

BTI 2012 | Kazakhstan Country Report

Status Index	1-10	5.13	# 79 of 128	
Political Transformation	1-10	4.00	# 95 of 128	➔
Economic Transformation	1-10	6.25	# 48 of 128	➔
Management Index	1-10	4.71	# 73 of 128	

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

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	16.3	HDI	0.745	GDP p.c.	\$	12174
Pop. growth ¹	% p.a.	2.4	HDI rank of 187	68	Gini Index		30.9
Life expectancy	years	68	UN Education Index	0.834	Poverty ³	%	<2
Urban population	%	58.5	Gender inequality ²	0.334	Aid per capita	\$	18.7

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

Executive Summary

From a political perspective, the period under review was one of the past decade's most significant for Kazakhstan – as remarkable for its failures as its achievements. In 2010 – 2011, the country became the first post-Soviet country to assume the rotating chairmanship of the OSCE. The chairmanship helped boost the country's profile and status, both regionally and internationally. Domestically, however, the position failed to lead to the substantive democratization measures onlookers had expected. Instead, 2009 and 2010 witnessed a substantial strengthening of the president's personality cult, as well as a decline in civil liberties and media freedom. Legislative changes passed in 2009 in the spheres of political association and freedom of expression proved largely cosmetic, and the incumbent elite continued to try to control civil society. Parliament remains dominated by the presidential party, Nur Otan; indeed, by stifling the development of bottom-up parties, Nur Otan has now monopolized national and local parliaments. The country's leadership marked the end of the decade with a series of policy documents released in 2010. Some, such as the Doctrine of National Unity, were designed to steer a course for the next decade. But these were also in part a way of consolidating presidential power. On 31 January 2011, President Nursultan Nazarbayev declared he would hold early presidential elections.

The 2008 global economic crisis led to considerable pain in Kazakhstan, leading a leadership worried about popular revolt to implement a renewed clampdown on opposition figures and dissenting voices. The banking system was the key casualty, and in 2010 the government pledged to bail it out through a series of capital infusions and restructuring initiatives, funded by drawing on National bank and National Oil Fund reserves. At the same time, as in the political sphere, the leadership took the period as an opportunity to set the country's path for the next 10 and 20 years, though staying within the framework of the 2030 strategy promulgated in the

1990s. Economically, the government has stressed financial prudence, export-oriented industries and the diversification of the economy.

As OSCE chair, Kazakhstan emphasized security and cooperation over human rights and democracy. This was reflected as it carved out a new role for itself as regional leader on security issues in Central Asia, and as broker in international conflicts in the Caucasus region. Its multivector foreign policy remained neatly in place: the year of the OSCE chairmanship was also the year that Kazakhstan, Belarus and Russia launched their customs union. The country's application to the WTO also remains active, although the tariff regimes of the new custom union may make accession a more difficult prospect. During the period, the leadership also began seeking to exact stricter terms from its foreign investors. Thus, despite economic setbacks, the OSCE chairmanship strengthened the determination and confidence of this fledgling state to continue its own brand of development.

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, as well as a very steep economic decline. Under President Nursultan Nazarbayev, a former Communist Party chief who has been at the helm since 1990, the economy was liberalized and eventually rebounded. However, while the country has seen significant economic growth and tangible welfare gains for broad segments of the population since the late 1990s, the president has become more authoritarian over time, harassing opposition parties and their leaders and disregarding media freedoms.

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

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

Political maneuvering among the country's elite first became public in November 2001. A political struggle involving the president's son-in-law, Rakhat Aliyev, led top government officials and leading businessmen to oppose openly 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 since acted as dissenters. This party, other members of the opposition and the media have all been subject to increasing levels of repression. Parliamentary elections in September 2004, judged as neither free nor fair by the OSCE, saw the majority of seats go to the presidential party, the Fatherland party (Otan) and only one seat to the opposition. The president's daughter (Aliyev's wife), Dariga Nazarbayeva, also gained a seat. She has established her own political party, Asar, and is said to be a potential successor to her father.

Kazakhstan has been one of the most successful ex-Soviet republics in making the transition from a centralized to a free-market economy. The economy, which had previously been controlled by Moscow, collapsed following independence. Many state enterprises came to a standstill, and inflation surged to an annual rate of well over 2,000%. In November 1993, a new currency, the tenge, was introduced. Mass privatization and the sell-off of large enterprises in the oil, gas, electricity and metals sectors in the mid-1990s, allowing foreign investors to participate largely within the context of management contracts, gave a significant boost to the economy. Kazakhstan attained a position of economic growth for the first time in 1996, and managed to maintain this for the next 10 years. The discovery of the giant Kashagan oil field in Kazakhstan's sector of the Caspian Sea in July 2000 marked the beginning of a new chapter in the country's oil explorations, and the brokering of a new deal in 2008 gave significant new advantages to the Kazakhstani government. Seeking 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 to stabilize state income in January 2001. The fund is designed to make up for budget shortfalls should oil prices fall below a certain level; while it has been somewhat depleted in recent times in efforts to keep the tenge at a stable level, it continues to be fed by high commodity prices (oil and wheat particularly).

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

The years 2009 and 2010, as detailed below, were characterized by a consolidation of the major trends seen in the past two decades: 1) a stronger regional and international profile for Kazakhstan, given a dramatic boost by the country's chairmanship of the OSCE between January 2010 and January 2011; 2) a creeping cult of personality, in which the president's status has benefited from a series of new laws and doctrines aimed at safeguarding his moral and legal authority, with each change triggering public protests by the president himself so as to stress his own modesty in responding only to the will of the people; and, 3) a renewed sobriety in economic expenditure, and the desire to exact larger ownership percentages in any forthcoming production deals with foreign companies.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question

Score

The executive has retained its monopoly on the use of force, and in 2009 and 2010 continued to tighten its control over the ministries of Security and Interior. The appointment of one of the longest-serving inner-circle members of the elite, Nurtai Abykaev, to head the National Security Committee in 2010 indicated Nazarbayev's intention of keeping national security institutions closely under his control. The opposition continues to accuse authorities of a role in the murders of two opposition figures, Zamanbek Nurkadilov and Altynbek Sarsenbayev, and media coverage of these investigations is tightly controlled.

Monopoly on the use of force

9

Kazakhstan has continued to be free of any large-scale insurgent or violent movements, and activities by the Cossack and Slavic movements were quashed in the early 1990s. Unlike in some of its neighboring Central Asian states, radical Islamism is not frequently voiced as a threat. While some drug trafficking occurs throughout Central Asia, the influence of the drug mafia in Kazakhstan is less substantial than in neighboring first-stage transit states from Afghanistan.

The status of the security forces got a dramatic international boost with their intervention in the April 2010 events in Kyrgyzstan, and the evacuation by Kazakh pilots of the Kyrgyz president's corrupt son, Maxim Bakiyev. Although in February 2009, the financial crisis prompted the government to shelve plans to build a professional army, a significant percentage of GDP continues to be spent on the military: Vladimir Shkolnik, Minister for Industry and Trade, announced a doubling of domestic defense orders for 2009.

The national census, conducted every 10 years, in 2009 confirmed the status of Kazakhs as the majority ethnicity in their country. While in 1989, the census showed Kazakhs as an ethnic minority in the state, its 1999 successor confirmed ethnic Kazakhs as just over the majority, at 53%. By 2009, they had reached 63%, with Russians the second largest ethnic group at 12.3%.

State identity
8

The Kazakhstani state over the past 20 years has aimed to convey a rhetorical support for multinationalism by promoting a civic idea of Kazakhstan, while simultaneously cementing the newfound majority status of its ethnic Kazakhs. While the 1995 constitution grants equal civic rights to all ethnic groups, it also emphasizes that the Kazakh ethnos is considered the foundation of the titular nation, and should thus be accorded special consideration. While ethnicity is not a sole criterion of membership in the political elite, political and economic power has continued to reside primarily with the Kazakhs.

The formal 2010 promulgation of the Doctrine of National Unity, by the president himself, represented a significant policy statement on this issue. This document explained that the time had come for the country to renew its commitment to the national idea of Kazakhstan, through a doctrine of this kind. The doctrine continues to view Kazakhstan as the inevitable and just independent political container of ethnic Kazakhs. Even if all citizens are equal before the law, a provision re-emphasized in Principle No. 2 of the document, the doctrine also refers to primordial ethnic Kazakh right, and to the way in which the Kazakhstani state and 1991 independence were the natural outcomes of a long struggle for the Kazakh people to have their own territory.

The 2010 language program has set a goal for 95% of Kazakhstanis to master the Kazakh language by 2020 (the current level of knowledge is reportedly 60%). However, few are convinced this will be reached. These ambitious goals are very similar to the sorts of goals the regime set itself in the 1990s and then abandoned. Not all in government or society have seemed wholly committed to this goal, and indeed, many have expressed instead their preference for trilingualism (Kazakh, Russian and English). In 2010, the Ministry of Education reported that the country boasted 33 such trilingual secondary schools.

While the dual ethnic and civic approaches to state-building are accepted by the population, it remains the case that the Russian and Uzbek minorities in particular, but other non-Kazakh groups as well, do not actively support it. They feel excluded from rhetoric that increasingly appeals to ethnic Kazakh concerns rather than to broader civic interests. They are aware that the emphasis on ethnic Kazakh rights effectively renders them second-class citizens.

The Kazakhstani regime remains a secular regime. Church and state are separate, and the political process is secularized. The elite pays lip service to Islam when needed for legitimatizing purposes, but there is little if any preferential treatment given to the Muftiat (Islamic High Council). With regard to other religions, the Kazakhstani regime tightly monitors their activities, as it does with political opponents generally.

No interference of
religious dogmas
9

A 2006 presidential decree categorized various minority religions as “sects” or nontraditional groups, suggesting that they were potentially subversive or extremist in nature. The roughly 20 minority religious groups in this category include Jehovah’s Witnesses, Hare Krishna followers, and some Islamic faiths viewed as deviating from the approved form of Islam. In late 2008, the parliament passed amendments to the Law on Religion that introduced strict requirements for the re-registration of all religious communities within 18 months after the law’s implementation. Even if the Constitutional Council in 2009 annulled amendments requiring religious communities to register and further amendments banning anyone from sharing beliefs without the backing of a registered religious group (a cosmetic action in the run-up to assuming the OSCE chair), existing laws continued to place numerous restrictions on minority religious groups by labeling them “non-traditional.” In any case, the Constitutional Council rejected the amended law in 2009. In 2009 and 2010, authorities instead stepped up their monitoring of religious groups.

The Kazakhstani state was considerably downscaled in the late 1990s, due to declining revenues following the collapse of the Soviet Union, and at the advice of the World Bank. Despite the effects of the 2009 and 2010 credit crunch and broader banking crisis, some of the country’s basic financial and tax infrastructure remains among the best in the post-Soviet region. However, state reform has been hampered by substantial elite corruption, as well as by difficult center-region relations, in which the center fails to provide the regions with adequate funding to implement national reforms, and in which central and regional political responsibilities remain poorly defined. The law on local self-government, designed to spur initiative at the grassroots level, was partly revised in 2009. However, most commentators agreed that the changes would remain largely academic, since appointment and revenue-raising powers remained centrally managed.

Basic
administration
8

2 | Political Participation

No Kazakhstani parliamentary or presidential election has been free and fair to date, and international election observation missions have repeatedly found shortcomings in the country’s balloting processes. The local parliamentary elections (maslikhat) of March 27, 2010, were no exception. Just as pro-presidential party Nur Otan

Free and fair
elections
3

obtained all 98 seats in the August 2007 parliamentary elections to the Mazhilis, the lower house, it won all 53 seats in the maslikhat elections.

By requiring all candidates to be party members, setting a high 7% electoral threshold for political parties and disallowing independent candidates from participating, the Nazarbayev leadership in effect legalized the exclusion of non-regime parties and individuals from the political process. The 2009 amendment, under which a party that takes second place can enter parliament even it falls short of the 7% threshold, is a modest concession, as the second-place party is likely to be a pro-presidential party. Loyal opposition parties have better access to resources, media air time and the population.

Thus, while the country has paid lip service to the democratic requirement of elections, no open and competitive elections have been held to date, and no change in presidential leadership has taken place since 1989. The potential elimination of the 2012 and 2017 presidential elections by giving Nazarbayev eligibility for lifetime presidency reflected the absence of a trusted successor in the leadership contest, as well as a continued desire to maintain control instead of open the system to contestation. But this plan was ultimately dismissed by the president himself, who announced instead that the 2012 elections would be brought forward, probably to 2011.

At the regional level too, the central administration continued throughout the review period to block the election of local governors (akims). Although constitutional amendments in 2007 granted a greater voice to local legislators in the appointment and removal of regional governors, the dominance of Nur Otan, reinforced by the results of the March 2010 elections, makes such measures ineffective.

The president possesses a monopoly on veto power. The two-term limit for the First President, as Nazarbayev has been legally known since 2000, was removed through a series of constitutional amendments in 2007. The years 2009 and 2010 were notable for two legislative initiatives affecting president's status, the first of which was concluded, while the second was still ongoing as of the time of writing. The first gave Nazarbayev the status of "Leader of the Nation" in June 2010. The head of the Nur Otan party proposed this legislation in September 2009 as a way of showing gratitude to the leader who had provided 20 years of stability and prosperity to the nation. Nazarbayev neither approved nor vetoed the law, but instead simply declined to sign it. According to Article 19 of the law regulating parliamentary affairs, a bill that is vetoed, signed or returned to parliament automatically becomes law within a month.

In December 2010, a reported 5 million signatures by members of the public (more than half of the country's nine million eligible voters) were gathered for a bill that would put a public referendum on the ballot asking that Nazarbayev remain

Effective power to govern

2

unopposed until 2020. This date would come just before his 80th birthday. In January 2011, the parliament voted to back the referendum idea, but as Nazarbayev declined to make a decision on it, it was sent to the Constitutional Council for a final decision. In the interim, Nazarbayev stated that, “Regardless of what decision we make after the verdict by the Constitutional Council, I promise that I will work as long as required if my health allows me and if there continues to be unanimous support from the people.” On 31 January 2011, the Constitutional Council voted the bill unconstitutional, and the same day Nazarbayev called for early presidential elections, suggesting they would fall as soon as 2011.

Despite this progressive legalization of very strong presidential power, Kazakhstan is not run by one man. It has long been noted that the Kazakhstani 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 intensity of this elite factionalism waxes and wanes, with lesser or more publicity given to it depending on the individuals involved. Particularly high-profile infighting took place around former Prime Minister Akezhan Kazhegeldin, and later around the president’s son-in-law, Rakhat Aliyev. Both of these figures are now abroad, with the latter slated to serve a 40-year jail sentence should he return. In 2009 and 2010, a number of elite struggles occurred, largely around status and oil disputes. The stakes of this political games are increasing as Nazarbayev prepares for his last years in power, whether by election or referendum, but the 2010 OSCE chairmanship allowed for a modicum of political unity among these otherwise fractious individuals.

The Ministry of Justice requires all civil society groups to register. It places severe restrictions on these groups’ rights to public assembly; a gathering of more than 20 people requires prior approval, secured at least 10 days prior to the event.

Association /
assembly rights
4

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 not willing to be co-opted, opposition figures are imprisoned or assassinated. While Kazakhstan ranks ahead of Uzbekistan and Turkmenistan in terms of openness, the right to hold meetings and protest has been carefully controlled, and the reporting period saw a rise in the number of unsanctioned meetings as well as of fines associated with this action (at \$500, a considerable amount).

A public incident of ethnic discrimination occurred in 2010 when Sergey Kozlov, a well-known civil society activist, declared he would run for president in 2012. Members of the Kazakh nationalist party disrupted the meeting, and the event was perfunctorily closed down. No action is being taken against the party, again raising

serious questions as to the playing field's truly egalitarian nature in the run-up to the elections. In line with the country's unity doctrine, and its spirit of ideological renewal along prescribed lines, dissent continues to be viewed as destabilizing.

The years 2009 and 2010 witnessed a further curtailment of media freedoms. According to the 2009 Worldwide Press Freedom Index of the international media watchdog Reporters Without Borders (RWB), Kazakhstan was ranked 142nd (behind Tajikistan and Kyrgyzstan, though ahead of Uzbekistan and Turkmenistan), down from 131st out of 167 countries in 2007. The media coverage of the March 2010 local parliamentary elections was biased in favor of the ruling Nur Otan party. In August 2009, two restrictive new laws on the Internet and privacy were adopted, under which bloggers seen as publishing items critical of the government can be charged under Article 318 of the criminal code protecting the president's "honor and dignity."

Kazakhstan's so-called private media by now are predominantly associated with private elite groupings, a reality that needs to be borne in mind when assessing liberalization law. In 2009, the weeklies Respublika and Tashargan, two of the most prominent independent newspapers that publish investigative and critical stories, were ordered to pay massive damages as a result of libel suits filed against them by senior officials. In March 2009, Almas Kuserbaev was given a heavy fine for writing an article in Tashargan on rising food prices. In January 2011, further attacks occurred, this time against Golos Respubliki and Svoboda Slova. Such rulings have often been used as a means of muzzling criticism in times of economic hardship.

Among other incidents, the owner and editor-in-chief of the independent weekly Almaty-Info, Ramazan Yesergepov, was sued for defaming a businessman, and was seized by KNB agents from a hospital bed. Since Yesergepov's case was classified as secret, his family could not access the case file or attend hearings, and the lawyer defending him resigned without explanation. Yesergepov is serving a three-year prison sentence. Separately, the head of the Zonakz.net website complained that the government was blocking access to the site.

Nine months into the country's 12-month OSCE chairmanship, in September 2010, the New York-based Committee to Protect Journalists (CPJ) issued a report that criticized Kazakhstan for having failed to honor any of its pledges to liberalize the country's media. In reply, Kazakhstani officials pointed to new legislation enacted in 2009, though many observers have deemed these to be no more than cosmetic changes. Thus, while the government may have initiated minor amendments to the Media Law, it remains highly restrictive and linked to a draconian criminal law.

Freedom of
expression
4

The CPJ called on the government to keep a longstanding pledge to decriminalize libel. The Kazakhstani media watchdog group Adil Soz reported a total of 149 defamation claims lodged last year (69 by government officials). It raised the case of Kyrgyz journalist Gennadiy Pavlyuk, who was thrown, legs bound, out of an apartment block in Almaty last December. The CPJ stated that Yesergepov, along with Yevgeniy Zhovtis, who is serving a four-year sentence for an involuntary manslaughter conviction, were each the subject of politically motivated prosecutions.

3 | Rule of Law

The years 2009 and 2010 saw continued allegiance to the constitutional separation of powers on paper, but in practice a tightening of executive control over the other branches of state power. Despite declarations promising an overhaul of the judicial system in 2009, changes made have been cosmetic. At a legal reform forum in 2010, well-known legal affairs commentator Vitaly Voronov asked how a judiciary can be independent if its head is appointed by the president. Indeed, this fact also calls into question the independence of the Constitutional Council decision on Nazarbayev's election referendum, despite Nazarbayev's clear attempt to distance himself from the plan.

Separation of
powers

2

While the constitutional amendments of May 2007 may have given local assemblies greater say in the appointment of their regional governor, those powers are severely circumscribed. The real influence of these assemblies, already weak bodies, remains marginal. The country remains a unitary state, and the president continues to appoint and dismiss regional heads.

Formal and informal methods continue to be used to disrupt checks and balances. All branches of government suffer from a lack of professionalism in hiring and operations, although there are pockets of elites that continue to be extremely well trained, having studied primarily in the West, Turkey, or increasingly in China.

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 members of the Constitutional Council, the Central Election Committee and the Audit Committee. The Constitutional Council and key members of the judiciary, however, are appointed by the president – the president's decision to send the bill on prolonging his rule to the Constitutional Council was thus symbolic rather than real. The political elite has continued to interfere with the judiciary's activities, an influence notable in the high-profile case of Evgeniy Zhovtis, director of the International Bureau for Human Rights and Rule of Law of Kazakhstan, and in the arrests of journalists. For example, in the case of Zhovtis, the political elite reportedly asked the judiciary to

Independent
judiciary

4

include trumped-up charges in the judicial proceedings, and in the case of journalists, the fines for what is deemed libel against the political elite are often so exorbitant that newspapers are forced to close.

Political corruption remains rampant in Kazakhstan. A well-attended and high-profile meeting of NGOs highlighted how the substantial level of government funding provided for their activities had also left their sector strongly prone to corruption.

Prosecution of
office abuse
3

The effectiveness of the Extractive Industries Transparency Initiative (EITI) launched in October 2005, aimed at increasing the transparency of payments received by companies, remains negligible. The president has initiated a number of anti-corruption campaigns, with the latest during the review period launched in January 2009. However, there is little public trust in these campaigns, or in the prospect of corrupt officeholders being adequately punished under the law. Charges of corruption and misuse of office tend to be leveled against highly placed government figures only after these individuals enter into a personal or political rivalry with ruling elites or attempt to challenge Nazarbayev's authority.

During the review period, the seven-year "Kazakhgate" bribery scandal, in which President Nazarbayev was implicated, was brought to a surprise close, with the case against James Giffen concluded perfunctorily in August 2010. In March 2003, Giffen had been accused of funneling over \$80 million on behalf of four U.S. oil companies, including Mobil Oil Corporation (now part of energy giant ExxonMobil), into secret Swiss bank accounts. Reporters say it was Giffen's claims to have worked in concert with the Central Intelligence Agency (CIA) that gave his lawyers leverage to bring the scandal to a speedy conclusion.

The judiciary's record in handling cases related to civil liberties and human rights remains poor. The controversial laws on extremism and anti-terror issues passed in February and May 2005 continue to be in force. This legislation also introduced restrictions on political parties, mass media outlets and religious organizations.

Civil rights
4

The case of human rights activist Evgeniy Zhovtis shows that personal liberty is not protected against state and non-state actors, and that individuals are not guaranteed due process under the rule of law. Even though the family of the victim of the car accident in which Zhovtis was involved did not press charges, the state decided it would. A district court in the Almaty region convicted Zhovtis of manslaughter in September 2009. The trial was fraught with procedural violations, and the judge did not consider any of the mitigating evidence. Zhovtis is a longtime outspoken critic of his country's human rights record.

4 | Stability of Democratic Institutions

Kazakhstan's regime continues to be authoritarian rather than democratic, and the review period confirmed the country on this authoritarian path. The qualitative difference in the authoritarianism of this period was seen in the comparatively more overt personalization of rule and the development of a personality cult hitherto largely shunned. The leadership in 2009 and 2010 continued its practice of co-opting the political, financial and personal agendas of individuals or organizations viewed as either potential or actual sources of opposition.

Performance of
democratic
institutions

2

Any checks and balances with potential to control the executive are extremely weak. The executive is paramount to 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 has prevented the accession of any new political group, slowed the development of a middle class and created longer-term instabilities.

In the run-up to the assumption of the OSCE chair in January 2010, Kazakhstan's leadership made a number of statements affirming its commitment to democratic institutions, particularly in 2009. Some legal changes in 2009 gave the semblance of conformance to this commitment, but with the benefit of hindsight, these can be seen to have been largely cosmetic. The year 2010, furthermore, saw these commitments remaining largely unimplemented. On some issues, the period of the OSCE chairmanship saw even less lip service being paid to democratic institutions. A substantial number of influential actors appear to reject democracy as the most legitimate form of government, partly because they see themselves have having benefited from the authoritarian system (in some cases, including opposition leaders who have been successfully co-opted) and partly because they want to avoid what they see as the instability of liberalization in neighboring Tajikistan (1992 – 1997) and Kyrgyzstan (2005 and 2010).

Commitment to
democratic
institutions

2

5 | Political and Social Integration

The majority of key parties are formed in a top-down rather than bottom-up manner, and like media outlets, are affiliated with key political groupings. The main opposition parties are the Social Democrats, the largely inactive NSDP, the Communist Party and Alga!. Some parties – such as Patriots, Azat and Adilet – occupy a centrist ground, basically loyal but occasionally critical of the regime.

Party system

2

When the constitutional clause requiring the president to be above party politics was amended in 2007, Nazarbayev was able to assume the leadership of his party. Otan

thus renamed itself Nur Otan in early 2007, and elected Nazarbayev as its leader. As the pro-presidential party, Nur Otan occupies a near monopoly of the party system's political space.

Amendments to the Law on Elections and Political Parties in 2007 meant that representatives were required to privilege loyalty to party over loyalty to voters. By requiring candidates to hold a party membership, the changes also ruled out the possibility of independent legislators. The high 7% electoral threshold is designed to block the rise of new parties. Although during the preparation for its OSCE chairmanship, Kazakhstan promised to reform its political party system, no fundamental changes were in fact made. The bill released in the immediate run-up itself seemed to suggest a tightening rather than a relaxation of norms. For example, the bill proposed a two-step process for party registration by requiring the initial formation of an organizing committee. The changes introduced in 2009 provide for the creation of a minimal two-party system by allowing the second-place party to gain parliamentary seats whether or not it crosses the 7% voting threshold. Since this second party will very likely be loyal in opposition, it stands little chance of reducing the system's authoritarian nature.

Prominent discussions around the issue of increasing the role of NGOs were held in 2009 and 2010. Prior to the country's OSCE chairmanship, the Kazakhstani leadership decided to increase the amount of funds provided to civil society, thus increasing the number of active groups. But at a major forum in December 2010, NGO groups lamented the lack of progress in strengthening civil society. Some participants blamed civil society itself for this, identifying problems of inertia and inexperience. But it is also clear that if the mainstay of interest groups' funding comes from the government (the other two sources being international and domestic private actors), then it is not surprising that these groups are often dependent on or corrupted by the state.

Civil society lacks a practice of overlapping interests between groups – the various organizations tend to be isolated by sector, seldom coordinating their activity, and often live a temporary existence until funding disappears. Trade union activity is still subject to regulations, and remains weak. Nationwide movements are also severely hampered by the sheer size of the country and its regional differences.

While opinion polls do exist, they are generally unreliable. In addition, it is difficult to gauge the degree of consent in a system that punishes dissent. Furthermore, the absence of protest does not necessarily imply consent.

Less than 10% of civil society groups are engaged in civil liberties, human rights or minority protection issues. Those participating in these issues remain under extremely stringent vigilance by the authorities. Rural self-help networks during this period continued the trends of the previous period, in that the recovery

Interest groups
4

Approval of
democracy
n/a

Social capital
3

associated with the period of economic growth was sustained, but these networks continued to be considerably less extensive and reliable than in the Soviet period. With respect to political participation more generally, the population remains largely apathetic.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Social exclusion and marginalization persist, as does fundamental exclusion as a result of poverty and poor education. Discrimination on the basis of clan, ethnicity and class are more common than on the basis of gender or religion, although in positions of political influence the government places emphasis on non-ascriptive criteria such as education, training and general professionalism. That said, access to major economic and political positions takes place largely within a closed system, lacking open competitions such as civil service exams to provide a primary recruitment filter. The significant rural-urban divide remains.

Socioeconomic
barriers
5

While in 2006, 18% of the population was estimated to be live below the poverty line, in 2008 this figure had fallen to 15.4%. The Gini coefficient has also improved as compared to the previous period, suggesting that overall inequality is far less of a problem than in many other places in the world. In the Human Development Index (HDI), Kazakhstan's rank improved from 73rd in 2007 – 2008 to 66th during the period under review. Considerable disparities remain between the comparatively poor rural south and relatively well-off urban and rural areas in other regions.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	104853.5	133441.6	115306.1	149058.9
GDP growth	%	8.9	3.3	1.2	7.3
Inflation (CPI)	%	10.8	17.2	7.3	7.1
Unemployment	%	7.3	6.6	6.6	-

Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	10.6	10.7	11.9	6.7
Export growth	%	9.0	0.8	-11.5	1.9
Import growth	%	25.8	-11.5	-15.8	-4.0
Current account balance	\$ mn.	-8321.9	6325.5	-4067.9	3012.7
Public debt	% of GDP	5.9	6.7	10.4	11.4
External debt	\$ mn.	95541.9	107278.3	111115.0	118722.9
Total debt service	\$ mn.	27171.1	33426.4	25779.6	47760.6
Cash surplus or deficit	% of GDP	1.2	4.4	-2.0	-
Tax revenue	% of GDP	12.3	12.7	8.1	-
Government consumption	% of GDP	11.1	10.2	11.7	10.8
Public expnd. on edu.	% of GDP	2.8	-	-	-
Public expnd. on health	% of GDP	3.4	3.9	4.5	-
R&D expenditure	% of GDP	0.21	0.22	-	-
Military expenditure	% of GDP	1.3	1.1	1.2	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The small and medium-sized (SME) business sector in 2009 and 2010 still accounted for an average of only 10% of GDP, concentrated primarily in food and light industries. Changes to the tax law during the review period generally increased rather than decreased the amount paid by private businesses. SMEs continue to face a politicization of business and a stifling level of bureaucracy. Kazakhstan's political leadership remains wary of allowing an independent entrepreneurial class to develop, preferring to retain the majority of political and economic power in its hands.

The World Economic Forum's Global Competitiveness report for 2010 – 2011 places Kazakhstan at rank 67, just ahead of Latvia but behind Russia (63), Lithuania (53) and Azerbaijan (51). The Heritage Foundation ranks Kazakhstan at a medium level of economic freedom, defined as the absence of government interference in

Market-based
competition

6

questions of production and services, and with civil rights protected in general. Its rank of 82nd out of 179 countries placed it one slot behind Kyrgyzstan.

The OECD and Kazakhstan's cabinet ministers jointly noted in November 2010 that Kazakhstan's government needed to remove barriers in the economy to make it more competitive.

An anti-monopoly committee has existed since the 1990s, but has generally been a marginalized body beholden to the presidential administration. In the period under review, the Kazakhstani government continued its attempts to reappropriate large elements of the economy previously partly in the hands of foreign companies, including in the oil, chemicals and metals sectors. In addition to the previous takeover of four major banks and the consolidation of the large Samruk-Kazyn conglomerate, the government continues to press for better terms with foreign companies, both in terms of taxation and stakeholder percentages.

Anti-monopoly
policy

6

On 19 March 2010 a "state program for the development of industrial innovation of the Republic of Kazakhstan 2010 – 2014" was issued as a presidential decree. One of its key goals is "economic diversification and the increase of competition," aiming to create conditions enabling the deepening of industrialization. It was conceived as part of the general Program of Strategic Development of Kazakhstan until 2030. Until 2015, the report writes, the key investment sectors will remain the traditional export-oriented sectors, with Samruk-Kazyn as the key driver, but new sectors of the economy should be developed at the same time. The president issued an additional program in April 2010 encouraging new entrepreneurs, particularly those in the export-oriented sector.

Foreign trade has contributed significantly to economic development by improving the country's balance of payments, attracting foreign direct investment and promoting competition. Foreign trade is liberalized in principle, but significant exceptions remain, including the presence of differentiated tariffs and special rules for individual companies or sectors. A first round of WTO membership negotiations began in June 2008, but talks have stalled in part due to tariff issues, and in part because Russia has brought pressure to bear on the proposed accession. In addition, a customs union with Belarus and Russia was formally launched in July 2010.

Liberalization of
foreign trade

7

In March 2009, Kazakhstan insisted on a controlling stake in a new venture designed to funnel oil through the Baku-Tbilisi-Ceyhan route (BTC). The precise percentage – the Kazakhs refused to accept less than 51% – was a source of considerable dispute with foreigners. The opening of a new route in late 2005 to the People's Republic of China, as well as transit through Azerbaijan, has increased export opportunities, and Kazakhstan continues to pragmatically embrace all pipeline routes available. The strong rise in commodity prices in 2010 allowed the Eurasia region's hydrocarbon-rich states to emerge from the global economic

slowdown. Kazakhstan continues its multivector economic policy. China, which is today Kazakhstan's biggest export market, trails only Russia in terms of import quantity.

Kazakhstan's financial sector is well integrated into the global economy. The financial sector was one of the strongest elements in Kazakhstan's overall economic reform program in the 1990s, and was often admired by the country's neighbors. Unfortunately, this record has now been severely tainted by Kazakhstan's bankers' reckless behavior and risk-taking, which significantly contributed to the worsening of the financial crisis in the country. Two of the largest banks, Kazkommertsbank and Halyk Bank, each ultimately required \$1 billion in state funds before the end of January 2009.

The banking sector bailouts dominated financial news during the review period. The banking sector is gradually returning to normal following agreements on debt restructuring for BTA Bank, Alliance Bank and TemirBank. However, this does not mean an end to the sector's challenges, as it lagged well behind early 2010 forecasts in terms of resuming lending. In fact, loan growth declined in 2010.

The Kazakh government is currently working with an International Monetary Fund (IMF) advisory team, and may change the rules by which banks pursue unrepaid loans through the court system. Currently, banks have to pay a nonrefundable commission to the courts, whatever the outcome of the case. The government is also believed to be considering a centralization of the issue of nonperforming loans, for example by creating a national "bad bank" as some other countries have done in the past.

During the review period, private equity began to replace debt as a primary means of financing new capital projects. Private equity is not altogether a recent phenomenon in Kazakhstan – firms such as Russia's Baring Vostok closed a few deals in the mid-1990s – but investments are still relatively rare. In the boom that preceded the international economic crisis, Kazakhstan-based entrepreneurs were reluctant to give up equity stakes in their businesses. Debt, which was cheap and readily available, was the most popular funding instrument. Now the situation has changed dramatically – many businesses are under pressure and overleveraged, while banks are cautious about issuing new loans, forcing companies to look for alternative sources of funding. Kazyna Capital Management, the private equity arm of the Samruk-Kazyna sovereign wealth fund, has set up or cofounded nine funds since its creation in 2008. These funds have used a combination of Kazakh government money, advice from western private equity consultants, and financial commitments from deep-pocketed sovereign wealth funds and family offices in China and the Middle East.

Banking system
8

8 | Currency and Price Stability

Kazakhstan's economy was hit hard by the financial economic crisis. Beginning in early 2009, the government committed itself to a variety of bailout programs. Global food prices coupled with excessive domestic demand and increases in transport tariffs and structural rigidities had led to inflation. In early 2009, the tenge was devalued, leaving some 20% of the population poorer. The Samruk-Kazyna fund oversees the state's anti-crisis package.

Anti-inflation /
forex policy

7

Inflation is expected to stabilize at around 7% to 8%, according to Renaissance Capital. The tenge is expected to remain relatively stable against the dollar throughout 2011, though there may be some slight appreciation.

Kazakhstan, the largest landlocked country in the world, is the site of the most significant new global oil discovery in recent years (Kashagan). The oil sector dominates the economy, accounting for one-fourth of GDP, 65% of total exports and 40% of total budget revenues.

Macrostability

8

At the same time the economy was experiencing rapid growth, Kazakhstani banks borrowed heavily from abroad, amassing external debt amounting to roughly 44% of GDP in order to fund a rapid expansion of credit, largely concentrated in construction and real estate. When the global financial crisis hit and capital stopped flowing into the country, credit growth ground to a halt, and property prices slumped. With oil prices plummeting, Kazakhstan faced a drop in the value of its exports from \$76.4 billion in 2008 to \$48.2 billion in 2009.

The combination of weak economic growth, currency-induced credit exposure and increased uncertainty led to significant difficulties in the banking system. Four Kazakhstani banks were forced to restructure their external obligations, and the number of nonperforming loans – that is, loans either in default or close to it – began to rise sharply.

The government supports macroeconomic stability. Although lobbying for industrial policies, tariffs and other trade protections continue, the government and president have largely avoided succumbing to populist policy changes. However, policies have come under severe strain, necessitating recourse to bank and National Fund reserves in attempts to maintain this stability.

After a minor growth in 2009 (estimated at about 1.2% change in GDP) in 2009, the economy grew by 6% in 2010, largely due to the rise in commodity prices, including oil, gold, copper and uranium. But this rise in the commodities sector was not accompanied by a corresponding rise in the majority of the other sectors. The

consumer boom seen prior to the global financial crisis has not returned, the banking sector remains cautious about making further loans and many real estate projects remain unfinished.

Inflation across the region as a whole has come down from high pre-crisis levels, and underlying inflationary pressures are expected to remain contained over the next year, according to the IMF.

9 | Private Property

Property rights are well defined, but creeping nationalization was increasingly evident in 2009 and 2010. These incidents have occurred in the oil, metals and minerals sectors. Such nationalization often follows disputes with foreign companies over the terms of their involvement in the Kazakhstani economy. Kazakhstan cancelled 21 oil and gas contracts in 2010 due to alleged violations of the terms. This is a reflection of a broader debate about the appropriateness of actions during the privatization years (1994 – 1997), which reveals considerable resentment of the mass privatizations. The current rhetoric of renationalization is couched in terms of reclaiming what should be rightfully Kazakhstani.

Property rights
6

The process of large-scale privatization stalled in 1998. Its effects continue to be felt, however, in particular in the number of offshore companies formed in the 1990s to own the assets of metals and minerals companies. This has led to continued debate over the transparency of income and how this income is used. The period under review saw no change in the deliberate exclusion of middle-class entrepreneurs from acquiring bigger industrial concerns. Those owning large-scale enterprises are strongly tied to the elite. Another government initiative of this period, the “30 Corporate Leaders” program, though designed to give preferential treatment to companies promising particularly innovative projects, again enables the government to exert tight control over the business sector.

Private enterprise
6

The government has tried to encourage the development of domestic business. The country has embarked on an industrial policy of diversification, designed to wean the economy away from overdependence on the oil sector by developing its manufacturing potential. The policy changed the corporate tax code to favor domestic industry as a means of reducing the influence of foreign investment and foreign personnel.

A new large-scale privatization initiative was being prepared in 2010, with implementation slated to begin in 2011.

10 | Welfare Regime

In 2010, Kazakhstan became the only Central Asian state to be ranked in the Human Development Index's second-highest or "high human development" quartile. The remaining four countries fell into the next category down. Kazakhstan additionally was ranked 66th on the World HDI scores. In the Human Poverty Index, Kazakhstan was given 34th place out of 135 developing countries. Roughly 15.4% of the population lives below the national poverty line, and the country has a particularly high number of deaths from non-communicable diseases. GDP per capita is \$11,353, and average life expectancy is 66.

Following an increase in welfare spending in 2005 to 2007, the period under review witnessed a decline in this area, with funds often used for bailout or financial stabilization packages. The pensions system in Kazakhstan is a success story in terms of reform, but although pension levels have increased in recent years, they remain insufficient. Informal social networks dating from the traditional or Soviet eras continue to be weak. As a result, a significant part of the population is still at risk of living in poverty. Recent inflation has led to soaring food prices; as this affects the poor more than the rich, it has led in turn to rising income disparities.

Fundamental exclusion as a result of poverty and education continue, though female participation rates in education, as well as enrollment rates in both primary and secondary education, are high. The ratio of women to men in higher education (university level) settings is relatively high. According to the UNDP, gender-specific discrimination is relatively uncommon. Informal discrimination based on ethnicity, sub-ethnicity (clan) or economic group affiliation continues. A decentralized system might better be able to cope with these inequalities by offering compensatory mechanisms, but the state remains unitary. Affirmative action policies remain underfunded.

The U.N. Gender Inequality Index 2010 reveals that the percentage of women in parliament is relatively low throughout the region. In addition, it says, "Reports from Kazakhstan, Kyrgyzstan and Uzbekistan suggest an upsurge in traditionalism, with calls to reestablish polygamy and change laws to make it more difficult for women to initiate divorce."

In 2008, 12.3% of parliamentary members were women. However, the percentage participating in the labor force differs by less than 10%. The World Economic Forum recently ranked Kazakhstan at 22nd place in its Global Competitiveness Index in terms of female participation in the workforce.

Social safety nets
6

Equal opportunity
6

11 | Economic Performance

Since 2000, the Kazakh economy has been expanding at an annual rate of between 8% and 9%, placing it among the 10 fastest-growing economies in the world. However, this high growth rate has largely been driven by the oil and gas sector. Oil exports alone currently account for 65% of the country's whole, on a value basis. In addition, foreign direct investment in Kazakhstan – which accounts for over 80% of total FDI in the Central Asian region – is concentrated in oil- and gas-related companies.

Output strength

7

By the beginning of 2009, the country's credit and construction boom had slowed considerably (roughly half the GDP growth in the prior two years had been attributable to the finance and construction sectors). A sudden halt in capital flows to Kazakh banks triggered a sharp reduction in lending volumes and a downturn in the non-oil economy. According to the IMF, GDP grew by 1.2% in 2009 and by about 6.0% in 2010, driven by higher oil prices, a recovery in domestic spending, and the assistance of government bail-outs. However, it has not yet come close to the double-digit growth figures achieved in the early 21st century. GDP per capita by the end of 2010 was \$7,000.

FDI in 2009 fell from its previous year's levels, but picked up again in 2010 when the worst of the recession had passed. Among the biggest investors were the Netherlands, the United States, the United Kingdom, France, Italy, Russia, China and South Korea. In an effort to stimulate FDI, Kazakhstan reduced its corporate income tax from 30% to 20% as of 2009, and as of the time of writing, planned to further reduce the rate to 15% in 2011.

Kazakhstan continued to invest in companies in Central Asia during the period under review. The most recent fund to be created was the Kazakh-Tajik Private Equity Fund, which had its first close in 2010 at \$30 million and is eventually expected to grow to as large as \$80 million, especially as it taps into Tajikistan's hydroelectric power sector. China has shown itself as the country most prepared to invest in private equity in Kazakhstan. The Kazakhstan Hong Kong Development Fund will focus on the oil and gas, minerals and related sectors.

Standard and Poor's credit rating for Kazakhstan was downgraded from stable to negative in May 2008. Deteriorating bank assets and a shrinking pool of international lenders partly explained this downgrading. But by the end of the review period, several banks had already regained a higher rating.

12 | Sustainability

Some unwelcome publicity was given to environmental policy when Kazakhstan's vice minister of environment was arrested by the financial police in February 2009. Environmentally compatible growth has been given increased attention since 2003, and environment-related NGOs and other organizations have had some influence on policy-making. But overall, environmental groups continue to possess only a weak institutional framework.

Environmental
policy
5

This weakness is despite the disastrous environmental legacies of the Soviet era, such as the desiccation of the Aral Sea, the Virgin Lands project and nuclear testing at Semipalatinsk. The Northern Aral Sea is seeing some fruit from environmental sustainability policies in that region, in that some economic livelihoods and communities are being gradually restored, but little has been implemented of the National Environmental Action Plan for Sustainable Development published in the previous period. Indoor or outdoor air pollution kills 358 per 1 million people, while 5% of the population lacks access to water, and 3% to sanitation. Fossil fuels make up 99% of the country's total primary energy supply.

Despite some constraints on human capital development, Kazakhstan's population of 15.8 million has an adult literacy rate of 99%. The basic primary and secondary education systems continue to be regarded as strong by international organizations. In March 2010, Kazakhstan joined the Bologna process, giving Kazakhstan access to the European Higher Education Area. These facts, combined with financial support for the research and development sector, represent significant investments by the regime.

Education policy /
R&D
6

Nevertheless, the higher education system continues to be marked by corruption. There are a large number of private institutions, but low salaries make it difficult to attract good teachers. In its draft State Program on Education for 2011 – 2010, Vice Minister of Education and Science Mahmetkali Sarybekov promised continuing, substantial investments in the tertiary sector in the years to come. In June 2010, the New University of Astana was officially opened by President Nazarbayev, with undergraduate courses slated to launch in 2011.

Transformation Management

I. Level of Difficulty

Labor productivity in Kazakhstan has surged dramatically since 2000, reflecting a significant reallocation 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, while most of the countries continue to struggle with underdeveloped financial markets, low levels of competition, inefficient infrastructures and fairly poor human capital development.

Structural
constraints
5

Kazakhstan faces a medium level of structural constraints in its governance challenges. On the positive side, the government can continue to draw on a largely well-educated workforce from the Soviet era and on a pool of young, Western- and increasingly Asian-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 the two Great Powers between whom the country is sandwiched, China and Russia. That said, China's opening of an alternative pipeline route and its agreement to build a cross-country oil and gas pipeline can be viewed as advantages, and the country's landlocked status may come to be viewed as less of a problem than it was in the 1990s. The country continues to suffer from poor transport infrastructure

The Soviet legacy of internationalism is still an important factor in the general demobilization of nations and nationalism that has taken place in the post-Soviet era, and indigenous movements do not appear to be growing. It may be that the country's economic success is slowly reinforcing the sense of Kazakhstani identity. There is no fundamental contestation of the state's right to exist, again probably because individuals are finding a niche. The most vocal potential critics left in the early 1990s.

The period under review witnessed the reinforcement of three tendencies evident in the previous period: the monopolization of the political space by the pro-presidential party, Nur Otan; increasing financing available to the NGO sector; and the creation of a biannual Civic Forum to forge cooperation between the state and

Civil society
traditions
7

NGOs. A redeeming feature of the top-down creation of parties by the executive and of the current monopolization of parliament by Nur Otan is that opposition parties are still able to influence the political agenda through lobbying. Policies promoted by oppositional groups are often co-opted.

That said, the Kazakhstani party system, and civil society more broadly, remain beset by the following problems: 1) top-down creation of organizations; 2) a lack of party identity; 3) the personalization of party and NGO activities; 4) an overlap between programs; and 5) a low-intensity political culture. The Gorbachev and early independence years did allow for some civil society development, unlike in, say, Uzbekistan and Turkmenistan, where such liberalization never occurred. But the closing of this political space by an increasingly authoritarian political regime since 1995 has squashed this manifestation of public engagement. Trust in institutions is low and civic culture weak.

Politics in Kazakhstan is focused on 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. The year 2009 again saw elements of open confrontation sparked by the economic crisis and the upcoming OSCE chairmanship, but as in the previous period, the incumbent regime was quick to squash these dissident voices and to co-opt populist ideas.

Conflict intensity
2

II. Management Performance

14 | Steering Capability

The government has been consistent in its rhetoric supporting liberalization and the opening of the economy to outside investors, but both of these goals are subsumed to the elite's top 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. Key examples of how the rhetoric of political liberalization differed from the reality of intensifying authoritarianism can be seen in the lifting of the president's two-term limit and in the saturation of all political institutions by the president's party, Nur Otan. In sum, democratization remains secondary to power struggles and maintenance.

Question
Score

Prioritization
5

While some of the economic policies detailed elsewhere in this report have been partly implemented, the emphasis in the period under review has been on the country's OSCE chairmanship. In the period of preparation for this role in 2009, a

Implementation
5

few legislative changes were made, but these were largely cosmetic. Nor did the government implement any major democratization policies during its actual chairmanship, instead tightening authoritarianism and increasing repression. It also emphasized security issues over democratization in 2010.

The government has shown itself flexible and adaptive to what in this period were huge changes in the global economy, but has floundered somewhat in its reaction to domestic banks' reckless behavior. Nevertheless, it seems willing to listen to economic and financial advice, and to learn from past economic mistakes where that advice does not threaten the elite's hold on power. That said, the ability of the country to benefit from rising commodity prices without being forced to make any major structural reforms limits policy learning. Politically, the government seems increasingly unwilling to tolerate other voices in either the political or economic spheres; the previous review period's decision to form Samruk and control entrepreneurial activity was retained in 2009 and 2010, and is symptomatic of this deepening trend. The diffusion of democratic norms that some hoped would occur in taking the role of OSCE chair does not appear to have occurred.

Policy learning
5

15 | Resource Efficiency

Of the three indicators of resource efficiency – government administrative personnel, administrative organization and budget resources – the government continues to score highest on the latter. However, the review period did see attempts at a complete overhaul of state bureaucracy organization. Despite the passage of earlier civil service legislation, recruitment and dismissals continue to focus on issues of personal loyalty. Transparent and effective decentralization has not occurred, and attempts in 2006 to make the center-regional budgeting process more transparent have had no significant effect. Regions continue to rely almost exclusively on central state coffers.

Efficient use of
assets
5

The character of policy coordination remains largely unchanged from the previous period, although the dominance of Nur Otan even at the local level has possibly made this even easier. The executive's dominance of the policy process aids in short-term policy coordination. However, the existence of several groupings within this political elite does make for mutual suspicion in some policy sectors.

Policy
coordination
7

Corruption remains entrenched, particularly in the judiciary. Kazakhstan endorsed the Extractive Industries Transparency Initiative (EITI) in 2005, and the Stakeholder Board has endorsed the Final Validation Report. In December 2010, however, the EITI board concluded that Kazakhstan was "close to compliance," and the country was granted an additional six months before the verification process would be completed in 2011.

Anti-corruption
policy
4

The presidentially appointed prosecutor general, the ministries of Justice and Internal Affairs, and the National Security Committee handle all major anti-corruption drives. The case against Giffen explained above (see “prosecution of office abuse”) was one example of an anti-corruption case that took on international dimensions.

16 | Consensus-Building

The major political actors agree on overall market economic goals even if there are disagreements over the degree of state involvement in that market economy. There is considerably more disagreement on whether Kazakhstan should aim to evolve into a democracy. This period appears to have legitimated Kazakhstan’s path as an authoritarian state; the country was able to use its role as OSCE chair to show its international status to a domestic audience without pursuing new democratization initiatives, thus using this period to affirm its ideological and cult path.

Consensus on goals
6

The Kazakhstani government has continued to be acutely adept at co-opting actors who might otherwise advance alternative reform paths. Very few influential actors remain who might advance democratic reforms.

Anti-democratic actors
3

The political leadership’s rhetoric has continued to minimize the risks of destabilizing polarization effectively. However, it has not managed to expand consensus across dividing lines, primarily those of ethnicity and class, despite its Doctrine of Unity of 2010. In other words, measures adopted continued to be largely preventative rather than constructive. It has been boosted in these preventative measures by its access to substantial resource revenues, which have enabled it to co-opt dissenters or give some assistance to poorer members of the population.

Cleavage / conflict management
6

The country’s political leadership has suppressed and excluded civil society actors from the political process, and its monopolization of key institutions through the presidential party ensures that this will continue. The key actor in civil society remains the mass media, which continues to exert some degree of “independence” from the state. New forms of media in particular can exert influence on government decisions.

Civil society participation
3

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

Reconciliation
4

17 | International Cooperation

In the area of market reform, the government has been very adept at exploiting international know-how and integrating international assistance into the domestic reform agenda. But with regard to political reform, even as it was preparing to take the OSCE chairmanship role, it has deemed external advice to be undesired political interference. During the review period, NGO and international NGO (INGO) activities in the field of democratization continued to be hampered by a lack of support and even open suppression by government. In January 2008, the Kazakhstani government renegotiated a deal over the Kashagan offshore oil site with Italian energy giant Eni SpA, doubling its stake in the project and gaining extra income of up to \$20 billion over the life of the project. Kazakhstan has also secured large-scale infrastructural investments from China, for example in the fields of transportation and pipelines, enabling it to meet key development goals.

Effective use of support

6

Though Kazakhstani leaders assert that the country's OSCE chairmanship cemented the regime's international standing, experts give Kazakhstan a mixed review. The government managed to persuade leaders to sign a declaration reaffirming core OSCE principles. It also insists it kept its own promises by implementing reforms that went into effect in 2009, though critics denounced these as cosmetic. Though Kazakhstan had not made any significant progress on the path to democratization, its credibility as an international actor had increased by the time its chairmanship came to an end in January 2011. Its role in the 2010 Kyrgyz events, in which the country closed its borders but evacuated Maxim Bakiyev, emphasized its interest in securing a stronger profile as regional leader.

Credibility

7

As OSCE chair, Kazakhstan emphasized security and cooperation over the promotion of human rights and democracy. At the OSCE summit meeting in December 2010, it provided ideas for brokering peace in the Caucasus conflicts. In the same year, Kazakhstan, Belarus and Russia launched the Single Economic Space and their customs union.

Regional cooperation

8

To date, Kazakhstan has succeeded in conducting a safe multivector policy that has managed to avoid intensifying geopolitical collisions between the United States, China, Russia and their allies. Foreign Minister Kanat Saudabayev continued predecessor Marat Tazhin's support for increased Central Asian regional cooperation. As the economic engine of the region, Kazakhstan has been a magnet for labor migration (especially from Kyrgyzstan and Tajikistan), even if in the wake of the economic downturn it has clamped down on illegal labor migration, a trend likely to continue.

As a landlocked state, it is in Kazakhstan's interest to conduct friendly relations with its contiguous neighbors, of which two, Russia and China, are great powers. But rather than depending on one or the other or even both, Kazakhstan has also sought new partners further afield, notably in the Middle East and the West. This multivector foreign policy, as it came to be known, was primarily motivated by the republic's need to secure alternative oil pipeline routes. Kazakhstan remains unwilling to commit itself to any one power.

Strategic Outlook

In the coming years, the leadership is likely to continue to bask in what it and some of the international community view as a successful close to the OSCE chairmanship. After rejecting the already-approved bill on a referendum to do away with presidential elections until 2020, the president sent it to the Constitutional Council for examination, which in turn found it unconstitutional on January 31, 2011. Nazarbayev has thus allegedly already been deemed by half the eligible voting population to be fit to rule until 2020, while at the same time been seen to act constitutionally by reaching the same conclusion as the Constitutional Council. On the same day, Nazarbayev declared he would hold early elections, thus ensuring that the political scene for the coming months will be dominated by this campaign.

In the medium term, calling elections early does not eliminate the succession issue, but does allow for a longer period to prepare for a replacement for Nazarbayev. The succession issue will continue to be strongly influenced by the competition between the various large political groupings. Prospects for liberalization in the coming period are low, not least as the president will be consolidating his Doctrine of National Unity and concentrating on economic reform. Any fundamental change in the direction of political reform will need to come from within the government itself. Again, it will be important to persuade the Kazakhstani leadership that an overconcentration of power in the hands of the president and his party ultimately introduce an overall destabilizing element into the country's future. The deliberate suppression of the development of an entrepreneurial class by keeping economic interests in elite hands is also likely to weaken rather than strengthen the polity.

Economic growth will continue to depend in large part on commodity prices, but predictions for 2011 vary between 4% and 5%. The engine for Kazakhstan's economic growth will continue to be its abundant oil and gas resources. Prospects for exports are good, and Kazakhstan is still expected to become one of the world's top 10 oil exporters by 2012. A well-capitalized and well-regulated financial system is required for the economy's gradual diversification, an issue that received considerable discussion during this review period.

Presidential and ministerial messages on the need for economic diversification suggest a continued commitment to develop the agricultural sector, light industry, and the service industries. During 2011 and 2012, the economy will still be playing catch-up, and the government is likely to keep a close watch on bank credit and external borrowing, while pursuing an overall tighter monetary policy and encouraging a stronger tenge. In 2009, according to Kazakhstan's Statistics Agency, 70% of all FDI inflows went to the energy extraction sectors. In a strategy report developed by the OECD and to be published in February 2011, several other initial priority sectors for FDI are suggested, including the agribusiness value chain, information technology and various business services.

The coming period is also likely to be dominated by efforts to take a large number of companies in the major Kazakh state holding company, Samruk-Kazyna, into the public securities markets. They will in part be floated at home, and in part abroad. A few independent companies may also decide to list. The main aim is to raise money for these companies' capital investments, such as building refineries or pipelines. This is expected to be announced in 2011, with flotation to begin in 2012. Although at the time of writing, Samruk-Kazyna had not yet made any announcements, likely assets to be floated include the National Company KazMunaiGas, the Kazakhstan Temir Zholy national rail operator and the Development Bank of Kazakhstan. Unlike in the mass privatization drive of 1994 – 1997, companies deemed of strategic importance will not be floated.

Fundamental change in Kazakhstan's multivector foreign policy is unlikely. The country will continue to court partners further afield, particularly in economic investment terms, while at the same time building institutional links with neighbors, notably with Russia and Belarus through the customs union, alongside bilateral ties with China. With the opening of the Central Asia-China gas pipeline, as well as new oil pipelines linking the West Kazakhstan oilfields to China, Kazakhstan's eastern neighbor remains the primary – and increasingly important – market for its raw materials. As well as underpinning global commodities demand, China accounts for 30% – 40% of Kazakhstan's exports. Construction of the Western Europe-Western China highway and the planned rail link from Zhetigen near Almaty to the Chinese border will allow Kazakhstan to further increase its exports.

The launch of the first phase of Kashagan – the world's largest offshore oil and gas project – is expected in late 2012 or the first half of 2013. In this second phase of the project, a critical policy determinant will be the Kazakhstani leadership's desire to increase both taxation income and its ownership stakes in Kashagan, in the Karachaganak and Tengiz Chevron fields, and in any other future oil and gas fields. Issues of taxation income revolve around production-sharing agreement terms and the possible reintroduction of export duties, as well as local content clauses. Any protracted negotiations on any of these issues will almost certainly affect medium-term production.