulate the West during the first years of independence, President Nazarbayev eventually developed a preference for the Singaporean and Malaysian state models, where economic reforms have superseded political reforms. He has pursued progressive economic reforms, including an extensive privatization program in the mid-1990s and a prudent fiscal policy. As a result, Kazakhstan has recorded double-digit growth in the last few years, also driven by a doubling of oil production. The country’s ambitious development program for its offshore oil resources in the Caspian Sea, which remain largely unexplored, is expected to help Kazakhstan triple its oil production to over 3 million barrels per day by 2015. In May 2004, the Standard & Poor’s rating agency

upgraded Kazakhstan's debt to investment-grade, exceeding the rating for every other oil exporter on the Caspian Sea, including Russia.

On the downside, corruption in Kazakhstan has become pervasive since independence. Official efforts to curb corruption are only half-hearted attempts because the root of the problem seems to lie in part with some of the officials themselves. Healthcare and social security remain underfinanced, and far below the standard achieved during the Soviet era.

## **B. 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. Early post-independence years were marked by initial steps toward a democratic transformation 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 rebounded. However, while the country has seen significant economic growth since the late 1990s, the president has become more authoritarian over time, earning Kazakhstan a poor reputation for harassment of opposition parties and their leaders and disregard of media freedoms.

President Nazarbayev's authoritarian streak emerged in 1995 when he dismissed parliament on a pretext and ruled by decree for nine months until new elections were held. In May of that year, he had his term in office extended by national referendum. In August, a second referendum approved a new constitution, which reshaped the government from a parliamentary democracy into a presidential republic. Members of his family began to be placed in key government and business positions.

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

November 2001 was a turning point in the political life of Kazakhstan. A political struggle involving the president's son-in-law, Rakhat Aliyev, led top government officials and leading businessmen – the new post-independence elite – 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 served as dissenters since. This party, other dissenters 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 Otan and only one seat to the opposition. The daughter of the president and wife of Aliyev, Dariga Nazarbayeva, also gained a seat. She has set up her own political party, Asar, and is said to be a potential successor to her father. The outcome of the elections is believed to have set the scene for the presidential elections scheduled for January 2006.

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

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

To reduce its vulnerability to price swings in world markets and to accumulate funds for future generations to use following the exhaustion of oil resources, Kazakhstan set up a national fund for stabilizing state income in January 2001. It is designed to make up for budget shortfalls should oil prices fall below a certain level.

In spite of the government's many successes, considerable problems remain, including widespread corruption at all levels, a lack of transparency, and the absence of an independent judiciary.

## **C. Assessment**

### **1. Democracy**

#### **1.1. Stateness**

There is virtually no competition with the state's monopoly on the use of force.

All citizens have the same civic rights. Even so, non-Kazakhs complain at times that Kazakhs, being the titular nation, receive preferential treatment in this multiethnic state, which is home to more than 130 nationalities. The majority of the population essentially acknowledges the state's constitution; however, it is increasingly seen as flawed. In January 2005, the united political opposition, operating under the umbrella of the "Coordination Council of Democratic Forces" presented the draft text of a new constitution to present a possible alternative picture of Kazakhstan's society. The current constitution, which was adopted in 1995 and turned the country into a presidential republic, allows for no checks and balances and has, according to the Council, furthered the spread of corruption and alienated the population from the country's leadership.

The state is defined as secular. Religion does not influence politics or law. The state has a basic infrastructure (administrative institutions, fundamental administration of justice, making and implementing political decisions) in place throughout the country. However, corruption has affected overall performance. Health and education infrastructure deteriorated markedly following independence due to a lack of funds and remain inferior to those of the Soviet era.

#### **1.2. Political participation**

General elections are held and accepted in principle as a means of filling leadership positions. However, Kazakhstan has never held an election that was judged to be free or fair by the Organization for Security and Co-operation in Europe (OSCE). The election campaigns are strongly manipulated in favor of pro-presidential forces. Serious opponents to the president are often excluded from participating under a pretext. Opposition parties have been shut down.

The elected president has the effective power to govern. Parliament is subordinated to the president and has no controlling function. However, increasingly, the distribution of power is being questioned by opposition leaders, some of whom are former senior government officials disenchanted with the setbacks in the political reform process. They have become increasingly vocal since 2001. Over the years, Nursultan

Nazarbayev, who has been president since 1990, has skillfully balanced the interests of the different business groups that dominate certain sectors of the economy, such as oil, metals, sugar, and the media, including those of his two son-in-laws. His daughter, Dariga Nazarbayeva, owner of a media empire and leader of the political party Asar, won a seat in parliament during the September 2004 elections and is seen as a potential successor.

The constitutional right for freedom of assembly is not assured by the state. Demonstrations have to be authorized by the authorities, and are usually prohibited. After being ordered to close down by an Almaty court in early January 2005, the opposition party Democratic Choice of Kazakhstan (DCK) decided to hold a demonstration in protest. Their request for permission was turned down. The party then organized an assembly at their office on January 29, 2005, which drew about 1,000 people and led to the arrest of several of the organizers.

The core elements of a public sphere and of public debate exist but are vulnerable to massive intervention by the authorities. In 2003, the government tried to pass legislation that NGOs have to be engaged in “useful” activity to obtain registration. The bill was withdrawn by the president after it received local and international condemnation. NGOs still report harassment through state inspections (tax, fire, etc.) and surveillance by law enforcement agencies. Freedom House has put Kazakhstan in 161st of 193 countries in its 2004 world rating of press freedoms and judged the media as not free. There is virtually no independent mass media. The media is divided into either the pro-presidential or the opposition media. Criticism of the president is considered an insult of his honor and can be grounds for prosecution.

### **1.3. Rule of Law**

The president is above the executive, legislative, and judiciary branches and not subject to any checks and balances. He determines the government’s domestic and foreign policy. The president is also widely referred to as the “guarantor of the constitution.” He can appoint and dismiss the prime minister and thus the government. He also has the right to dissolve parliament. The prime minister is accountable only to the president and not the parliament, which has virtually no power.

The judiciary is institutionally differentiated, but its decisions are subordinated to political authorities. Judges are appointed by the president. There is no expectation among the people that justice prevails. Furthermore, corruption is also a factor in judicial decisions, as it is in other spheres of life.

Levels of political and bureaucratic corruption are high. Kazakhstan ranked 122<sup>nd</sup> of 145 countries in the 2004 Transparency International Corruption Perceptions Index. President Nazarbayev himself has been accused of corruption. His former advisor, the American James Giffen, head of the New York investment bank Mercator, will go on trial in a federal court in New York this year. Giffen has been charged by the U.S. government for having violated the Foreign Corrupt Practices Act, which prohibits bribery of foreign officials. He allegedly channeled some \$78 million into the Swiss bank accounts of top Kazakhstan officials in order to secure lucrative contracts for Western oil companies. Mr. Nazarbayev is said to be one of the bank account holders.

Civil liberties are violated partially or temporarily. The 2005 World Report of Human Rights Watch says that President Nazarbayev wins international praise for taking half-steps toward human rights reform and for refraining from further backtracking, though he has presided over few actual improvements. Instead, the government has done little to dispel the critics' perceptions of its policies as increasingly predatory and authoritarian. It continues its aggressive persecution of independent media and the political opposition, the report says.

#### **1.4. Stability of democratic institutions**

The institutions provided for in the constitution are stable, but not democratic in practice. All activities occur from the top down. Ministries do not act independently. Ministers are frequently rotated to avoid the creation of any power base beyond the president and his family.

Opposition to the current political system is growing, especially since the fraudulent parliamentary elections in September 2004. Following these elections, the three opposition parties – Democratic Choice of Kazakhstan (DCK), the Communist Party, and Ak Zhol – founded an umbrella group, the Democratic Forces, to put forward a single candidate for the presidential elections scheduled for January 2006. However, the closure of DCK in January 2005 for allegedly expressing political extremism may derail this effort and thus cause even greater frustration. There are numerous associations and civic organizations (ranging from media watch dogs and environmental NGOs to women's groups), but none of them constitute truly important players. Their impact, if any, is mostly felt when they are funded by foreign actors.

## **1.5. Political and social integration**

Kazakhstan does not have an organizationally stable, socially anchored party system. Of the 12 political parties that participated in the parliamentary elections in September 2004, nine were pro-presidential parties. One of the three opposition parties was closed down in January 2005. The platforms of the pro-presidential parties do not differ significantly from each other, but do target different sectors of society, such as the Agrarian Party. The organizational ability of the parties and their capacity to create party platforms is low. The main pro-presidential party Otan, formed before the 1999 presidential elections, was little heard of again until the last parliamentary elections, where it was able to gain more than half of the seats. People are gradually beginning to identify with certain political parties, but have not yet developed any loyalty. Many voters think that their votes are not properly counted and are therefore quick to change allegiances.

The topography of interest groups that relate to the political sphere is meager. Kazakhstan does not have any civic traditions. Small NGOs do form, but usually only with the financial support from foreign governments – particularly the U.S. government – or international organizations. In June 2004, several local NGOs that had criticized the government for lack of transparency in its use of oil revenues formed a coalition, which is sponsored by the U.S.-based Soros Foundation.

Whether or not the population agrees with democratic norms is difficult to gauge. Most people in Kazakhstan possess a highly vague understanding of democracy and how it should work. The authorities' inflated use of the word "democracy" has prompted cynicism toward the democratic process among some of the population and others to fail to grasp the full meaning of the word. This is demonstrated by the parliamentary elections, which were neither free nor fair, but hailed as proof of Kazakhstan's functioning democracy.

Self-help initiatives are confined to family groups in accordance with Kazakh tradition. Civic initiatives are unevenly distributed. They can be observed mostly in large cities. NGOs, even if they have no political agenda, encounter harassment from the authorities.

## **2. Market economy**

### **2.1. Level of socioeconomic development**

There are clear qualitative and quantitative instances of social exclusion, some of which are entrenched in the country's social and economic structures. The country's

level of development provides its citizens with a limited freedom of opportunity. Fundamental exclusion through poverty and education, not present during the Soviet era, exists. Nearly all education institutions now charge tuition, which excludes some from higher. There are also large discrepancies in the distribution of income. According to UNDP, 19.8% of the population was living in poverty in 2003. Gender-specific discrimination is relatively uncommon, but clan-specific discrimination does occur.

## **2.2. Organization of the market and competition**

Market competition has a strong institutional framework, but the rules of the game are not always uniform for all market participants. The Kazakh government is encouraging the establishment and growth of small and medium-sized enterprises, but corruption at the local level is impeding its development. Foreign trade has been liberalized. Kazakhstan aims to join the World Trade Organization and had planned to do so with Russia. However, much of its legislation is not yet in accordance with WTO standards. The tenge is freely convertible in Kazakhstan. There are few restrictions on cash exports. Individuals can export up to \$10,000 without declaration. The informal sector is very strong and tax evasion is common.

An anti-monopoly committee is responsible for consumer protection and regulates prices in sectors controlled by monopolies, such as electricity and rail tariffs. However, the formation of monopolies and oligopolies is regulated inconsistently, with certain business groups receiving favorable treatment.

Foreign trade has been liberalized in principle, but there are still significant exceptions. Tariffs remain one of the main obstacles in negotiations to join the World Trade Organization (WTO).

The institutional foundations are laid for a solid banking system oriented toward international standards (Basel Capital Accord) with a functioning bank supervision, minimum capital requirements, and market discipline. In the process of creating these fundamentals, the National Bank imposed strict regulations that reduced the number of banks from 200 in 1995 to below 50. In 2003, there were 36 banks operating in Kazakhstan. The capital market is well differentiated and open to domestic and foreign capital, but it is still weak due to the small number of companies traded on the stock exchange.



### **2.3. Currency and price stability**

Kazakhstan pursues a consistent inflation and appropriate foreign-exchange policy. Inflation has fallen steadily over the years. The exchange rate is stable. The 1998 financial crisis in Russia led the National Bank of Kazakhstan to devalue its currency, the tenge, in 1999, but it also took preventive measures to ensure that bank customers did not lose their savings. Generally considered independent, the National Bank appears less so now under the current chairman Anvar Saidenov than his predecessor Grigoriy Marchenko.

There is a consistent policy for stability. In 2001, a national oil fund was established to accumulate and save the state budget's windfall profits from oil revenues. However, the efficiency of the state's use of immense 2004 profits that resulted from an oil price surge is questioned.

### **2.4. Private Property**

Property rights and the regulation of the acquisition of property are well-defined. Mass privatization in the mid-1990s saw the sale of state enterprises to private owners, many of them foreign companies. Although there has been a growing dissatisfaction with the terms of some of the early privatization – because Kazakh officials claim that many objects were sold too cheaply and unnecessarily in their entirety – there is no question of re-nationalization. However, the Kazakh government has declared that it will take at least 50% in all future oil projects in the offshore Caspian Sea. In Almaty, the former capital, the real estate market is booming and older housing stock is beginning to be replaced with new buildings, often times with high-rise buildings. To make room, owners of apartments in two to four-story buildings, are made to leave. The compensation offered to them is usually not equal to the value of their property.

Private enterprises are the backbone of the economy, but there are still state companies in so-called strategic sectors, such as in oil and gas (Kazmunaigaz), electricity (KEGOC), and railroads (Kazakhstan Temir Zholy).

### **2.5. Welfare regime**

Social networks are well-developed in some respects, but do not cover all risks for all strata of the population. A significant part of the population is still at risk of living in poverty. The state does not have enough money to protect its citizens adequately against poverty due to old age, illness, unemployment or disability – although

appropriate institutions exist. Although pensions have been increased over the last few years, they are still insufficient. Most pensioners have to rely on additional income or family support. The health care system is weak.

There are institutions to compensate for gross social differences, but they are limited in scope and quality. Women have equal access to education, but are underrepresented in politics and in business management. Family connections play an important role. According to Kazakh tradition, one cannot refuse a relative's request for help – which includes requests for a job.

## **2.6. Economic performance**

Growth of per-capita GDP is relatively high. Since 2000, Kazakhstan's economy has grown by around 10% every year. This is primarily due to the jump in oil production, which has more than doubled, and a surge in world oil prices. The key macroeconomic indicators have improved. Inflation hovers around 6-7% per year. Average unemployment rate has dropped from 10.4% in 2001 to an estimated 8.4% in 2004. Although the current account registered a small deficit in 2004, there have been significant improvements in the terms of trade. Inflows of foreign direct investments (FDI) increased by around 50% in 2004.

## **2.7. Sustainability**

Environmentally compatible growth is taken into account in important portions of economic life, but concerns about ecology tend to be subordinated to growth efforts. Kazakhstan has a significant legacy of environmental damage from the Soviet era. Ecology therefore does play an important role. However, supposed violations of environmental protection statutes have also been used as an excuse to demand additional payments from foreign oil companies.

Institutions for education, training and research and development are present, but they are relatively weak. Low salaries have caused many good teachers and scientists to leave their professions for other careers following the breakup of the Soviet Union. The furthering of education is one of the government's stated priorities.

### **3. Management**

#### **3.1. Level of difficulty**

The structural constraints on governance are moderate. The only noteworthy constraint is corruption at the local level, which can at times impede the implementation of orders given at the top. The prime example for this is the development of small and medium-sized businesses, a favorite project of the president. Mr. Nazarbayev regularly sees himself compelled to instruct his lower level officials not to obstruct these businesses (e.g. by refraining from conducting excessive tax inspections).

Kazakhstan has no traditions of civil society. The population tends to be distrustful of the institutions, mostly because of corruption and the deficits in the rule of law.

There are no irreconcilable, ethnic, religious and social conflicts. People of more than 130 nationalities peacefully co-exist in Kazakhstan. During the first years of independence, hundreds of thousands of Russians, who make up the second-largest ethnic group after the Kazakhs, left the country citing discrimination and concern over their children's future. Approximately 700,000 of the one million ethnic Germans also left for their homeland. However, this wave of emigration has subsided since the mid-1990s. In fact, a number of Russians have returned to Kazakhstan.

The constitution guarantees freedom of religion. There are 46 faiths represented in the country, ranging from Sunni Muslims (Kazakhs) to Russian and Ukrainian Orthodox, Roman Catholics and Jews. Religious tolerance is one of the government's top priorities. Pope John Paul II visited Kazakhstan in September 2001. Two years later, the first Congress of Leaders of World and Traditional Religions was held in the capital Astana.

The gap between rich and poor is growing. However, Kazakhstan's economic boom over the last few years has significantly improved the population's overall well-being.

### Profile of the Political System

Regime type: <i>Autocracy</i>	Constraints to executive authority: 2	Latest parliamentary election: 19.09.2004	Effective number of parties: 2.7
1. Head of State: <i>Nursultan Nasarbajew</i>	Cabinet duration: 01/02-06/03		
Head of Government: <i>Imangali Tasmagambetov</i>			
2. Head of Government: <i>Danial Akhmetov</i>	Cabinet duration: 06/03-present		
	Number of ministries: 16		
	Number of ministers: 16		
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = <math>1 / (\sum p_i^2)</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

### 3.2. Steering capability

President Nazarbayev has set clear and defined long-term priorities. Among them is his program “Kazakhstan 2030” adopted in 1997 that outlines the country’s development tasks over the next decades. It includes national security, domestic political stability, economic growth, health, education, energy resources, and infrastructure. Its division into three and five-year segments and the proclamations of their fulfillment recalls the days of the Soviet planned economy. The tasks are updated and fine-tuned to respond to short-term concerns. However, the president’s claims that he is seeking to build democracy do not correspond to reality.

The government has successfully implemented economic reforms, most notably the banking and the pension reforms. However, political reforms toward greater democracy (e.g., passing a new election law that went into effect before the September 2004 parliamentary elections) remain largely cosmetic. Reforms in the social sector are well-intended, but implemented poorly. The 2005 budget foresees a substantial increase in expenditures in education, health, the social safety net and other areas. Analyzing the 2004 budget, the Soros Foundation-Kazakhstan found that none of the state funds allocated to these sectors for that year had come close to being fully used. By October 2004, just over half of the funds designated for health and three-fourths of the funds designated for education and the social safety net had been utilized.

The political leadership demonstrates an ability to learn about complex processes, acts flexibly and is willing to replace failed with innovative policies. For example, there is great awareness that Kazakhstan is overly dependent on its oil resources. To

diversify the country's economy, the Kazakh government sought the advice of Harvard University Professor Michael E. Porter to identify the country's non-extractive competencies, which he presented at a conference in Astana in January 2005.

### **3.3. Resource efficiency**

The government uses only some of the available resources efficiently. While Kazakhstan has earned repeated upgrades in its investment ratings by the international ratings agencies, it was close to the bottom of the 2004 Corruptions Perceptions Index of Transparency International. Corruption negatively affects the government in implementing reforms and programs. There are competitive recruitment practices for hiring public employees, but positions are also filled based on one's family connections and friends.

The 2005 budget was passed by an inexperienced new parliament and in unnecessary haste. Following the September 2004 parliamentary elections, the old parliament was supposed to convene by the beginning of December. In the midst of lively discussions over the 2005 budget, President Nazarbayev decided to dissolve parliament one month earlier, in the beginning of November, to enable the new parliament to commence with work immediately. The old parliamentarians were given 48 hours to clear the premises—the same time span allotted to the new parliamentarians to gather for their first session. The budget was passed without much debate.

Considerable amounts of money – approximately \$1 billion in 2004 alone – are being invested in the construction of Astana, which has been the new capital of Kazakhstan since December 1997. Meanwhile, health care, the social welfare system, and the infrastructure of many other major cities in the country have deteriorated and remain below Soviet era standards.

In general, the government coordinates its policies effectively. There is a well-defined hierarchy. Ministers cannot make any independent decisions and carry out the president's decree.

Some mechanisms ensuring integrity are effective; others do not work. Although Kazakhstan is officially committed to fighting corruption and declarations are often made to that effect, it is not taken very seriously. James Giffen, a former American advisor to President Nazarbayev, is awaiting trial in New York during the first half of 2005 for allegedly channeling \$78 million into Swiss bank accounts of top Kazakhstan officials to secure contracts for Western oil companies. He is charged with violating the U.S. Foreign Corrupt Practices Act, which prohibits bribery of

foreign officials. One of the Swiss bank accounts involved is said to be held by the president.

### **3.4. Consensus-building**

The major political actors agree on a market economy, but dissent on the goal of democracy. Since the September 2004 parliamentary elections, which were judged neither free nor fair by international observers, dissatisfaction with the authoritarian President Nazarbayev has increased. More than half of the seats went to the president's party Otan, while the opposition received only one, well below their expectations. Zharmakhan Tuyakbai, who is speaker of the Mazhilis, the lower house of parliament, was No. 1 on the Otan party list but quit his party after the elections and joined the opposition. Reformers have no control over the actors with veto power. Their wish for greater change toward democracy is seen as a threat by the leadership and they are thus subject to harassment.

The political leadership is not interested in reducing existing divisions in the political sphere. It operates under the Machiavellian motto of divide and rule in order to weaken and marginalize the opposition. The Communist Party split in two in 2004 following an internal struggle over the party's direction, which was widely believed to have been engineered. The party Ak Zhol, a moderate opposition party, likewise seems to be on the verge of a split. In the social sphere, efforts are gradually being made to overcome the increasing social gaps.

The political leadership has made only very limited efforts to develop social capital among citizens and social groups because citizen engagement is not in the interest of the authorities. The political leadership frequently ignores civil society actors and formulates its policy autonomously.

Kazakhstani society is not overly concerned with coming to terms with its past. Despite the fact that many current leaders held high offices during the Soviet era, the general opinion is that the perpetrators can be found in Moscow, while the victims are in Kazakhstan.

### **3.5. International cooperation**

Kazakhstan cooperates with bilateral and multilateral international donors and has used international assistance to facilitate notable policy learning and improvement. However, on the verge of an oil boom, the country now has less need for such assistance. Accordingly, donors have reduced the volumes of assistance available.

The Kazakh government tries to act as a credible and reliable partner, but major international actors still express doubts regarding its reliability. Showing its support for the U.S. government, it has sent a small force of 27 soldiers to Iraq. President Nazarbayev and Russia's President Vladimir Putin signed a treaty in January 2005 delimiting their joint 7,500 km border and agreed to evenly split and develop a disputed oil field in the Caspian region. Kazakhstan has also made progress toward joining the WTO. However, the government's original goal of joining at the same time as Russia seems unlikely because much still needs to be done to bring Kazakhstan's legislation in line with WTO requirements. Relations with the Soros Foundation, seen as having played a key role in the popular uprising in Georgia in 2003, have been touchy since the end of 2004. The Soros Foundation Kazakhstan was charged with tax evasion, and the foundation has threatened to shut down its operations.

Kazakhstan pursues a "multi-vector" foreign policy, which means actively building and maintaining good neighborly relations with all its neighbors. The country's leadership is highly aware of its buffer status between Russia and China. President Nazarbayev has focused on promoting regional and international integration and has initiated the establishment of a number of regional cooperation organizations. Kazakhstan has "eternal friendship" agreements with Kyrgyzstan and Uzbekistan. However, in practice, there is great competition between the neighboring countries, especially between Uzbekistan and Kazakhstan, because both countries see themselves as leaders of the Central Asian region.

#### **4. Trend of Development**

##### **4.1. Democratic development**

According to the 1995 constitution, Kazakhstan's stateness, right for political participation and the rule of law are well-defined. However, the opposition has continuously felt increasing pressure over the past four years. At the end of 2001, a new and strong opposition consisting of former government officials and businessmen was formed, leading to the foundation of the political parties Democratic Choice of Kazakhstan (DCK) and Ak Zhol. DCK, initially a movement, was shut down in January 2005 for its allegedly extremist views. The head of DCK, Galymzhan Zhakiyanov, who was sentenced to seven years in prison in 2002 for allegedly abusing his power when he was a government official, is considered Kazakhstan's only political prisoner.

There has been no progress in the rule of law. Kazakhstan's stateness, although not questioned, is a sensitive issue. The Kazakh government was incensed over remarks made by Vladimir Zhirinovskiy, the leader of the Liberal and Democratic Party of Russia, in January 2005 that questioned the Kazakh language and by extension its right to be a state. The government declared Zhirinovskiy a "person non grata," while the Russian government distanced itself from his comments.

Kazakhstan is not a democracy. Although democratic development has suffered several setbacks in recent years, the political system is still viewed as stable.

#### 4.2. Market economy development

The socioeconomic situation has improved slightly in the past five years. This is mainly due to the growth in per capita GDP over the period under review. Life expectancy and education, which are also reflected in the HDI, have remained largely unchanged.

**Table: Development of macroeconomic fundamentals (2000-2004)**

	2000	2001	2002	2003	2004
Growth of GDP in %	9.8	13.5	9.8	9.3	9.4
Export growth in %	28.7	-1.1	20.5	-	-
Import growth in %	26.1	2.5	2.0	-	-
Inflation in % (CPI)	13.2	8.4	5.8	6.4	6.9
Investment (FDI) in million USD ( <i>in % GDP</i> )	1,278	2,861	2,163 (10.5) <sup>1</sup>	2,188	3,282
Tax Revenue in % of GDP	-	-	-	-	-
Unemployment in % (ILO)	12.8	10.4	9.3	8.8	8.4 <sup>2</sup>
Budget deficit in % of GDP	-1.0	4.7	2.6	4.7	2.2
Current account balance in billion \$	0.563	-1.203	-0.866	-0.069	-0.030

Sources: EBRD – Transition Report 2005; <sup>1,2</sup> UNDP: Human Development Report 2004; estimated

The institutional framework, which was well in place before the period under discussion, has not changed significantly. A new law on land ownership was passed in June 2003, but it was highly controversial because it was seen as mainly benefiting the rich.

Overall, economic development has improved quantitatively and qualitatively, with growth around 10% annually. This is primarily due to the surge in oil prices and oil production being more than doubled.



#### **D. Strategic perspective**

Politics in Kazakhstan will be dominated by the upcoming presidential elections scheduled for January 2006. Local observers believe these elections might be moved up to some time at the end of 2005. The last presidential elections, which took place in January 1999, were moved up by two years because of the expected fallout from the Russian financial crisis in mid-1998. The upcoming presidential elections could be impacted by the trial of President Nazarbayev's former American advisor, James Giffen, who has been charged in a New York court under the U.S. Foreign Corrupt Practices Act in a case that has become known as "Kazakhgate."

The president has lost much of his moral authority in the country. Secret bank accounts in Switzerland, allegedly belonging to the president, were discovered during the Giffen investigation. Then Prime Minister Imangali Tasmagambetov admitted before parliament in 2002 that \$1 billion had been transferred to a private Swiss bank account created by the president in 1996 to be used as a last resort in case of state emergencies, i.e. for outstanding pension payments in 1997 and to absorb the shock of devaluation of the tenge in 1999.

The opposition, which has gained since 2001, has been under great pressure since the beginning of 2005, which is unlikely to decrease. The three main opposition parties – Democratic Choice of Kazakhstan (DCK), Ak Zhol, and the Communist Party – have united in their efforts and created the Coordination Council of Democratic Forces, with the goal of presenting a single opposition candidate for the presidential elections.

However, the closure of DCK and the internal split within Ak Zhol, both of which occurred in January 2005, have weakened the opposition. In addition, the rapidly-changing political scene and the lack of government transparency make long-term forecasts impossible. However, clearly, various potential exit strategies are under review for the transfer of power from President Nazarbayev, who has been in office since 1990, to a successor. The president's daughter, Dariga Nazarbayeva, is one likely candidate. She founded her own party, Asar, in 2003 and gained a seat in parliament during the last elections in September 2004.

Key economic concerns include increasing oil production and the question of how best to use their profits. Kazakhstan hopes to nearly triple its oil output to over 3 million barrels per day (150 million tons) by 2015, which would make the country one of the world's top oil producers. The extent to which these profits will trickle

down to the population remains to be seen. To avoid the effects of “Dutch Disease,” the Kazakh government appears determined to develop other sectors of the economy. The cities of Almaty (the former capital and future financial center of the country), Atyrau (the so-called oil capital), and Aktau (Kazakhstan’s only port on the Caspian Sea) will likely see significant development in the next ten years.