BTI 2014 | Kazakhstan Country Report

Status Index	1-10	**5.05**	**#** 81 of 129	
Political Transformation	1-10	3.85	# 102 of 129	➔
Economic Transformation	1-10	6.25	# 47 of 129	➔
Management Index	1-10	**4.67**	**#** 74 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at http://www.bti-project.org.

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Key Indicators

Population	M	**16.8**	HDI	**0.754**	GDP p.c.	$	**13916.6**
Pop. growth[1]	% p.a.	**1.4**	HDI rank of 187	**69**	Gini Index		**29.0**
Life expectancy	years	**68.9**	UN Education Index	**0.839**	Poverty[3]	%	**1.1**
Urban population	%	**53.5**	Gender inequality[2]	**0.312**	Aid per capita	$	**3.1**

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $2 a day.

Executive Summary

At the close of Kazakhstan's chairmanship of the Organization for Security and Cooperation in Europe (OSCE), 2011 began on a note of optimism. However, by the end of the year, 2011 would be called "one of the hardest and most tragic" in the 20 years of Kazakhstani independence. While the previous period was dominated by the financial crisis and the country's OSCE presidency, 2011 and 2012 were marked by domestic problems, as society reeled from a series of shocks and threats.

Less than a month after the end of the OSCE chairmanship, Kazakhstani President Nursultan Nazarbayev declared early presidential elections for April of that year, 20 months early. He called his subsequent 99.5% vote share in April "sensational for Western states," saying this reflected the country's exceptional unity. This electoral endorsement, he explained, vindicated his decision not to accept the earlier parliamentary invitation (on the basis of a national petition) to prolong his rule until 2020 by referendum.

A month later, in May 2011, workers in Mangistau province's industrial town of Zhanaozen began striking, seeking higher wages, a revision of collective agreements, and noninterference in the work of trade unions. With mounting frustration as their grievances remained unheard, they took to the streets on December 16 to mount a significant but unarmed protest. The response of the police was disproportionate, with 15 protesters killed (one in neighboring Shetpe) and over 100 injured. Authorities were quick to explain how so-called third forces had necessitated this reaction, but bystanders and Facebook reports said police had fired indiscriminately on the crowds. Nazarbayev stated: "The Mangistau events were serious for the whole of Kazakhstan… The third forces who paid money to the protesters need to be eradicated." He also blamed governing elites and the leadership of the state company Samruk-Kazyna for failing to sort out the grievances.

The fallout from this event for the rest of the country seemed, however, largely contained. Authorities controlled the framing of the event as instigated by third forces and promised

immediate redress through due process. But at the government level, Zhanaozen led to some high-profile elite changes and some programmatic redirection. For example, Umirzak Shukeyev took over from Timur Kulibayev as head of Samruk-Kazyna, Baurzhan Mukhamedzhanov replaced Krymbek Kusherbayev as Mangistau akim, and Lyazzat Kiinov became KazMunaiGas's new head. Nazarbayev introduced two important new programs in 2012, one at the beginning and one at its close (the second timed just prior to the one-year anniversary of the Zhanaozen events), both of which, with a leftist bent, emphasized the value of work and the incorporation of social concerns.

Meanwhile, in the fall of 2011, the lower house of the national parliament (Mazhilis) was dissolved to make way for the establishment of a supposed multiparty legislature in 2012. On 15 January 2012, these elections, held simultaneously with district legislative ones, brought three winners: Nur Otan (Fatherland's Ray of Light), with 80%; Ak Zhol (Bright Path), with 7.47%; and the Communist Party, with 7.19%. While this dented Nur Otan's monopoly, Ak Zhol and the communists are both loyal rather than opposition parties. At the same time as the holding of so-called multiparty elections, the new Concept on Local Self-Government was introduced, providing for the election of all rural and district mayors (akims) by local representative bodies (Maslikhats).

The government also reported in 2011 presumed terrorist acts in Atyrau, Taraz and Boralday. Antiterrorist operations in Boralday occurred in response to the deaths of two members of the road police in Almaty and attacks in Atyrau. In May 2012, 15 border guards at the southern Arkankergen border post were found dead; shortly thereafter 12 people were found massacred in Almaty's national park in August. Along with containing the fallout from Zhanaozen, the authorities set about understanding the nature of these threats and responding to them, justifying new laws on religion, Internet and national security in 2011 – 2012 as such responses. At the same time, the rhetoric surrounding the president's cult of personality was partly replaced by references to multiparty rule, socioeconomic well-being and regional modernization.

Alongside these perceived destabilizing threats, fierce weather conditions and accidents also produced casualties, with two major storms hitting Almaty in May and June 2011, in the first case felling 96,000 square kilometers of forest, and in the second leveling several houses and flooding roads. Estimated damage from the June storm alone was put at over $3.5 million. In 2012, two major airline crashes left scores dead. Temporary reprieve between these tragedies was brought by Kazakhstan's success at the 2012 London Olympics when its athletes returned with 13 medals, earning the 12th rank for their homeland. On 1 December 2012, a new holiday, the First President Day, was introduced, and the Almaty subway, the first of its kind in the country, was officially opened. These events fed into the continued emphasis on patriotism, with labor and work ethic presented as key values to unite the population.

On the economic front, the imperative to deal with socioeconomic problems increased pressure for public spending, but there was also continued sobriety about nonperforming loans, the world economic downturn and debt problems in the euro zone. The government continued its attempts to manage the banking system and followed through on stabilization measures and increased regional spending packages by mobilizing national bank and fund reserves. It replaced the

Kazakhstan-2030 strategy with Kazakhstan-2050; like its predecessor, Kazakhstan-2050 set the aim of placing Kazakhstan among the world's top 30 nations, but also incorporated an emphasis on regional development. The government emphasized above all the need for a development-centered state that prioritized socioeconomic advances. The 2011 – 2013 period also saw the continued practice of exacting larger ownership shares in forthcoming production-sharing deals with foreign partners.

Meanwhile, Kazakhstan's multi-vector foreign policy remained unchanged. While in January 2012 Kazakhstan brought the country's participation in the Customs Union to the next stage of the Common Economic Area, it continued to stress the importance of its relations with the European Union, the United States, China and Turkey.

History and Characteristics of Transformation

Kazakhstan's independence in December 1991, following the breakup of the Soviet Union, was the starting point for the country's political and economic transformation. The early post-independence years were marked by initial steps toward democratic liberalization and very steep economic decline. Under President Nursultan Nazarbayev, a former Communist Party official at the country's helm since 1989, the economy was liberalized and eventually rebounded. However, while the country has seen significant economic growth since the late 1990s, the president has become more authoritarian over time, harassing opposition parties and their leaders and disregarding media freedoms.

President Nazarbayev's authoritarianism has become more pronounced since the end of 1994, when he dismissed parliament on a false 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 fill key government and business positions. Fearing political fallout from the possible effects of the 1998 financial crisis in neighboring Russia, the Kazakhstani parliament decided to hold presidential elections two years ahead of schedule, in January 1999. Nazarbayev won the election, but the OSCE sharply criticized the electoral process. Six years on, in December 2005, Nazarbayev was again reelected; again, the OSCE criticized the process.

Political maneuvering among the country's elites first became public in November 2001. A political struggle involving the president's son-in-law, Rakhat Aliyev, led top government officials and major businessmen to openly oppose Nazarbayev for the first time. They founded their own political movement, Democratic Choice, and called on the president to speed up democratic and market reforms. The government officials involved were subsequently fired, and have acted as dissenters since. This party, other members of the opposition and the media have all been subject to increasing repression. Parliamentary elections in September 2004, judged as neither free nor fair by the OSCE, saw the majority of seats go to the presidential party and the Fatherland Party

(Otan), with only one seat going to the opposition. The daughter of the president and Aliyev's wife, Dariga Nazarbayeva, also gained a seat. She has set up her own political party, Asar, and has been rumored to be a potential successor to her father.

Kazakhstan has been one of the most successful ex-Soviet republics to make the transition from centralized to free market economy. The national economy, once controlled from Moscow, collapsed following independence. Many state enterprises came to a standstill, and inflation surged to well over 2,000%. In November 1993, a new currency, the tenge, was introduced. Mass privatization and the sell-off of large enterprises in the oil, gas, electricity and metals sectors in the mid-1990s, in which foreign investors could participate largely within management contracts, gave a significant boost to the economy. Kazakhstan achieved economic growth for the first time in 1996 and managed to maintain it for 10 years.

The July 2000 discovery of the giant Kashagan oilfield in Kazakhstan's sector of the Caspian Sea marked the beginning of a new chapter in the country's oil explorations, and the brokering of a new deal in 2008 was significantly to the advantage of the Kazakhstani government. 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 in January 2001 set up a national fund for stabilizing state income. 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 to stabilize the tenge, it continues to be fed by high commodities prices (particularly oil and wheat).

In May 2007, an unprecedented change in law was approved by parliament lifting the two-term restriction on the presidency and allowing Nazarbayev to become president-for-life. The five-year term of office existing since the constitutional changes of 1998 has thus become meaningless. Simultaneously, the president was given the right to officially head his party Nur Otan, thus strengthening the president's influence over parliament, government and society. Presidential representation was also increased by bringing the number of senators from seven to 15, and by incorporating into parliament nine members of the pro-presidential body, the Assembly of Peoples of Kazakhstan. He has also strengthened his privileges in terms of law initiation and can, with very little justification, dissolve the national and regional legislatures. On 20 June 2007, the president accepted a request from Mazhilis deputy Nurbakh Rustemov to dissolve parliament and hold new elections, which took place on August 18. In these new elections, Nur Otan gained 88.4% of the seats. The presidential system was further strengthened in laws introduced in February 2009 (on mass media, political parties and elections), all of which fail to comply with OSCE obligations.

While 2009 and 2010 were characterized by the country's gaining a stronger profile in Central Asia and internationally, as well as by a presidential cult of personality, 2011 and 2012 saw domestic concerns trumping foreign ones. In 2011, the domestic agenda was dominated by elections: first the presidential election held in April 2011, 20 months early, and then the early parliamentary elections in January 2012, which brought two more parties to the Mazhilis. The rest of 2012 was dominated by discussions about how to best deal with the consequences of Zhanaozen, while the country was ushered into 2013 under a heavy socioeconomic modernization agenda following Nazarbayev's Kazakhstan-2050 speech.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question Score

Monopoly on the use of force 9

The executive continues to keep its monopoly on the use of force. The National Security Committee (KNB) continued to be the main institution responsible for national security, working closely with the Ministry of Interior.

Dramatically and unexpectedly, the use of force in the December 2011 Zhanaozen riots provoked questions over police training and the relationship between government and the police. The police were not directly taken to task as a result of Zhanaozen, however. Further events quickly overshadowed this: On 31 May 2012, 14 border guards and one national park ranger were found dead at the Arkankergen southern border post. The border unit had been set on fire in an apparent attempt to conceal the crime. Vladislav Chelakh, a fellow military conscript, was accused of the massacre. Some commentators found it difficult to believe that an ill-trained conscript could have overpowered and killed 15 people; some told the court they believed Chelakh committed the crime; others questioned his guilt. Nazarbayev called this border event a terrorist act, and June 5 was announced as a day of national mourning.

Whatever the truth, the case has sparked a host of conspiracy theories in Kazakhstan, even including that the murders were a bid to destabilize the Nazarbayev administration. The verdict also raises questions about the state of military discipline in the army and how serious hazing is. It has already sparked the resignation of one senior officer, Border Service Director Major-General Nurzhan Myrzaliyev, unusual in a country where top officials typically evade responsibility for high-profile failings. A little later, in August 2012, 12 people were killed in a national park in Almaty, and extremists claimed responsibility.

The security of basic transport and infrastructure was called into question when Kazakhstan suffered its second fatal plane crash in just over a month on 29 January 2013, when a domestic passenger flight arriving in Almaty crashed in bad weather, killing all 21 people on board. On December 25, a military aircraft near Shymkent

had crashed, killing all 27 people on board. The dead included the acting head of Kazakhstan's Border Service, Turganbek Stambekov, and other senior border officials.

Kazakhstan continued to be free from any large-scale insurgent or violent movements, and activities by the Cossacks and Slavic movements were long quelled by the early 1990s. Unlike in some of its neighboring Central Asian states, the so-called threat posed by Islamism is voiced far less frequently. While drug trafficking occurs throughout Central Asia, the influence of the drug mafia in Kazakhstan is less than in neighboring first-transit states bordering Afghanistan.

A significant percentage of GDP continues to be spent on the military, even though the government continued to shelve its plans to build a professional army in the face of a deepening financial crisis. The president explained that measures to combat terrorism and extremism were aimed at preserving stability in the country.

State identity

8

The 2009 census, conducted every 10 years, confirmed the status of ethnic Kazakhs as the majority of their country. While in 1989 the census showed Kazakhs as an ethnic minority in their own 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 23.7%.

Since becoming independent in 1991, the Kazakhstani state has aimed to cement the titular status of its ethnic Kazakhs even while it employs a rhetoric of multinationalism, promoting a civic idea of Kazakhstan in which all ethnic groups have equal rights and the country enjoys religious diversity. This dual-pronged approach is found in the 1995 constitution and in the 2010 Doctrine of National Unity, which also refers to ethnic Kazakh identity and writes how the Kazakhstani state and 1991 independence were the natural outcomes of a long struggle for the Kazakh people to have their own territory.

To emphasize civic identity, Kazakhstani officials continued to point to the institution of the Assembly of the Kazakhstani People (known as the Assembly of Peoples of Kazakhstan prior to 2007), a forum set up in 1995 whose members are picked by the president to represent their respective ethnic groups. In 2012, the president chaired two sessions of the assembly as well as presiding over the election of nine of the assembly's members to the Mazhilis. The result, the president said, is a unique global institution in which representatives of ethnic groups are able to elect their representatives to represent them in the highest legal organ of the country.

Civic patriotism was given an unexpected boost with the London 2012 Olympics when Kazakhstani athletes returned with 13 medals, finishing 12th out of 250 countries. At the August 17 ceremony in Kazakhstan to mark their triumphs, the president said that one reason for this resounding success had been the country's

interethnic friendship, with six different ethnic groups represented among Kazakhstani champions.

While in 2010 the Language Program set a goal for 95% of Kazakhstanis to master the Kazakh language by 2020 (the current level of knowledge is reportedly 60%), in 2011 the president announced that the Kazakh Cyrillic alphabet would be replaced with Latin script by 2025. This dominated discussions about language and identity in this period.

Despite Kazakhstani authorities' increased attention to social justice and national unity, several longstanding problems continue to be unresolved, while proposed reforms are not unanimously accepted by the population. The situation of Oralmans (ethnic Kazakh repatriates from China, Mongolia and other Central Asian republics) remains precarious, since they most often have no education, do not speak Russian, and receive little aid from the state.

Astana has been projecting itself as a meeting place for world religions. In this vein, it hosted its fourth interfaith tolerance and dialogue congress in 2012, inviting religious leaders from around the world.

No interference of religious dogmas
9

Behind this symbolism, however, 2011 – 2012 witnessed the acceleration of Kazakhstani authorities' attempts to control the religious environment, partly in response to perceived threats and acts of terrorism. A new law on religion was adopted on 13 October 2011. The legislation gave religious denominations and faith-based civic associations one year to reregister under stringent new criteria, or face closure. Only 17 of 46 officially recognized faiths survived the registration process, and one-third of all faith-based civic associations face elimination. Kairat Lama Sharif was appointed head of a new Agency for Religious Affairs, whose brief is to implement the law. One major controversial part of the law was forbidding prayer in state institutions. The U.S. human rights organization Freedom House said that this law contravenes the right of Kazakhstanis to the freedom of religion and asked the Senate to oppose the draft. However, it was adopted, leading to expressions of concern by the United States and the European Union.

The Kazakhstani regime remains secular. The church and the state are formally separate. While the political process is secularized, it also aims at controlling the development of religion in Kazakhstan. While there is little if any preferential treatment given to the Muftiat (Islamic High Council), the Agency for Religious Affairs is probably intended to reduce the influence of the Muftiat, increasing government control over it. Kazakhstan in this period was slowly losing its reputation for having a more tolerant attitude toward religious activity, seeming to adopt the measures tried and tested by its more tightly controlled southern neighbor Uzbekistan.

A continued distinction is made between so-called traditional and nontraditional religions, with the implication that nontraditional faiths are generally destabilizing and bad. In terms of self-identification, 70% of Kazakhstanis identify as Muslim and 25% as Orthodox Christian. The roughly 20 minority religious groups include Jehovah's Witnesses, Hare Krishna followers, and some Islamic supporters viewed as deviating from the approved form of Islam.

Most observers agree that the period under review saw a rise in extremist activity, but the government's responses were judged to be hasty, ill-advised and repressive. The trend toward increased vigilance, noted in 2009 and 2010, accelerated in 2011 and 2012.

Basic administration
8

The administrative structures of the state provide most basic public services throughout the country. But their operation is to some extent deficient, despite the fact that some of the country's basic financial and tax infrastructure remains among the best in the post-Soviet region. 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. Changes to the law on local self-government, and the introduction of a new Ministry for Regional Development, were aimed at improving this relationship. The new ministry is designed to treat regional concerns as a top priority and to overcome the present stalemate, in which central and regional political responsibilities remain poorly defined, and the center expects regions to be responsible for resolving basic social issues. Also, the local self-government law now allows for the election of district and rural heads.

Few administrative changes occurred in the immediate wake of the April 2011 presidential elections or the dissolution of the Mazhilis in October of that year. Zhanaozen instead sparked discussions and ideas about how to best proceed with administration. Clearly, state officials had mismanaged a crisis that had been simmering openly since May and failed to address the needs and demands of the local workers. Thus, emphasis in this period was placed on programs designed to scale down the number of officials while improving the quality and training of those who remained. In December 2012, some reforms to state services were introduced, including a cut in the number of state officials, the division of key administrative organs into two campuses, and the introduction of clear criteria to assess the effectiveness of the state.

The social modernization agenda announced by President Nazarbayev in his December 2012 Kazakhstan-2050 address also includes additional measures against corruption. The need to enforce stricter rules for public officials has become particularly clear in the aftermath of Zhanaozen, when the illegal deals of former regional governor Bergey Ryskaliev were brought to light. While Kazakhstan has a

huge territory and central authorities are not always well-informed of the regional situation, local corruption is often the principal reason for the poor implementation of socioeconomic programs adopted in the capital.

2 | Political Participation

Free and fair elections
3

Two main elections marked this period: the early presidential elections in April 2011 (called 20 months early by the president in January 2011 and reconfirming Nursultan Nazarbayev as president with 99.5% of the national vote) and the parliamentary elections in January 2012 after the parliament's dissolution in November 2011. At that time, Nazarbayev had called for the parliamentary elections to be moved up from August to January 2012.

To date, no Kazakhstani parliamentary and presidential elections have been recognized as free and fair, and international election observation missions have repeatedly found shortcomings in the electoral process. These two cases were no exception. Thus, while the country has paid lip service to the democratic requirement of elections, a round of open and competitive elections has yet to be held; leadership has not changed since 1989.

Even though most observers agree that Nazarbayev would have in any case won the April reelection with a comfortable majority, the early calling of elections reduced other candidates' chances to prepare. Furthermore, Nazarbayev enjoyed unrivalled administrative and political support. The monopoly exercised by the pro-presidential party Nur Otan held sway, its March 2010 local parliamentary electoral win giving it all 53 seats. By requiring all candidates to be party members, setting a high 7% electoral threshold for political parties, and allowing no provision for independent candidates to contest, the Nazarbayev leadership in effect legalized the exclusion of non-regime parties and individuals from the political process.

At the January 2012 Mazhilis elections, Nur Otan's monopoly broke when three main parties came out as winners: Nur Otan (80%), Ak Zhol (7.47%) and the Communist Party (7.19%). While Nur Otan's monopoly had been dented, it would be erroneous to view this as the establishment of a multiparty system, since the two parties that made the threshold are loyal to the regime rather than oppositional. The only true opposition force, represented by the unregistered political party Alga, has since been under heavy pressure from the judiciary. In November 2012, its leader Vladimir Kozlov was sentenced to seven and a half years in prison, while his party was declared an extremist organization and banned one month later.

The legal amendment to the law on local self-government in this period promised district and rural elections. The central administration continued, however, to rule out the election of regional governors (akims). Although constitutional amendments in

2007 granted a greater voice to local legislators in the appointment and removal of regional governors, the continued dominance of Nur Otan, even if somewhat reduced in the January 2012 elections, makes such measures ineffective.

Effective power to govern
2

The president continues to enjoy the monopoly on the use of force. The two-term limit on the First President, as Nazarbayev has been legally known since 2000, was removed through a series of constitutional amendments in 2007. In January 2011, Nazarbayev rejected the suggestion to put off elections until 2020, the year of his 80th birthday, replacing this with the early presidential elections of April 2011. Some observers held that the entire suggestion was staged to boost the president's democratic credentials, but it is fair to say that rule by referendum would have reduced his effective power to govern.

Debates surrounding presidential succession – its mechanisms, groups and individuals – continued unabated in this period. Despite the continued predominance of Nazarbayev and the party Nur Otan, Kazakhstan is not run by one man. 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. The fallout from Zhanaozen accentuated this elite factionalism, as those seen as either more responsible for the outbreak or unable to deal with its consequences were tarnished in their likelihood as successors.

Zhanaozen did at least temporarily provoke some discussion about forms of government. The decision to encroach even slightly on Nur Otan's monopoly of the legislature suggests that the president and the government are aware that current ways of managing crises or understanding socioeconomic modernization are found wanting. That said, the garnering of seats by loyal parties is hardly an attempt to introduce more power-sharing. Occasionally, the elite seems mindful that political modernization is failing to keep pace with rapid socioeconomic modernization.

Association / assembly rights
3

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 co-optable, opposition figures are imprisoned or assassinated. While Kazakhstan ranks ahead of Uzbekistan and Turkmenistan in its degree of openness, the right to hold meetings and to protest has been carefully controlled. In contrast to its neighbors (with the exception of Turkmenistan), Kazakhstan saw no major significant assembly of protest groups prior to the May 2011 start of oil workers' protest campaign in Mangistau province.

Since 1995, the Ministry of Justice has required all civil society groups to register, and this law remains unchanged to this date. It places severe restrictions on these groups' right to public assembly. A gathering of more than 20 people requires prior approval, at least 10 days prior to the event. The events associated with the Zhanaozen

oil strike in 2011 demonstrate that these restrictions may have actually led to the outbreak of severe protest.

The voices of those associated with the events have been curtailed. Opposition leader Vladimir Kozlov was sentenced to 7.5 years in prison in November 2011 (after an unsuccessful appeal). He had initially been accused of fomenting the violence at the instigation of Mukhtar Ablyazov, a fugitive oligarch and political foe of Nazarbayev's. Union leaders Akzhanat Aminov and Serik Saparagli, who had supported the Mangistau protests, were sentenced to three years on probation due to their cooperation with the investigation. And even after a damning September 2012 Human Rights Watch report that detailed allegations of harassment, intimidation and imprisonment of union leaders and strikers, as well as numerous calls by the European Parliament to release Kozlov, the government has successfully contained the fallout from Zhanaozen.

In line with the country's 2010 National Unity doctrine and its spirit of ideological renewal along prescribed lines, dissent continues to be viewed as destabilizing. While the previous period was dominated by a public incident of ethnic discrimination against Vladimir Kozlov (see "Reconciliation"), 2011 – 2012 focused on how social and economic marginalization or neglect could have mobilizing effects. When this mobilization occurred, the authorities did not know how to manage it.

Freedom of expression
3

Kazakhstan's so-called private media by now are predominantly associated with private elite groupings. This development should be kept in mind when assessing any new liberalization law. In any case, no major attempts to liberalize the media landscape occurred in this period.

Despite domestic and international pressures, the government passed, on 18 January 2012, a law requiring all foreign television and radio stations to reregister, giving the state a new opportunity to evaluate and potentially ban their operation within Kazakhstan. Another law passed in 2011 requires media channels to produce at least 50% of their programming in Kazakh, rather than translating programs into Kazakh. The 28 January 2012 Law on National Security placed "informational security" at the core of its understanding. It is unclear from the text what precise informational threat the law is securing the country against. It includes references to the banning of any material that undermines national security or discloses national secrets. It also forbids any foreign entity or entities without Kazakhstani citizenship from owning more than 20% of shares of a media company.

According to the 2013 Worldwide Press Freedom Index of the international media watchdog Reporters Without Borders, Kazakhstan ranked 160th, down from its 154th position in 2011 – 2012. The media coverage of the April 2011 presidential and January 2012 parliamentary elections remained biased in favor of the incumbents. An independent survey of the state media during the parliamentary election campaign in

late 2011 found that Nazarbayev's Nur Otan party received at least 52% of coverage, followed by the pro-regime party Ak Zhol (16%) and the National Social Democratic Party (OSDP) at 12%.

While the government has initiated minor amendments to the highly restrictive Media Law, it has not initiated any significant liberalization of this law or the criminal code. The government has begun to monitor and manage online content, closing down – without proper inquiry – several Web sites suspected of spreading religious extremism in 2011. In September 2011, the Office of the Prosecutor General reported the closure of 50 foreign Web sites accused of promoting religious extremism and terrorism. In December 2012, it ordered the closure of eight newspapers and 23 electronic media associated with exiled oligarch Mukhtar Ablyazov. Thus, the only source of independent media coverage has been effectively muzzled by state authorities.

The two restrictive laws of August 2009 on the Internet and privacy continued, with only vague promises by authorities to decriminalize libel in 2014. Bloggers viewed as publishing items critical of the government are charged under Article 318 of the criminal code protecting the president's "honor and dignity." The New York-based Committee for the Protection of Journalists has called on Astana to keep a longstanding pledge to decriminalize libel. While freed in this period, Yevgeniy Zhovtis, a leading human rights lawyer and activist, served part of a four year sentence for a politically motivated involuntary manslaughter conviction.

3 | Rule of Law

Separation of powers
2

In the period under review, the constitution's commitment to the separation of powers was not met. Even if the pro-presidential party reduced its monopoly of seats to a mere majority, and even if authorities have agreed to allow the election of rural and district heads, the executive continues to exercise tight control on the legislative and judicial organs.

The head of the judiciary continues to be appointed by the president, and no major cases or procedures against politicians have escaped politicization. The management of the prison system, which was transferred to the Ministry of Justice in 2002, was returned to the Ministry of Interior in the fall of 2011.

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

Independent judiciary
4

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 Auditing Committee. The Constitutional Court and key members of the judiciary, however, are appointed by the president; the decision by the president to send the referendum bill on prolonging his rule to the Constitutional Court is thus symbolic rather than real. The political elite continues to interfere in the judiciary, and this was 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. Zhovtis was released in this period. Supreme Court judges are chosen by the Senate on the recommendation of the president.

Nataliya Sokolova, a lawyer for the Trade Union of Workers of the oil company Karazhanbasmunay, was detained in May 2011, soon after the company's Zhanaozen-based employees went on strike. The state's prosecution of Sokolova reinforced the extent to which the judiciary has become an instrument for punishing actors who challenge the status quo by seeking accountability from government or financial elites. Under pressure from the state-owned oil and gas company KMG, local courts first charged Sokolova with administrative offenses, then added criminal charges. Credible reports indicate numerous violations of due process in Sokolova's trial. She was given a six-year prison term and was banned from legal practice and public work for three years. The sentence was confirmed in September. Although she was subsequently released, in March 2012, this happened only after she had confessed her guilt, most probably under heavy pressure from state authorities.

Another example of the judiciary's dependence on the executive is the case of Vladislav Chelakh, accused of having murdered 15 people in a border post near the Kazakhstani-Chinese border. Sentenced to life imprisonment, Chelakh had seen three different lawyers succeed one another. Also, his lead attorney faced the revocation of his license for contempt of court after he denounced numerous irregularities in the judicial proceedings.

Kazakhstan introduced jury trials in 2007, but the practice is still restricted to cases involving the death penalty or life imprisonment.

Prosecution of office abuse
3

Corruption is entrenched in the judicial system, as in other organs of the government. Corrupt behavior is widely accepted as natural, and many believe that the judiciary serves only the interests of the rich and powerful. For small and medium offenses, bribery is seen as an effective means of achieving the desired verdict. It is also widely understood that becoming a judge is extremely difficult without giving bribes to various officials and court administrators.

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 (Zhaksybek Kulekeev from KTZ, Mukhtar Dzhakishev from Kazatomprom, Zhaksylyk Doskaliev from the Ministry of Health). To date, all major political or public figures brought to trial on politically motivated charges have been convicted by the courts. However, some of them are now free, due to their apparent consent to no longer challenge the competing elite groups.

Corruption scandals in 2012 in the Atyrau region implicated nearly the entire local elite to the tune of $225 million, but, as in previous cases, the prosecution of office was in part politically motivated to control one of the country's fastest growing regions. In March 2012, Kazakhstan Temir Zholy, the main railway carrier, completed implementation of an anti-corruption program, which included specialized training for KTZ staff, the adoption of a corporate ethics code, and a campaign for zero-tolerance toward corruption. A more vigorous anti-corruption campaign is also foreseen in the Kazakhstan-2050 strategy.

Civil rights
3

The bundle of laws on media freedom, rights of association and (re)registration of parties and religious groups continues to curtail civil liberties and human rights. Human Rights Watch criticized the prosecution process after Zhanaozen, pinpointing the failure to bring to public scrutiny the officers involved in the massacres. Harsh criticisms were also voiced by the OSCE's Office for Democratic Institutions and Human Rights, the European Union and the U.S. Department of State.

This period has shown again how individuals often remain unprotected against state interference or non-state actors and are not guaranteed due process under the rule of law. The cases of the activists and lawyer around Zhanaozen reinforced this tendency.

4 | Stability of Democratic Institutions

Performance of democratic institutions
2

Despite a veneer of new bottom-up approaches – the holding of multiparty elections and the election of rural and district heads – these symbolic gestures were more than outdone by further legal and political attempts to crack down on dissent or disagreement.

Any checks and balances meant to control the executive are extremely weak. The executive continues to preside over the other branches of government. Within the executive, the president, his close entourage and the presidential administration continue to dominate. The state is a unitary state. While this regime has been stable, it prevents the accession of any new political group, slows the development of a middle class and creates longer-term instabilities.

The emphasis on the rhetoric of democracy was put aside in favor of the rhetoric of social legislation that could ensure a decent level of well-being to more citizens. The primary reaction to Zhanaozen has been to develop new programs and policies around the ideas of how to bring greater equality into a more economically divided society.

Commitment to democratic institutions
2

The commitment to democratic institutions remains at the level of rhetoric. The chairing of the OSCE in 2010 has not led to any significant changes in the way the country is governed. Any legal or programmatic changes have either sought to strengthen authoritarian rule or introduce a form of managed democracy that gives a semblance of voice to other groups when, in reality, these groups are loyal to the president and do not constitute much of an opposition.

Zhanaozen did not impress upon the leadership the need to change regime type; instead it brought the focus away from the polity to society and socioeconomic organization. The border and park massacres described above (see “Monopoly on the use of force”) reinforced existing methods used by the Kazakhstani government to deal with threats, which focus on attempts to increase control and narrow freedoms rather than to find new ways or institutions through which these frustrations could be expressed and managed.

A large number of influential actors do not appear to view democracy as the most legitimate form of government, partly because they see a system of authoritarianism in which they have prospered (including some 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 Kyrgyzstan (e.g., in 2005 and 2010).

5 | Political and Social Integration

Party system
2

The majority of key parties continue to be formed top-down rather than bottom-up and, like the media outlets, are affiliated with key political groupings. When the constitutional clause that the president is to be above party politics was amended in 2007, Nazarbayev was able to assume party leadership. The Otan party thus renamed itself Nur Otan in early 2007 and elected Nazarbayev as its leader. Nur Otan occupies a near monopoly of the political space in the party system, and a carefully managed introduction of multiparty rule in January 2012 ensured that Nur Otan’s preeminence was only slightly challenged and then only by parties loyal to the regime (the true opposition was barred from participation).

The 2007 amendments to the Law on Elections and Political Parties meant the privileging of loyalty to the party over voters. By requiring party membership, it ruled out the possibility of independents. The high 7% threshold was aimed at blocking the rise of new parties. Despite promises made otherwise in the run-up to its OSCE chairmanship, Kazakhstan introduced no fundamental changes to the political party

system. The changes introduced in 2009 provide for the creation of a minimal two-party system by allowing the second-place party to win representation in the parliament whether or not it crosses the 7% barrier. Since this second party will very likely be loyal to the president, it will not reduce the authoritarian nature of the system.

Interest groups
4

Discussions about NGOs, while prominent in the previous BTI period, were largely absent in this one. In attempting to address relations between the state and society, discussions instead revolved around trade unions and professional organizations. The OSCE's presence in the country in the previous period had given hope and voice to several NGOs, but, at the close of the chairmanship, these voices and civil society went comparatively quiet.

Some participants blamed civil society itself for this quiet, pointing to its own inertia and inexperience. But if the mainstay of funding for interest groups comes from the government (the other two sources being international and domestic private actors), it is not surprising that these groups often are dependent on the state. Nationwide movements are also severely hampered by the sheer size of the country and regional differences.

Zhanaozen reinforced how groups within the society fail to cooperate. Groups are isolated, seldom coordinated, and often temporary due to funding shortfalls. Trade union activity is still subject to regulations and remains weak. In 2012, the authorities spoke for the first in 20 years about the need to review labor laws and ensure better protection of rights.

Approval of democracy
n/a

While opinion polls do exist, they are generally unreliable. In addition, it is difficult to gauge the degree of consent in a system that punishes dissent. Furthermore, the absence of protest does not necessarily mean consent. There is general popular support for a presidential course that avoids the mayhem of neighboring Tajikistan and Kyrgyzstan and delivers on its promise of "stability, accord and growth." The authorities were also able to manage the fallout from Zhanaozen by controlling media references and by diverting attention to other concerns, such as the park and border massacres, presented under the banner of the fight against extremism.

Social capital
3

As in previous years and despite declarations to the contrary, less than 10% of the population remains engaged in civil liberties, human rights and minority protection issues. Activists remain under the most stringent vigilance by the authorities. Rural self-help networks maintained some of the recovery they had enjoyed as a result of economic growth but continued to be considerably less extensive and reliable than in the Soviet period.

At the same time, Kazakhstani society remains relatively polarized along ethnic, linguistic and regional identity lines. While the nationalist party triggered a language debate in September 2011 (proposing to take the Russian language out of the

constitution), no organized reaction was ever heard from any citizen or interest group. The debate was finally neutralized by the president.

II. Economic Transformation

Question Score

Socioeconomic barriers 5

6 | Level of Socioeconomic Development

In January 2012, Nazarbayev proclaimed a new program entitled “Socioeconomic modernization as the key vector in the future development of Kazakhstan.” For this purpose, Nazarbayev asked in February that 15% of the national fund be diverted to the national budget. Throughout 2012, the president constantly mentioned the need to emphasize socioeconomic regional development. To this end, he held two meetings, one in Taraz, on May 25, and one in Kokshetau, on August 8, to promote the south and the north, respectively. He visited most regions, meeting with workers and their trade unions.

The Kazakhstan-2050 program, promulgated in December 2012, sets for Kazakhstan the aim of becoming one of the 30 most developed countries in the world. Its main emphasis is on industrial innovations to assist technology. At the 25th session of the Council of Foreign Investors, the president presented a new project, the Silk Road, designed to make Kazakhstan the strongest trade and transit hub of Central Asia, hoping to double the volume of goods transiting the country. In 2010, 58.5% of the population lived in urban areas, and 6.5% of Kazakhstanis lived below the national poverty line.

Social exclusion and marginalization persist, as does fundamental exclusion through poverty and poor education. Discrimination on the basis of clan, ethnicity and class is more common than it is with respect to gender or religion, although in positions of political influence the government places emphasis on criteria like education, training and general professionalism. That said, access to major economic and political posts remains closed to the general public, with open tests, such as civil service exams, still not providing the major recruitment filter.

The Human Development Index (HDI) ranking was essentially unchanged at 68th, compared with 66th in the previous BTI period (the survey’s underlying data, methods and the number of countries have changed). However, Kazakhstan remained the only Central Asian country in the High Human Development category.

Considerable disparities remain between the disadvantaged rural south (and the west, for example in Mangistau province) and relatively well-off rural areas in other regions. Measuring the composite dimensions of human development, health,

education and income, the HDI shows that while Kazakhstan may be among the world's top 50 nations in terms of competitiveness, its society is still plagued with development problems. Kazakhstan's 2011 HDI of 0.745 is above average for countries in the human development group and below average for countries in Europe and Central Asia. Ukraine and Russia come closest to Kazakhstan in terms of HDI ranking.

Economic indicators		2009	2010	2011	**2012**
GDP	$ M	115308.7	148052.4	186428.1	**200484.9**
GDP growth	%	1.2	7.4	7.5	**5.1**
Inflation (CPI)	%	7.3	7.1	8.3	**5.1**
Unemployment	%	6.6	5.8	5.4	**-**
Foreign direct investment	% of GDP	12.4	4.5	7.1	**-**
Export growth	%	-11.8	1.9	3.5	**-**
Import growth	%	-15.7	0.9	6.9	**-**
Current account balance	$ M	-4114.0	1393.2	12280.6	**7716.5**
Public debt	% of GDP	10.2	10.7	10.7	**12.3**
External debt	$ M	112026.6	119190.2	124437.2	**-**
Total debt service	$ M	25702.4	39473.6	32861.8	**-**
Cash surplus or deficit	% of GDP	5.0	4.4	7.8	**-**
Tax revenue	% of GDP	16.1	19.3	22.7	**-**
Government consumption	% of GDP	11.7	10.8	10.7	**11.6**
Public expnd. on edu.	% of GDP	3.1	-	-	**-**
Public expnd. on health	% of GDP	2.7	2.5	2.3	**-**
R&D expenditure	% of GDP	0.23	-	-	**-**
Military expenditure	% of GDP	1.1	1.0	1.0	**1.2**

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Pease Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Market-based competition
6

Overall, the institutional framework for economic competitiveness has improved, but actual global competitiveness has declined in the past two years. In an attempt to promote diversified economic growth outside the energy sector, regulatory reforms have aimed at streamlining the business start-up process. The country's score in the Heritage Index on Economic Freedom is 0.6 points lower than last year due to declines in half of the 10 economic freedoms, including property rights, freedom from corruption, and trade freedom. Kazakhstan ranks 11th out of 41 countries in the Asia-Pacific region, and its overall score is above the world and regional averages. The small- and medium-sized enterprise (SME) sector still accounts for an average of only 10% of GDP, primarily in food and light industries. Banks in this period again issued a large number of bad loans to the private sector.

One important change in Kazakhstan's tax regime came in 2011, when Kazakhstan became the 110th member and first Central Asian country in the Global Forum on Transparency and Exchange of Information for Tax Purposes. Membership may ensure that Kazakhstan adheres to a high standard of international cooperation in tax matters.

The flat income tax rate is 10%, and the standard corporate tax rate is 20%. The overall tax burden amounts to 13.4% of total domestic income. Public debt is only about 11% of GDP, thanks to oil revenues.

Kazakhstan remained in 72nd place (out of 142 countries surveyed) in the World Economic Forum's Global Competitiveness Report in this period, falling from 67th position in the previous BTI period. In the Heritage Foundation's 2013 Index of Economic Freedom, Kazakhstan is ranked as "moderately free," down 0.6% from the previous year, but placing it 68th, up from 82nd in the previous BTI period.

Launching a business takes six procedures, but completing licensing can take over 180 days. Enforcement of labor laws is highly erratic.

Changes to the tax law in this period generally increased the amount that private businesses have to pay, and SMEs continue to face stifling bureaucracy and politicization of business. Kazakhstan's political leadership remains wary of allowing an independent entrepreneurial class to develop, preferring to maintain the majority of political and economic power in its hands. The private sector continues to be dependent on the state for access to funds. The OECD recommends increased private participation in infrastructure and easier access to financing for SMEs.

Anti-monopoly policy
6

State ownership of enterprises increased in this period, with assets under the control of the National Welfare Fund rising to around 50% of the size of the economy. The role of the state has increased in a number of key sectors. In June 2012, the parliament

approved amendments to legislation regulating state monopolies, limiting them to cases related to national security, defense, and protection of public order and health. In practice, the number of state monopolies has not been reduced; instead, the role of the state has increased in the natural resources and mining sectors.

Following a long dispute with existing private shareholders, a 10% stake in the Karachaganak Petroleum Operating (KPO) consortium was transferred to Kazakhstan in June 2012. In January 2012, the state also acquired the preemptive right to purchase raw and processed gas, while the National Bank of Kazakhstan (NBK) obtained the preemptive right to purchase refined gold "in order to protect the national interest." Proposals for a mandatory 50% state stake in any new oil or gas pipeline projects are also being discussed.

An anti-monopoly committee has existed since the 1990s, but it has generally been a marginalized body beholden to the presidential administration. The Kazakhstani government has continued attempts to reappropriate large parts of the economy that previously were partly in the hands of foreign companies, including in the oil, chemicals and metals sectors. In addition to the establishment of four major banks and the consolidation of the large Samruk-Kazyna conglomerate, the government continues to press for better terms with foreign companies, as they relate to both taxation and stakeholder percentages.

Like its predecessor, the Kazakhstan-2030 strategy, Kazakhstan-2050 also makes economic diversification a key priority for the Kazakhstani economy. While it thus encourages diversification and socioeconomic protection, the commanding position of Samruk-Kazyna as the major state organization covering the non-resource sector is not in question. The state continues to interfere in business processes, reducing the potential for private business to play a significant role in the Kazakhstani economy. Implementation of deeper institutional reforms is critical to strengthening the foundations of economic freedom and securing long-term, broad-based economic expansion. Property rights remain inadequately protected and anti-corruption measures poorly enforced.

Liberalization of foreign trade

7

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

Foreign investment is officially welcome, but unclear legal codes, favoritism toward Kazakh companies, increased requirements for state stakeholding, and inconsistent application of regulations are deterrents. In March 2012, the OECD Investment

Policy Review stated that “attracting FDI in non-extractive sectors [in Kazakhstan] will require more than just eliminating red tape.” On the OECD FDI Regulatory Restrictiveness Index, Kazakhstan stands as the 12th most restrictive country out of the 51 countries in the sample.

Foreign trade has contributed significantly to economic development by improving the balance of payments, attracting FDI and promoting competition. Foreign trade is liberalized in principle, but significant exceptions remain, including differentiated tariffs and special rules for individual companies or sectors. While WTO membership talks, of which the first negotiating round began in June 2008, continue to stall, mainly because of tariff problems, the Customs Union (CU) with Belarus and Russia was formally launched in July 2010. Over 2011 and 2012, tariffs were brought in line with the CU. Kazakhstan is likely to suffer within the CU from its geographic isolation and small domestic market.

While pressing ahead with the CU, Kazakhstan continues its multi-vector economic policy. China, Kazakhstan’s biggest export market, is not far behind Russia on imports. China is the country most prepared to invest in private equity in Kazakhstan.

Despite the deteriorating global environment and the more recent crisis in the euro zone, the trade balance continues to show a healthy current account surplus. The current account percentage of GDP was 7.55% in both 2011 and 2012. Its healthy status is largely due to oil revenues, which, if production commences as planned in the Kashagan oil field in 2013, are set to rise.

Banking system

8

While Kazakhstan’s financial sector is the only one of its sectors integrated in the global economy, it continued in this period to display some of the weaknesses it had previously known. The healthy reputation it had achieved by the start of the 21st century was severely tainted by Kazakhstani 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, received substantial state funds as bailouts and, in April 2012, the Fitch rating agency upgraded their ratings and confirmed the ratings of four other banks. Fitch characterized the sector as overall weak but stable.

The government has outlined several mechanisms for dealing with impaired bank loans, including the creation of a distressed-asset fund managed by the central bank and a taxation window that removes disincentives for banks to write off bad debt. On 10 April 2012, Nazarbayev noted again the banks’ insufficient funds.

Banking problems persist, with the share of nonperforming loans rising from 35% at the end of 2011 to 37% in mid-2012. Nonperforming loans now exceed 30% of the total loan portfolio. In late 2012, Nazarbayev instructed Samruk-Kazyna to exit and privatize four banks – BTA, Temir, Alliance and Kazkommertsbank – by the end of 2013. However, the second restructuring of BTA, under which foreign creditors’

combined share decreased from 18.52% to 1.3%, has raised questions about the safety of foreign assets.

8 | Currency and Price Stability

Anti-inflation / forex policy
7

The government's efforts to make prudent fiscal policy a priority were helped in this period by increased revenue, which bolstered bailout programs.

Consumer price inflation averaged 6.0% in 2012 and was projected to reach only slightly higher (6.3%) in 2013, down from over 7% in the previous period. Net external reserves continued to increase, as did the national fund assets. Prudent fiscal policy followed in 2013 was meant to ensure a projected budget deficit not exceeding 2.5%. In December 2012, President Nazarbayev instructed the government to reduce the deficit to 1.5% by 2015.

Food prices rose in the second half of 2012 as severe drought affected the domestic grain harvest. The poor regional and global economic prognosis, however, has reduced pressure on prices.

Macrostability
8

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 the total exports, and 40% of budget revenues.

Kazakhstan's economy has been recovering steadily since 2009, largely because of increased oil and gas production. The government aims to expand domestic demand through a fiscal stimulus funded by the national fund in coming years. In 2011, GDP grew at 7.5%, slowing to 5.8% in 2012; it is projected to rise to 6.3% in 2013. Growth was down not only because of oil prices stabilizing but also because of weaker growth in the sub-region's main trading partners, particularly the euro zone, Russia and China.

Inflation was down from the previous period and unemployment remained at 5.4% for both 2011 and 2012. At the same time that the economy has experienced growth, Kazakhstani banks have continued to borrow abroad.

The government supports macroeconomic stability. While lobbying, for example, for industrial policies and tariffs, the government and the president have largely not succumbed to populist policy changes. But policies have come under severe strain with the need to draw on bank and national fund reserves in attempts to maintain financial stability. Zhanaozen has increased the verbal commitment to draw on the reserves to maintain socioeconomic stability, with an increased likelihood of wage and social welfare measures possibly following.

Kazakhstan's economic growth in 2012 was lower than in 2011 due to the lower volume of hydrocarbon exports, the global economic slowdown and poor agricultural performance. But it has been overall positive. The economy has grown again, largely due to the rise in commodities prices, including for oil, gold, copper and uranium. But this rise in the commodities sector was not matched by a rise in the majority of the other sectors. The consumer boom seen prior to the global financial crisis has not returned, the banking sector is still cautious about making further loans, and many real estate projects remain unfinished. The service sector accounts for over half of employment in Kazakhstan.

9 | Private Property

Property rights
6

Property rights are well-defined, but the introduction of the term nationalization into Kazakhstani legislation, in March 2011, represents a potential risk. The potential nationalization of foreign assets reflects a broader debate about the privatization years (1994 – 1997), in which mass privatization was resented, and current nationalization rhetoric is couched in terms of reclaiming what should rightfully belong to the Kazakhstani people. However, past experience shows that the government has never fully resorted to the practice of nationalization, preferring administrative pressure, environmental fines and pure rhetoric.

Nazarbayev has established extensive and uncontested personal control over the country's resources. The prime minister has little independent power to formulate policies, although former Prime Minister Karim Masimov, in office between 2007 and 2012, has accumulated considerable personal influence and is widely seen as an independent political player and power broker. Kazakhstan's business scene is also dominated by a limited group of individuals controlling key assets, such as Nazarbayev's middle son-in-law Timur Kulibayev, or the so-called Eurasian group, which controls the Eurasian Natural Resources Corporation, a mining company.

About half a dozen prosperous and powerful business groups form the backbone of the present regime, coalescing around the broad-based platform of Nur Otan and indirectly controlling the parliament, ministries and major media outlets. At the same, President Nazarbayev announced, on 22 April 2013, an upcoming wave of mass privatizations, in addition to the People's IPO campaign underway since 2012. He also authorized regional akims to start issuing new subsoil licenses after a moratorium had been lifted. Therefore, the presence of foreign capitals remains crucial for Kazakhstan's economic future, and any clearly threatening tactics are likely to be avoided.

Private enterprise
6

A privatization wave promised by the government in 2011 was not properly implemented. This situation changed with the launch of the People's initiao public offernings (IPO) campaign and the placement of KazTransOil's shares for sale on the

Kazakhstan Stock Exchange (followed by KEGOC and KazTransGas). More privatizations are expected, according to President Nazarbayev's promises to entrepreneurs in April 2013.

The process of large-scale privatization was stalled in 1998. The effects of this large-scale privatization continue to be felt, however, in particular in the number of offshore companies that were formed in the 1990s to own the assets of metals and minerals companies. This has led to continued debates about transparency of income and how this income is used. This period has also seen no change in the deliberate exclusion of middle-class entrepreneurs from acquisition in bigger industries; owners of large-scale enterprises are strongly tied to the elite. Another government initiative of this period, 30 Corporate Leaders, while designed to give preferential treatment to companies that propose particularly innovative projects, again allows close government control of the business sector.

The government has tried to encourage the development of domestic business. Kazakhstan has embarked upon an industrial policy designed to diversify the economy away from overdependence on the oil sector by developing its manufacturing potential. This new policy changed the corporate tax code to favor domestic industry as a means to reduce the influence of foreign investment and foreign personnel. The government has also shown much zeal in enforcing "local content" provisions obliging foreign companies to boost their purchases of locally produced goods and services. In July 2012, Industry Minister Aset Isekeshev said that subsoil users, both domestic and foreign, would have to transfer at least 1% of their annual profits to R&D to support Kazakhstani innovations.

10 | Welfare Regime

Social safety nets
6

Kazakhstan in 2012 was again the only Central Asian state to be ranked in the second "high human development" HDI quartile. The HDI masks inequality, however. The 2010 Human Development Report introduced the "inequality adjusted HDI" (IHDI). In this way, the HDI can be viewed as measuring potential human development and IHDI as measuring actual human development. When this is factored in, the difference between the HDI and IHDI for Kazakhstan is 11.9% higher than in the Ukraine or Russia. The 2010 Human Development Report also introduced the Multidimensional Poverty Index (MPI), which identifies multiple deprivations in the same households in education, health and standard of living. The most recent survey data that were publicly available for Kazakhstan's MPI refer to 2006. The intensity of deprivation is only just below the Russian Federation, which is striking for a country of under 17 million, compared to Russia's population of nearly 150 million. The data suggested that individuals living above the poverty line may still suffer deprivations in education, health and other living conditions.

Zhanaozen placed a focus in this period on socioeconomic inequality. Many observers have written that the degree of inequality between the country's richest and poorest could lead to substantial social divides, one source claiming a difference of 30:1 between the richest and the poorest. The coefficient has fallen in the last ten years by 1.5 times. The two poorest regions are Mangistau and South Kazakhstan. Kazakhstan is rated 16th for its number of billionaires. The minimum wage is 12 times lower than in the United Kingdom. According to the United Nations, Kazakhstan ranks 53rd, between Macau and Bulgaria, in per capita monthly income ($753).

The pension system in Kazakhstan is a success story in reform. But, although pensions have increased in recent years, they are still insufficient. Informal social networks of the traditional or Soviet era continue to be weak. As a result, a significant part of the population is still at risk of poverty. Soaring food prices have affected the poor more than the rich, increasing income disparities. Also, the self-employed remain underserved, with unemployment benefits hardly accessible and job search support inadequate.

Equal opportunity

6

Kazakhstan is ranked 14th out of 86 countries in the 2012 Social Institutions and Gender Index, and it was ranked 68th in the 2011 Human Development Index (HDI), with a score of 0.745. It has a Gender Inequality Index (GII) value of 0.334. Kazakhstan is ranked 49th in the 2011 Global Gender Gap Index, with a score of 0.7010. The GII reflects gender-based inequalities in three dimensions: reproductive health, empowerment and economic activity. The GII replaces the previous Gender-Related Development Index and Gender Empowerment Index. In the 2011 GII, Kazakhstan was ranked 56th out of 146 countries. In Kazakhstan, 13.6% of parliamentary seats are held by women; 92.2% reached higher education as compared to 85% of men. The labor market sees 65.7% of women participate, as compared to 76.3% of men.

Even if female participation rates for both primary and secondary education are relatively high, exclusions do occur. But they are again not as common as in politics and business. Informal discrimination continues on the grounds of ethnicity, clan or economic group affiliation. 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.

Some reports continue to refer to an increase in traditional practices such as polygamy that prevent women from playing an active role in the workforce, but these trends are still less pronounced than in other Central Asian states.

11 | Economic Performance

Output strength
7

Kazakhstan enjoys the largest recoverable crude oil reserves in the region. Hydrocarbon reserves are estimated to account for around 50% of reserves. Oil output is projected to reach 2.1 million barrels a day by 2020. Kazakhstan has an estimated 15% of world uranium reserves and remains the world's largest producer of uranium (the country saw a sharp decrease in net earnings from uranium production in 2012). Dependence on commodity exports is excessive, but energy and manufacturing have recently shown solid growth.

The Kazakh economy has been expanding since 2000 at an annual rate of between 8% and 9%, placing it among the ten fastest-growing economies in the world. The high growth rate has, however, been driven largely by the oil and gas sector. Currently, oil exports alone represent 65% of the value of the country's total exports. In addition, foreign direct investment – which accounts for over 80% of total FDI in Central Asia – is concentrated in oil- and gas-related companies.

The considerable slowdown in growth experienced in 2009 (due to a sudden halt of capital flows to Kazakhstani banks) has been partly offset since then by some recovery, driven by higher oil prices and increased domestic spending with the help of government bailouts. But growth is by no means back to the double-digit figures it achieved in the early 21st century.

In 2012, Kazakhstan's GDP grew by only 5%, down from the 6% forecast announced by the government in January. Given a slowdown of Russia's economic growth and the weak demand for raw materials on the world markets, Kazakhstan's growth forecast has recently been downgraded by the European Bank for Reconstruction and Development from 6% to 4.9% in 2013. Furthermore, the government stated, on 2 May 2013, that the national budget would not receive $3.3 billion worth of expected revenues in 2013 due to the stagnation of world prices for mineral resources.

In its ambitious economic development programs, Kazakhstan continues to be deterred by resource nationalism and widespread corruption.

12 | Sustainability

Environmental policy
5

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

Kazakhstan emerged from the Soviet period with disastrous environmental legacies, such as the desiccation of the Aral Sea, the Virgin Lands project and nuclear testing

at Semipalatinsk. The Northern Aral Sea is seeing the fruit of environmental sustainability policies in that region, but little has been implemented of the National Environmental Action Plan for Sustainable Development published in the previous period. Air pollution, indoor or outdoor, kills 358 people per million per year in Kazakhstan; 5% of the population is without sufficient access to water and 3% lack access to sufficient sanitation. Fossil fuels represent 99% of the total primary energy supply.

While international organizations sometimes congratulate the country for its environment-friendly policies, environment-related NGOs continue to fare little better than their civil society counterparts. However, more action should be expected directly from the government, in light of Kazakhstan's holding of the EXPO-2017 and the increased role of the Environment Protection Ministry. In December 2012, Minister Nurlan Kapparov said that his agency was working on a program of gradual transfer to the "green economy." Earlier, in September 2011, President Nazarbayev proposed to the U.N. General Assembly his Green Bridge initiative for the period of 2011 – 2020.

Education policy / R&D
6

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

In 2011, after joining the Bologna Process, Kazakhstan began implementing a strategic 10-year program to overhaul the education system. Embracing the European degree system, the newly formed Nazarbayev University set about trying to implement these procedures. Kazakhstan is proud of its academic mobility: Since 1993, Bolashak scholarships have been awarded to over 6,000 students to attend top universities abroad. In July 2012, the Minister of Education stated: "We aim to bring Kazakshtan's research funding up to 1% of the GDP by 2014." The 2007 World Bank Report on Education laments, however, that education attained relates insufficiently to the labor market.

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

Transformation Management

I. Level of Difficulty

Structural constraints
5

In January 2013, a new ministry responsible for regional development was established, with Bakhytzhan Sagintayev, 50, former akim of Pavlodar province (2008 – 2012), at its helm. One of the key challenges the government set itself for this period was to manage significant and growing regional income disparities.

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 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.

Kazakhstan faces medium-level structural constraints upon its governance. On the positive side, the government can continue to draw on a largely well-educated workforce from the Soviet-era and on a pool of young, Western-trained political and economic leaders. It also enjoys abundant resources that are, in principle, available for reinvestment. On the negative side, its landlocked status makes its foreign policy highly dependent on the goodwill of its neighbors, in particular China and Russia. That said, China’s opening of an alternative pipeline route and its agreement to build a cross-country oil and gas pipeline, can be viewed as an advantage and the country’s landlocked status thus becomes less of a problem than in the 1990s. Kazakhstan continues, however, to suffer from poor transport infrastructure.

The Soviet legacy of internationalism is still an important factor in a general containment of nationalism within moderate limits in the post-Soviet era; indigenous movements do not appear to be growing. It may be that Kazakhstan’s economic success is slowly reinforcing the sense of Kazakhstani identity. There is no fundamental contestation of the state’s existence, again probably because individuals are finding a niche. The most vocal dissenters left the country in the early 1990s.

In terms of signifying structural constraints, Zhanaozen was possibly more significant in what it revealed than in how it was interpreted nationwide (partly

because the government succeeded in containing its fallout). It indicated that the country is facing disparities between foreign investment practices and domestic labor protection. This is part of a broader framework of inadequate regional policies that would allow for the regions' greater political and financial participation and enable greater accountability.

Civil society traditions
7

Kazakhstan's carefully maintained image of prosperous stability was compromised in 2011 by a series of violent public incidents, including a series of bombings and killings, and a protracted labor dispute in which police opened fire on protesters. In September, the government heightened its monitoring of religious associations, enacting new laws that force all religious groups to reregister and denying reregistration to many.

Kazakhstan's media have made references to the instability and violence that followed the "color revolutions" of the early 2000s and the 2011 Arab Spring, equating social mobilization with chaos and bloodshed. Largely protected from socioeconomic problems in the regions, Kazakhstan's rising middle class also views labor and civic unrest in a negative light. For this reason, its reaction to the police shooting of protesters in the western town of Zhanaozen in December 2011 was muted.

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

More broadly, Kazakhstan's party system and civil society remain beset with problems. These include the fact that it is created from the top-down rather than grassroots activity, the absence of party identities, the personalization of such activity, and the overlap between programs and a weak political culture. The Gorbachev and early independence years did allow for some civil society to develop, unlike in Uzbekistan and Turkmenistan, where such liberalization did not occur. But the closing of this political space by an increasingly authoritarian political regime since 1995 has squashed this presence of public engagement. Trust in institutions is low and civic culture is weak.

Conflict intensity
3

Politics in Kazakhstan seeks consensus rather than confrontation, and vocal opposition is rarely viewed as constructive. Individuals who might have mobilized emigrated or went into exile in the first few years after independence. The open elite fragmentation of November 2001 has not been repeated since then, and the splinter group that emerged from that open contestation split in 2005.

Open conflict between elite groups is mitigated by a current obsession with Nazarbayev's succession and the opinion that a managed, carefully handled transition is the best way forward.

II. Management Performance

14 | Steering Capability

Question Score

Prioritization 5

The government has been consistent in its rhetoric to liberalize and keep its economy open to outside investors, but both of these goals are subjected to the elite's number one priority, which is about maintaining its hold on power. Maintaining power is not a short-term tactic but rather a long-term policy of keeping power in the hands of the incumbent president's relatives and friends. A key example of how the rhetoric of political liberalization differed from the reality of strengthening authoritarianism was in the lifting of the two-term limit on the presidential office and on the saturation of all political institutions by the presidential party Nur Otan. In sum, democratization remains secondary to power struggles and maintenance.

The 2007 – 2008 financial crisis reinforced the technocratic nature of the Kazakhstani government, with such ministers as Zhamishev (Finance), Mynbayev (Oil and Gas) and PM Massimov on the reform course. The September 2012 reshuffle only confirmed this trend, with deputy PM Akhmetov replacing his former boss Massimov.

While the period saw frequent reference to the "Kazakhstani way: stability, unity and modernization," the main thrust of ideological statements and programs shifted to social issues and was organized around labor and work. On 27 January 2012, in his annual address entitled "Social-economic modernization – main development direction of Kazakhstan," ten areas were emphasized, including regional development, good housing, employment, better quality elites, and the modernization of the court system.

At the end of 2012, the program entitled Kazakhstan-2030 was replaced with Kazakhstan-2050 in a bid to increase the country's economic competitiveness, conduct an administrative reform, decentralize state management with a clear division of powers, form a new social policy and strengthen Kazakhstani patriotism. These are all said to comprise a new Kazakhstani ideology, around which state plans and policies will develop.

Implementation 5

In the run-up to the OSCE chairmanship, a few legislative changes were made in 2009, but these were largely cosmetic. Despite chairing the OSCE in 2010, the

government did not end up implementing any major democratization policies. The failure of most economic reforms is explained by external factors, such as Kazakhstan's dependence on the world energy markets and its small size compared with neighboring Russia and China. The implementation of reform is hindered by clannish politics and insufficient central control.

Policy learning
5

The government appears to have continued to learn from its policy initiatives in the economic sector as it continues to steer its country through the economic crisis. It also reacted in this period more sternly to Kazakhstani banks' reckless behavior.

Nevertheless, it seems willing to listen to economic and financial advice and to learn from past economic mistakes, so long as that advice does not threaten the elite's hold on power. When Zhanaozen called into question the current path of development and centralization, the government preferred to concentrate on tactical changes (the creation of the Regional Development Industry) rather than on institutional ones.

The country's ability to benefit from rising commodity prices without being forced to make any major structural reforms limits policy learning. Politically, and despite the shocks of this period, the government seems increasingly unwilling to tolerate other voices in either the political or economic spheres; the decision to form Samruk and control entrepreneurial activity in the previous period has still not been reconsidered, and talk is of strengthening rather than reducing state ownership.

Policy learning through implementation of democratic norms, which some hoped would occur with the OSCE chairmanship, has proven illusory.

15 | Resource Efficiency

Efficient use of assets
5

Of the three indicators of resource efficiency (government administrative personnel, administrative organization and budget resources), the government continues to score highest on the latter. In reaction to Zhanaozen and to reduce government costs, authorities continue to downsize the state and attempt to reform the civil service. Transparent and effective decentralization has not occurred, and the attempts in 2006 to make center-regional budgeting more transparent have had no significant effects. Regions continue to rely almost exclusively on central state coffers.

Policy coordination
7

Policy coordination remains largely unchanged from the previous period. The executive dominance of the policy process aids policy coordination in the short run. The existence of several elite groupings within this political elite does, however, make for mutual suspicion in some policy sectors.

Anti-corruption policy
4

There has been no substantive change in Kazakhstan's anti-corruption policy, and corruption remains entrenched across the system, particularly in the judiciary. Kazakhstan endorsed the Extractive Industries Transparency Initiative (EITI) in

2005, and the Stakeholder Board endorsed the Final Validation Report. However, the country has still not met EITI's requirements and remains a candidate country, even if the "Kazakhgate" bribery scandal involving James Giffen was finally put to rest in 2010.

The presidentially appointed prosecutor-general and the financial police chief, together with the ministers of justice and the interior, as well as the National Security Committee chairman, handle all major anti-corruption drives. No major high-profile corruption scandals on the level of Griffen occurred in this period, although the arrests of mid-level officials became more frequent in 2012 – 2013.

16 | Consensus-Building

Consensus on goals
6

The major political actors agree on the overall goal of a market economy, even if there are disagreements over the degree of state involvement. There is more disagreement on how to best overcome problems of unaccountability, social inequalities and regional disparities. While the prior period appeared to legitimate Kazakhstan's path as an authoritarian state, the events of the last two years showed how fragile parts of the state's organization and infrastructure have become and how dissent continues to be ignored.

Unlike in the previous period, the government can no longer use its OSCE chairmanship as a legitimating tool and a signal of its declared democratizing aims. The goals of democratization gave way to domestic socioeconomic management and stability in the face of recurrent challenges, such as security threats and social or economic difficulties.

Anti-democratic actors
3

The Kazakhstani government has been acutely adept at co-opting actors who might otherwise advance alternative reform paths (for example, Alikhan Baimenov, the former opposition candidate in the 2005 presidential election, or Tokhtar Aubakirov, a famous cosmonaut). There remain very few influential actors who might advance democratic reforms.

While the government has become more technocratic and reform-oriented, the law enforcement bloc exerts considerable influence over key ministries. Political reforms are particularly curtailed, while economic reforms have more chance of overcoming opposition from status quo players, so long as reforms do not compromise elites' privileges.

Cleavage / conflict management
6

The political leadership's rhetoric has continued to be effective at minimizing risks of hostile polarization. But it has not managed to expand consensus across dividing lines, primarily those of ethnicity and class and, especially in this period, region. In other words, measures adopted continued to be largely preventative rather than constructive. The government has been helped in these preventative measures by its

large resource revenues, enabling the regime to co-opt dissenters or give some assistance to poorer members of the population.

President Nazarbayev remains the only true consensus figure capable of juggling regional elite groups' conflicting interests. However, succession-related uncertainty is a serious risk factor in terms of cleavage management.

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 this will continue. The key actor in civil society remains the mass media, although media outlets are almost fully controlled by the state. New forms of media may be able to exert influence on government decisions.

Civil society participation
2

While the political leadership avoids controversial historical topics, the Soviet past has lately been used to reaffirm the Kazakh identity as a result of Kazakhstan's historical struggle for independence. The interpretation of Russian and Soviet history as a period of colonialism serves not only the goals of marginalized nationalists but also those of the central state. Nazarbayev's decision to adopt the Latin script is not devoid of political context. Likewise, the political campaign against Vladimir Kozlov, the leader of the unregistered party Alga, was not free from references to his Russian origin, and it implied that he spoke illegitimately on behalf of Kazakhstanis and Kazakhs in particular.

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 on political reforms, even in the context of Kazakhstan's OSCE chairmanship, it has deemed external advice undesired political interference. NGO/INGO activities in the field of democratization continued to be hampered by a lack of support and by open suppression by the government. However, areas of cooperation relatively free of politicization, including infrastructure projects financed by the World Bank, the EBRD, the ADB or the IDB, have been most successful in delivering expected results.

Effective use of support
6

The OSCE chairmanship did enhance Kazakshtan's credibility – not as a democratizing state but as a country whose leadership could properly mediate, lead and host. It managed, even as late as its final month, to formulate ideas for brokering peace in the Caucasus. Despite Kazakhstan's having not made any significant progress on the democratization path, its credibility as an international actor had increased by the time its chairmanship came to an end in January 2011.

Credibility
7

In the period under review, Kazakhstan also continued to boost its credibility in the nuclear nonproliferation field. In March 2012, Nazarbayev attended the Nuclear

Security Summit in Seoul, once more drawing praise for his decision to give up nuclear weapons and for Kazakhstan's consistent policy in favor of denuclearization both in Central Asia and globally. On 26 February 2013, Almaty hosted the P5+1 talks on the Iranian nuclear program, more evidence of Kazakhstan's increased credibility as an international mediator. In August 2012, the Atom Project, a petition campaign against nuclear weapons, was launched by Kazakhstani authorities.

Kazakhstan has also been active in the areas of religious tolerance and interfaith dialogue, and global economic governance. The Congress of Traditional and World Religions, as well as the Astana Economic Forum and the Eurasian Media Forum, have already become fixtures of international standing in Kazakhstan.

Regional cooperation
8

The Customs Union with Russia and Belarus, in effect since July 2010, took the next step forward, in January 2012, by launching a common economic space. The stated ultimate goal of the community is the free movement of goods, capital and people, as well as the harmonization of macroeconomic and structural policies. The Eurasian Economic Commission, a newly established supranational body, is expected to gradually take over a number of responsibilities. If there is not much evidence so far that Kazakhstan's membership in the CU has been beneficial to its economy, larger benefits are expected from the liberalization of the service sector and improved market access. By 1 January 2015, the three countries plan to establish the Eurasian Union.

To date, Kazakhstan has succeeded in conducting a consistent multi-vector policy, largely avoiding geopolitical collisions between the United States, China, Russia and their respective allies. Regional cooperation has continued under Marat Tazhin's successors as foreign minister: Kanat Saudabayev, Erzhan Kazykhanov and Yerlan Idrissov. Kazakhstan has continue to be a magnet for labor migration (especially from Kyrgyzstan, Uzbekistan and Tajikistan), even if measures against illegal migration have become tougher in the context of an economic downturn.

As a landlocked state, it is in Kazakhstan's interest to maintain friendly relations with its neighbors, especially Russia and China. But rather than depending on one or the other or even both, Kazakhstan has also sought new partners further afield, notably in the West (the United States, the European Union) and the Middle East (Iran, Turkey, Israel). President Nazarbayev has repeatedly stated that his country's foreign policy is driven by "pure pragmatism." Kazakhstan has been actively cooperating with Russia, China and its Central Asian neighbors not only in the field of trade relations, but also with respect to combating terrorism and extremism (within the Collective Security Treaty Organization and the Shanghai Cooperation Organization).

Strategic Outlook

Kazakhstan's strategic outlook continues to be dominated by discussions around succession to President Nazarbayev. Related uncertainties heighten political risk for the country. In the medium term, Nazarbayev's reelection does not, of course, do away with the succession issue but allows for a longer preparation period for an eventual replacement. The succession issue will continue to be strongly influenced by competition between several large elite groups.

Prospects for liberalization in the coming period are low, not least because the president will be concentrating on economic reform and increasing socioeconomic and regional stability. Any fundamental change in the direction and scope of political reform will need to come from within the government itself. However, the concentration of power in the hands of the president and his close circle will continue to be viewed as a guarantee of domestic stability. The keeping of major economic assets in elite hands, hampering the growth of an independent business class, is also likely to continue to weaken rather than strengthen the polity.

In the medium term, observers expect a 20% to 25% increase in oil production by late 2015. The Kashagan oil field is scheduled to come online in 2013, but its Phase 1 peak capacity of about 350,000 barrels per day (bpd) is not expected to be reached until 2014. While Kazakhstan's oil and gas production will significantly increase over the next decade, it is unlikely to double from the current 1.6 million bpd, which the oil industry had previously expected.

In this second phase of the project, the Kazakhstani leadership's desire to increase tax income and its own share in the Kashagan, Karachaganak and Tengiz oilfields will be critical. Taxation issues will revolve around production-sharing terms and a possible upward revision of export duties (already increased for crude oil from $20/ton in August 2010 to $40/ton in January 2011 to $60/ton in April 2013), as well as local content regulations. Protracted negotiations on any of these issues are likely to affect midterm production. Economic growth will thus continue to largely depend on commodities prices and the amount of the new oil and gas flows that remain the engine of Kazakhstan's economic growth.

Export forecasts are good, and Kazakhstan is still expected to rank high in terms of competitiveness in the coming period. The government is likely to be cautious in its fiscal and monetary policies, further encouraging a well-capitalized and well-regulated financial system, since both are required for the economy's gradual diversification. Despite the likelihood of cautious public spending, the events of Zhanaozen are likely to ensure an increase of annual transfers from the national fund to the budget.

The next period will also be dominated by new massive floatation of several companies in the major Kazakhstani state holding entity, Samruk-Kazyna. They will be floated in part at home, in part abroad. The main aim is to raise money for these companies' future capital investments, such as building refineries or pipelines. Assets to be floated include KazMunaiGas (oil and gas),

Kazakhstan Temir Zholy (national railways) and the Development Bank of Kazakhstan. But, unlike the mass privatization drive in 1994 – 1997, strategic assets will not be floated. Meanwhile, Astana will be busy preparing for its EXPO-2017.

A fundamental change in Kazakhstan's multi-vector foreign policy is unlikely. The country will continue to court partners further afield, particularly for more investments. At the same time, it will forge stronger ties with China and build institutional links with other neighbors, notably Russia and Belarus, as the Customs Union prepares to be transformed into the Eurasian Union. With the opening of the Central Asia-China gas pipeline and new oil pipelines linking the Caspian oilfields to China, Kazakhstan's eastern neighbor remains the primary – and increasingly strategic – market for its raw materials. As well as underpinning the global commodities demand, China accounts for 30% to 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.

Over the coming period, Kazakhstan's leadership will still be drawing lessons from Zhanaozen, in particular regarding the empowerment of local authorities vis-à-vis large companies owned by, or partnering with, the central government. It will be keen to bridge the gap between gigantic profits earned by private energy companies and the poor living conditions of the local population. Although Atyrau and Mangistau provinces have the highest per capita economic output and contribute the most to national GDP, they also have a large share of poverty; 22.6% and 10% of their respective populations earn less than the minimum subsistence level, while the average for other regions is 8.2%. Socioeconomic development and equality, packaged in labor-related programs, are likely to dominate the social agenda.