KAZAKHSTAN

Nation-BRANDING, Economic TRIALS, and CULTURAL Changes

Marlene
Laruelle
editor

Central Asia Program

Institute for European, Russian
and Eurasian Studies

Elliott School of International Affairs

The George Washington University

CAP
CENTRAL ASIA
PROGRAM

KAZAKHSTAN: NATION-BRANDING, ECONOMIC TRIALS, AND CULTURAL CHANGES

Marlene Laruelle, editor

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The economic driver of Central Asia, Kazakhstan stands up for its forward-looking branding and its multivectoral foreign policy. Behind its many successes, the country has been facing difficulties in managing its relationship with foreign investors, avoiding an "oil curse", and obscuring the growing public debt of its nationalized big firms. Kazakhstan has partially failed to avoid social tensions linked to deep regional inequalities and to handle the 2014 economic crisis and the collapse of the national value, the tenge; at the same time, the role of Islam in public space, both urban and rural, has been evolving dramatically over two decades.

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PART I. POLITICS, SOCIETY, AND RESOURCES MANAGEMENT

Kazakhstan's National Development Strategies. An Assessment

Richard Weitz[1] **(2013)**

At the end of 2012, President Nursultan Nazarbayev presented a new national development strategy to guide Kazakhstan toward the year 2050. This Kazakhstan-2050 strategy affirms the goal of making Kazakhstan, ranked as the world's 51st most competitive country by the World Economic Forum (WEF) in 2012, among the 30 most advanced countries by 2050.[2]

The Strategy reviewed Kazakhstan's accomplishments during its two decades of independence, noted global and domestic challenges now facing the country, and then offered a detailed set of goals for the next few decades and some proposals as to how Kazakhstan could achieve them. Its core goals are to transition to a new economic policy based on innovative public-private partnerships and new markets; strengthen small and medium-sized entrepreneurship; sustain high levels of foreign investment; establish a new social model that reduces poverty, unemployment and regional income disparities; build human capital by raising knowledge and professional skills through more effective education and health systems; make the government more accountable and effective; respond adequately to new international challenges at both the global and regional levels; and to strengthen Kazakhstan's statehood based on a patriotism that preserves the country's moderate national culture and diverse traditions. In each of these areas, the Strategy identifies a set of initiatives to help Kazakhstan meet its goals.

The Kazakhstani government should be applauded for its ambitious and worthy goals. But many of these will prove hard to achieve. However, even if the Kazakhstanis realize only some of them, they will go far toward advancing the country's economic and social progress.

New Markets

The Strategy emphasizes the importance of defining new international markets where Kazakhstan can become a leading global competitor and thereby generate future sources of economic growth. The government has identified developing alternative energy sources, investing in agricultural industry, and proving civilian space services as important international niches.

However, with respect to the latter, Kazakhstan faces a variety of obstacles in its quest to become a niche provider of international civilian space services. Under its current lease, Russia rents and administers Kazakhstan's primary space station, Baikonur, for $155 million per year, until 2050.[3] Furthermore, the space agencies of the United States, the European Union, Japan, Canada, and even Russia have envisage using Baikonur for only a limited time period until alternatives develop.[4] India, Iran, and other countries seeking to establish a presence in outer space aim to develop national capabilities that do not depend on foreign space providers. As a result, Kazakhstan will find it very difficult to carve out a major role in outer space.

1 Center for Political-Military Analysis, Hudson Institute.

2 Address by the President of the Republic of Kazakhstan, Leader of the Nation, N. Nazarbayev, "'Strategy Kazakhstan-2050': New Political Course of the Established State," *Akorda*, December 14, 2012, http://www.akorda.kz/en/page/page_address-by-the-president-of-the-republic-of-kazakhstan-leader-of-the-nation-n-nazarbayev-%E2%80%9Cstrategy-kazakhstan-2050%E2%80%9D-new-political-course-of-the-established-state%E2%80%9D_1356091973).

3 "Russia Warns Kazakhstan in Baikonur Cosmodrome Dispute," *Space Daily*, January 24, 2013, http://www.spacedaily.com/reports/Russia_warns_Kazakhstan_in_Baikonur_cosmodrome_dispute_999.htm.

4 Andrew E. Kramer, "Russian Space Center in Kazakhstan Counts Down Its Days of Glory," *Asia Pacific. The New York Times*, June 18, 2013.

To modernize its agricultural sector and become a global leader in agricultural exports, the strategy calls on Kazakhstan to increase the share of agriculture in the GDP by five-fold by 2050. To do so, the state intends to increase financial support for the agricultural sector by 4.5 times by 2020. Specific measures call on the state to identify products that Kazakhstanis can produce in large quantities in order to win major export markets and for offering new legal and economic incentives to medium and large agricultural enterprises that apply the new agro-technologies.[5] But Kazakhstan faces perennial water shortages and lacks direct access to the world's oceans, which makes exporting agricultural products more expensive for Kazakhstan than for countries have more direct access to international sea lanes.

The most specific goals for developing new markets relate to alternative and renewable energy sources. The government wants these to account for at least half of the country's total energy consumption by 2050, a significant increase from the current level of 15 percent.[6] Kazakhstan has initiated a "Green Bridge Partnership," as a platform to transfer best available green technologies and practices between governments, international organizations, and private businesses. This proposal received the support of the international community at the UN's Rio+20 Summit in 2012, and has since resulted in cooperation with the European Bank for Reconstruction and Development, the International Financial Corporation, and the World Bank.[7] Additionally, Kazakhstan hopes to use its role as the host of Expo 2017 on the theme of "Future Energy" as another opportunity to establish itself as a hub for developing energy solutions across Central Asia.

Although Kazakhstan-2050 looks to create new green technologies, reflecting what Nazarbayev called "the third industrial revolution," a green economy based on alternative energy is more expensive than a traditionally powered economy, less dependable, and will likely only supplement rather than replace traditional energy sources. Despite good intentions, the plan's stress on expansive industrial growth and exploiting Kazakhstan's abundance of hydrocarbon resources suggests green technologies will receive less emphasis than desired. With abundant oil and gas, Kazakhstani managers are unlikely to pay the premium for green practices based on renewable and sustainable energy sources.[8] The pace of any transition will depend on technological breakthroughs most likely to occur in more technologically advanced countries than Kazakhstan.

Like many developing countries, Kazakhstan has little incentive to develop or import expensive green technologies. The creation of the Green Bridge international organization in 2012 and the launch of the Green4 project represent only a modest start to the envisioned transformation of Kazakhstan into a major green economy by 2050. Since market forces alone will not generate sufficient private investment in alternative energy sources, sustained state intervention will be required to maintain this focus.

Pending the hoped-for development of new sources of international economic competitiveness, Strategy-2050 calls for accelerating the delivery of Kazakhstan's hydrocarbon resources to world markets. Kazakhstanis are keenly aware that technological innovations and other developments threaten to depreciate the value of the country's immense oil reserves. Thus, the government wants to extract and export the country's oil and gas as quickly as possible before shale oil, LNG, and other developments realize their full potential. The Ministry of Economic Affairs and Budget Planning expects oil production to rise from 82 million tons of crude and condensed gas in 2013 to 110 million tons in 2018.[9] Despite occasional clashes with the government, foreign investors support policies that promote a more rapid repayment of investments.[10]

Although Nazarbayev and his team have strived to use a large part of Kazakhstan's energy revenue windfall to develop other economic sectors and pro-

5 "Mission, Goals, Development Strategy," KazAgro National Management Holding JSC, accessed September 3, 2013, http://www.kazagro.kz/en/about/mission.

6 "Kazakhstan Begins Transition to 'Green' Economy," Embassy of the Republic of Kazakhstan, June 12, 2013, http://www.kazakhembus.com/article/kazakhstan-begins-transition-to-green-economy.

7 Altay Abibullayev, "Can Kazakhstan Green Its Economy?," *Renewable Energy World*, January 11, 2013, http://www.renewableenergyworld.com/rea/news/article/2013/01/can-kazakhstan-green-its-economy.

8 Gulmira Isakova, "Kazakhstan to Go Green," *Central Asia Online*, June 27, 2013, http://centralasiaonline.com/en_GB/articles/caii/features/main/2013/06/27/feature-01.

9 "Oil Production Output in Kazakhstan to Reach 110 Million Tons in 2018," *TengriNews*, August 28, 2013, http://en.tengrinews.kz/markets/Oil-production-output-in-Kazakhstan-to-reach-110-million-tons-in-2018-22198/.

10 Joanna Lillis, "Kazakhstan: Kashagan Oil Soon to Flow," *EurasiaNet.org*, October 16, 2012, http://www.eurasianet.org/node/66055.

mote education and technical training, the country's prosperity for at least the next decade will remain heavily dependent on world energy prices and the health of the international economy.

Entrepreneurship, Innovation, and Transportation

To support the future growth of national entrepreneurship, the government will introduce new tax credits by 2020 to stimulate investment by private entrepreneurs. Nazarbayev has said that the new tax policy would be socially oriented and emphasize stimulating internal growth, domestic exports, and the individual savings and investments. This adds to Kazakhstan's previous strategy, the "Concept of Legal Policy for 2010-2020," which advocated simplifying tax reporting, reforming certain types of taxes, providing more tax incentives for certain categories of taxpayers, and generally lowering the tax rate in order to promote Kazakhstanis' internationally competitiveness. But this program remains at an inchoate stage with observers awaiting more detailed legislative proposals.

Several initiatives within the Strategy-2050 framework aim to promote national diversification through innovation, cluster projects, and niche development. The creation of Nazarbayev University and the Park of Innovation Technologies represent two major projects designed to pursue this agenda. Nazarbayev University has sought to become a world-class institution for applied research that can improve people's lives. The Park of Innovation Technologies is currently one of nine special economic zones (SEZ) within Kazakhstan designed to offer tailored regional incentives for investors.[11]

A related effort aims to double the share of small and medium enterprises (SME's) in Kazakhstan's national economy by 2030. To do so, the government intends to reduce regulatory burdens, combat corruption more effectively, make public officials more accountable, and improve support mechanisms for Kazakhstani SMEs through their participation in the Eurasian Economic Space, whose members have a combined population of almost one hundred million people. Strategy-2050 envisages stronger public-private partnerships and a new stage of privatization to use market pressures to make national industries more competitive. It proposes transferring non-strategic enterprises to the private sector, and cites implementation of the "People's IPO" program as the first step in this direction. Through the program, people have purchased shares in Air Astana, KazTransOIl, and KEGOC (the national grid company) in public auctions.[12] The government plans future privatization sales for the rail monopoly Temir Zholy and eventually the national oil and gas company KazMunayGas.[13]

Innovation is important for raising Kazakhstan's national competitiveness. Nonetheless, these projects will need to overcome obstacles that have impeded earlier innovation initiatives. These include a paucity of technologies with commercial potential, insufficient numbers of national skilled entrepreneurs and managers, a lack of effective methodologies for moving innovative products from the laboratories to markets, and few incentives for businesses that already profit from employing existing technologies based on low-cost labor to adopt new unproven technologies or initiatives to raise their workers' human capital.[14]

Widespread corruption continues to undermine Kazakhstan's investment reputation.[15] Kazakhstan received a score of 28 (0 signifies highly corrupt) in the 2012 Corruption Perception Index (CPI) and is ranked 133th out of 176 countries.[16] Measures to combat corruption in recent years include a 15 percent raise for public servants, implementation of the Strategic Anti-Corruption Plan 2010-14, and en-

11 "Invest In Kazakhstan." Invest In Kazakhstan, accessed September 3, 2013, http://www.invest.gov.kz/?option=content.

12 Raushan Nurshayeva, "Kazakhstan to Start People's IPO in Q2 or Q3 2012," *Reuters*, August 23, 2011, http://www.reuters.com/article/2011/08/23/us-kazakhstan-ipo-idUSTRE77M16020110823.

13 Ibid.

14 "Science and Technology in Kazakhstan: Current Status and Future Prospects," National Research Council. Washington, DC: The National Academies Press, 2007.

15 "2013 Index of Economic Freedom," Heritage Foundation, accessed July 14, 203, http://www.heritage.org/index/country/kazakhstan.

16 "Corruption Perceptions Index 2011 View Country Results," 2011 Corruption Perceptions Index, 2013, accessed September 3, 2013, http://www.transparency.org/cpi2011/results.

forcement of existing laws, as demonstrated by prominent arrests of junior and senior civil servants.[17] Kazakhstan's SMEs also face an unwieldy and arbitrary bureaucracy, manifested in unexplained delays in issuing permits, unofficial business inspections, and other difficulties.[18] Furthermore, Nazarbayev and other influential Kazakhstani officials have expressed major concerns about the fewer than expected benefits Kazakhstan is receiving from its participation in the Eurasian Economic Space.

Strategy-2050 also wants Kazakhstan to become a regional transportation hub by improving routes within the country as well as with neighboring regions and beyond. The "Global Infrastructural Integration" program aims to deepen Kazakhstan's connections with world markets in general and the main transport corridor between Western Europe and Western China in particular. According to Nazarbayev, projects under this program will double the volume of transit traffic through Kazakhstan by 2020 and increase it tenfold by 2050.[19]

But in order to be successful, Kazakhstan will need to standardize cross-border procedures and address a shortage of railway cars and other bottlenecks to the country's transportation system.[20] Furthermore, the underdeveloped supply chains and poor rural roads continue to impede access to its Caspian Sea port facilities, discouraging trade and distribution, increasing transaction costs for producers and hindering development, particularly, in the agricultural sector. An example is the meat and dairy sector, where a shortage of modern cold storage and transportation is preventing the sale of products beyond the local market.[21]

More generally, Kazakhstan's ambition to become a regional transportation hub confronts the same problem that bedevils the U.S. New Silk Road initiative, including that Central Asian governments like to manage trade flows since it allows them to secure monopoly rents, distribute patronage, and other benefits even if it reduces their overall trade and distorts the international commerce that does occur. Furthermore, excessive customs duties, the absence of a free trade zone or common Central Asian membership in the World Trade Organization, and Eurasia's undeveloped transportation, communication, and other essential commercial infrastructure further impede regional commerce.

Building a Better State

The section on "New Principles of Social Policy" urges greater support for the rights and protection of women, children, and low-skilled workers through measures to reduce social inequality and raise welfare.

Much of the text is visionary and declarative, but Strategy-2050 does propose measures to promote small town development by financing anchor investment projects aimed to diversify the economies of single-industry cities.[22] In order to decrease outward migration, strengthen national statehood, and develop Kazakhstani democracy, the Strategy relies mainly on improving public management, strengthening local governments, increasing the number of rural governors elected by popular vote, and creating a professional state apparatus. The "New Public Service Law" is one new measure identified to counter corruption, increase the transparency in the public servant selection process, and hire better public servants. Another approach is to create National Personnel Policy Commission to identify and promote "A-class" candidates and to assign the State Service Agency with the task of creating new mechanisms for career promotion. The Strategy commits the government to modernize the national legal system, reform law enforcement agencies, and combat corruption and hooliganism.

Kazakhstan already boasts good human capital resources. The percentage of young people enrolled in educational institutions is already the highest

17 "Kazakhstan Country Profile," Business Anti-Corruption Portal. Global Advice Networks, 2013, http://www.business-anti-corruption.com/country-profiles/europe-central-asia/kazakhstan/snapshot.aspx.

18 Ibid.

19 "2050 Strategy: Kazakhstan Revives New Silk Road," *BNEWS.KZ*, December 19, 2012, http://bnews.kz/en/news/post/115996/.

20 "Reducing Barriers to Trade in Kazakhstan," International Trade Centre, May 28, 2013, http://www.intracen.org/news/reducing-barriers-to-trade-in-kazakhstan/; and Christopher Pala, "Record Kazakh Wheat Crop Stymied by Bottenecks," *Market Watch*, December 14, 2011, http://www.marketwatch.com/story/record-kazakh-wheat-crop-stymied-by-bottlenecks-2011-12-14.

21 "Kazakhstan can boost farm sector with investment in infrastructure and innovation," OECD, http://www.oecd.org/countries/kazakhstan/kazakhstan-can-boost-farm-sector-with-investment-in-infrastructure-and-innovation.htm.

22 "Kazakhstan Boosts Development of Its Regions," *KAZINFORM*, May 25, 2012, http://kazinform.kz/eng/article/2466982.

in the new country's history and superior to that found in the other Central Asian countries.[23] The UN Development Program ranks Kazakhstan as one of the world's most literate nations. But raising the skills of its citizens remains important because the country's population growth is expected to stabilize in the coming decades at around 20 million people. One reason for such stabilization is the already high proportion of the Kazakhstani population that lives in urban areas, which at 55 percent is the highest in Central Asia. Another factor is the large proportion (26 percent) of "European ethnicities," mostly Slavs and Germans, in the country's population; they tend to have fewer children than ethnic Kazakhs.

But demographers expect to see a gradual transition towards smaller families even among the country's non-Europeans.[24] Kazakhstani officials want to attract more foreign experts to contribute to the rapidly growing economy through various technical assistance projects and direct policy advice, but national security considerations will constrain use of this option. Unless the productivity of Kazakhstani citizens continues to rise, this demographic plateau could serve as a natural limiting factor for national economic growth, especially in the agricultural and services sectors.

Additional Assessments

Kazakhstan's long-range planning reflects a conscious sense of political transition to a post-independence successor generation. The country enjoys a valuable mix of rare minerals, hydrocarbon resources, and fertile land, especially on a resource per capita ratio, which underscores its small population. However, Kazakhstan must diversify its economy beyond resource exports to more sustainable economic sectors to surmount the "middle-income trap" that has ensnarled so many other developing states whose growth plateaus after they can no longer achieve easy gains from adding low cost inputs to national production. Further major increases in aggregate and per capita GDP will require reducing the country's heavy dependence on natural resource exports. An overreliance on extractive industries is characteristic of the so-called "Dutch disease.[25]

Despite past efforts at diversification beyond the export of oil and gas, most non-resource sectors of the economy continue to suffer from low productivity and competitiveness.[26] Kazakhstan needs to improve the quality of its workers through enhanced education and training. The original Kazakhstan-2030 was based on the assumption that a new generation would lead the country by that year. Now the 2050 plan establishes the broad goals and strategies they should pursue as they assume leading positions in the country's public and private sectors.[27]

Strategy-2050 is partly a response to a number of global issues that affect Kazakhstan as well as other countries: growth and ageing of the population, food and energy shortages, water scarcity, dwindling natural resources, the third industrial revolution (i.e. green technologies), social instability, crisis of civilizational values, and threat of future economic crises. Kazakhstan's ability to surmount some of these challenges is lower than more wealthy or military powerful countries.

The country is physically remote from world markets. It only has access to the Caspian Sea for shipping goods by water, while most road, railways, and pipelines still run northward through Russia, reflecting their Soviet origin. Despite great efforts by Kazakhstan and some of its neighbors to develop the region's transportation infrastructure, many physical or non-physical barriers impede trade throughout Central Asia and Caspian regions. The Strategy correctly identifies this problem and proposes working with foreign partners to reduce obstacles, but they need to cooperate, which is beyond Kazakhstan's control. Besides the reluctance of some other Central Asian states to partner with Kazakhstan, Russia and China have their own competing economic preferences for the region, while continuing chaos in neigh-

23 Colin Berlyne, "Blue Print for Success: Kazakhstan's Next 20 Years," *Kazakhstan's Edge*, 2011, http://www.edgekz.com/national/blue-print-for-success-kazakhstans-next-20-years.html.

24 "Central Asia in One Hundred Years: Following the Great Transformation," Russian International Affairs Council (RIAC), http://russiancouncil.ru/en/inner/?id_4=2227#top.

25 "The World Fact Book," Central Intelligence Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/kz.html. Accessed on 07/14/2013.

26 "Kazakhstan overview," The World Bank, http://www.worldbank.org/en/country/kazakhstan/overview

27 "Kazakhstan Foreign Minister Comments on Strategy-2050," http://en.tengrinews.kz/politics_sub/Kazakhstan-Foreign-Minister-comments-Strategy-2050-15322.

boring Afghanistan will have a detrimental impact on Kazakhstan's regional integration plans. Another uncertainty is how Kazakhstan's membership in an enlarging Eurasian Economic Union largely under Moscow's control will affect its economic wellbeing and autonomy.

Finally, in its attempt to break into the elite 'top thirty' most advanced national economies, Kazakhstan will face severe resistance from other countries that are already in the club. They would have to experience drastic setbacks to decline sufficiently to allow Kazakhstan to surpass them. Kazakhstan would also face major competition from other emerging economies such as Poland (39th), Argentina (45th) and many other strong candidates that rank higher on the UNDP chart than Kazakhstan (68th).[28] Even if Kazakhstan does not rise to ranks of the top 30 countries, one can consider its strategy successful if it helps the country move toward that goal.

28 "Human Development Report 2011," United Nations Development Programme, 126, http://hdr.undp.org/en/media/HDR_2011_EN_Tables.pdf.

Political and Economic Trends in Kazakhstan[1]

Dossym Satpayev[2] (2016)

For several years, the Kazakhstani state has been actively expanding its participation in different spheres of public life and concentrating resources in the financial, political, and media sectors. Several so-called umbrella structures work together in a corporatist logic inside the state structure. This highly centralized political system is strongly personified and has effectively created stability for the elite. Well-established political institutions could play the role of collective successors and would guarantee a stable transition and modernize the country; however, they are still lacking, and this could weaken the Kazakhstani system in a period of crisis.

At the collapse of the Soviet Union, the transition of the newly independent states took several forms. In the case of the Baltic states, the transition was a progressive, qualitative evolution. In the case of Russia, it moved toward a kind of retrospective patriotism, a new philosophy or ideology that it used to mobilize the population around the old Soviet battles. The third form, the ones we see in many Central Asian countries, is regressive—the rollback to closed systems. The fourth form is a hybrid one. It's a combination of different elements. I call it the "Frankenstein Syndrome." Kazakhstan is an example of this fourth hybrid form. Why? Because if you take a look at Kazakhstan's political and economic system, you will see that it is a patchwork of different models, including some foreign models that were embedded into our current status. For example, the Kazakhstan National Fund was created after the Norwegian model. The National Welfare fund, Samruk-Kazyna, was created after the Singaporean model. The previous retirement fund, which is no longer in effect, was created after the same system in Chile. And right now, Astana is thinking about creating an international fund just like in Dubai. Kazakhstan's constitution is often compared to the French one. It is constructive to compile different models, but it sometimes sounds like these pieces do not thrive in Kazakhstan's soil. It was more form than content that was borrowed. And this hybrid form, or assimilation, has more disadvantages than advantages for us. If we were to look at the political system of Kazakhstan, you could see several particular trends or features.

Kazakhstan's Political System and Its Features

A Highly Personified Regime

First of all, it is a classic autocracy. In Russia, if you remember, in the mid-2000s, the Kremlin was calling the Russian government a sovereign democracy. In Kazakhstan, famous theater director Bolat Otabayev called our form of government an "autocratic democracy." Wherever it is, it is without a doubt an autocracy, and in a very highly personified form. This is an advantage, as it has ensured stability inside the elite for a long time. But it is also a real weakness, as we have failed to create strong political institutions over the course of 20 years—institutions that could participate in a stable transition of power and serve as collective successors. You know that pre-term presidential elections were held in Kazakhstan on April 26, 2015. Slightly over 97% of the population voted for Nursultan Nazarbayev.

But what is the difference between Kazakhstan and the other Central Asian countries? Our president has an additional legal status—that of being 'the leader of the nation,' a status he received in 2010. If N. Nazarbayev leaves his presidential position, he becomes a senator for life. He also has powerful levers of influence, for example, an attempt on his life would be equal to an act of terrorism. At the same time, the first president is immune to detention, arrest, or any responsibilities vis-à-vis the law for any action he committed during his presidential terms. It is a certain legal guarantee for the future. But practice demonstrates that even legislative guarantees are not enough to provide complete security—especially

1 Transcribed from Dossym Satpayev's presentation at the George Washington University November 16, 2015.

2 Dossym Satpayev, PhD, is director of Risks Assessment Group and co-founder of the Alliance of the Analytical Organizations of Kazakhstan. He co-edited several books, including *Twilight Zone. Traps of the Transition Era*, that discusses the future of a post-Nazarvayev Kazakhstan, and *Molotov Coktail*, that addresses the issue of youth resentment in the country.

when the politician leaves the political stage completely. A famous Polish writer, Stanislaw Jerzy Lec, said something quite interesting: "Whenever you demolish a monument, do not demolish the platform. You might find it useful in the future."

Why were these pre-term elections necessary? In my point of view, the reasons were not so much political as they were social. In 2014, representatives of the Kazakh business community started talking about the deterioration of the economic situation in the country, and that in 2015 it would be necessary to adopt some unpopular steps. Given the situation in Ukraine and the war of sanctions and countersanctions, the Russian currency plummeted. According to the National Bank of the Republic of Kazakhstan, over 18% of Kazakh businesses experienced some distress because of the ruble fall. When the Russian ruble is low, Kazakh products lose their competitiveness. At the same time, we experienced a serious hit due to the low oil prices. Another unpleasant surprise was found in the delay at the Kashagan field. The commercial production was rescheduled again, now delayed until 2018. Although, given the low oil prices, the cost-effectiveness of Kashagan is a big issue. Another unfavorable factor was the economic slowdown in China, which is one of our largest trade partners. China devalued the yuan, and that, here too, unfavorably affected the tenge. Another serious risk was the growth of unemployment.

It thus turns out that the rationale behind the pre-term elections was actually quite sound and justified. After them, the country's situation started rapidly deteriorating, and in August, the national currency was allowed to float freely. For the first time, the President recognized publicly that he made this decision under the influence of the Kazakh business community. Essentially, he admitted to the very powerful lobbying capabilities of the National Entrepreneurship Chamber of Kazakhstan, overseen by Timur Kulibayev, the son-in-law of the president.

A Corporatist Logic

Another typical feature of our system is that it shows some signs of corporatism. This has to do with the fact that the government is actively broadening its role in a number of economic, financial, and media outlets. In the 2015 strategy, there was one line that I thought was interesting: that Kazakhstan should be reminiscent of a large corporation. According to our civil servants, the most important person in this corporation should be the functionary himself. What is the essence of Kazakhstan's corporations? The state interacts only with those structures that are monopolists within their own area. And the state itself is instrumental in creating these monopolies.

Stability Based on the Intra-Elite Balance

If you were to look at and trace all of Kazakhstan's conflicts that have taken place since 2000 with the participation of the elite, you would see a strong economic component within all of them. Look for instance at the Democratic Choice of Kazakhstan issue, in the early 2000s, when the elite threw the gauntlet at the president's then first son-in-law, Rakhat Aliyev. The original motivations for a conflict were economic, and then became political. When Aliyev fled the country a few years after, the reason for his escape was economic, but here too he tried to orchestrate a political opposition from abroad. All of that speaks to the fact that, in Kazakhstan right now, the critical actors are not political parties, institutions, nor civil society organizations, but rather economic actors. That's why there are some "shadow" rules that are not part of the constitution; in other words, in the case of the transfer of power, the constitution will not be able to play the role of a roadmap accepted by all actors, because what is really at stake is outside the constitution's scope.

Oligarchical Pluralism

The fourth feature of Kazakhstan's political regime is its oligarchic pluralism. It is a term coined by Russian political scientists, but it is quite apropos for Kazakhstan as well. If the public sphere of Kazakhstan is quiet and peaceful, like a cemetery, then inside of the elite there is turbulence and underwater movements. But there is a common feature to all our elite groups: they do not form on the basis of a particular ideology. It's hard to say whether they are liberals, social democrats, or national-patriots. Elite groups are sorting themselves based on the names of their leaders, and their positioning inside of the regime itself. We can identify two distinct groups that can be considered "pillars" of stability within the elite: The presidential family and the representatives of the so-called "old guard."

A Weak Oppositional Field

Last but not least, the Kazakhstani political system lacks any consolidated opposition. But the weakness of our legally recognized opposition parties could potentially lead to the radicalization of some protest moods among the population.

The Trojan Horse of the Supercentralized System

Kazakhstan today has arrived at a paradox. During the past twenty years, we have created a supercentralized system where everything focuses on one person, the country's leader. Yet, at that same time, the executive vertical is deconstructed and largely inefficient. There is a distinct gap between the different levels of our bureaucracy. High-ranking officials often develop quite decent economic development programs, but the rest of the bureaucratic machine is not suitable for the implementation, assessment, and oversight of these reports. Kazakhstani officials failed to create the executive mechanisms that would implement their decisions. That's why once every three years, we undergo an administrative reform.

Another interesting feature is the decrease in loyalty on the part of the bureaucratic machine vis-à-vis the leadership. This feature is very rarely discussed, which I find interesting and strange, because any change of leadership touches upon both the middle and low management and has both advantages and disadvantages for them. Any change in power leads to instability, but it also means that the glass ceilings may be broken, and upward mobility is possible. Right now, a number of Kazakhstani functionaries cannot move forward in the administrative ladders nor can they place their children there. This creates social pressures on the administration because many positions are not given to real specialists, but to relatives, outside of any meritocratic system. We then see the development of what was called, in the Soviet Union, the 'kitchen syndrome'; at home, one is an oppositionary, reading newspapers from the opposition and criticizing the regime, at work one is a functionary displaying total loyalty.

Another feature of this system—this time not typical to Kazakhstan—is intra- and inter-agency competition, and weak synchronization of the government's processes. The information loop is working very weakly within the Kazakh bureaucratic machine: the input information is warped somewhat and the outgoing results are different than what was expected. At every level of bottom-up information movement, the information is distorted with an adjustment towards the positive. As a result, the decision-making center operates on warped and incorrect data, and it therefore makes incorrect decisions. We even have a joke about the co-existence of these two dimensions, the governmental one and the societal one: an elderly person is sitting in front of his television watching Khabar, one of the official channels, and says to his wife, "I would really like to live in the country that is shown here on TV." Here I clearly state that the ineffective workings of the information loop can threaten Kazakhstan's national security laws. The National Security Law of Kazakhstan, Article 23, about information security, stipulates that the president, the parliament, and other leadership should not be isolated from correct information.

A Twilight Zone: Three Key Questions

Let's now move to the speculations about what will happen in Kazakhstan during the transfer of power. There are three key issues:

First, are there any elements indicating that preparation for the transit of power has been already begun? I see at least four of them.

I see some signals in the opposition. For example, there has been a new purging of the oppositionary mass media. There isn't a single strong player left there. In 2015, several official figures made statements about the fact that Facebook, VKontakte, Classmates, and other social media websites required stronger, additional government oversight. Two prominent sites have been blocked: Ratel.kz and zona.kz. In the past, whenever a site was blocked, it always had to do with specific denunciations or accusations. This time, however, there was not any explanation, and the sites themselves were not openly in the opposition. The last nail in the coffin of the opposition happened this year when the old Communist Party was prohibited. The problem of our country is not only that our leadership is so much personified, but also that our opposition is the same. When a particular prominent person from the opposition leaves the political stage, his party disappears with him. In Soviet times, we were facing what we were calling the syndrome of Swan Lake. Whenever any important political events were taking place in the Soviet Union, all one could see on television was Swan Lake, the ballet. Perhaps we are not watching Swan Lake per se in Kazakhstan today, but we may be watching presidential movies.

I also notice an active mobilization of resources under the roof of the previously mentioned umbrella structures. For example, the national welfare fund Samruk-Kazyna controls national companies. The national holding Baiterek controls the development institutions. The National Chamber of Entrepreneurs controls small, mid-size, and large businesses. The

Unified Accumulation Pension Fund united all former retirements systems. Pro-presidential party Nur Otan controls all the party fields. The Civil Alliance united a number of civil society organizations that are living on government grants and orders. Some say that even the Blogger Alliance, recently created online, is also a state-controlled umbrella organization launched to secure the Internet.

The launch of trial balloons regarding a possible transformation of the presidential system into a presidential-parliamentary one is another sign that the transition is underway. In 2013, our alliance of analytical organizations published a book, *Twilight Zone. Traps of the Transition Era*, exploring the different models for a post-Nazarbayev era. One of the options we proposed in this book was to start a discussion about creating a parliamentary/presidential structure. Kazakhstan indeed needs to strengthen its political institutions, in particular the parliament, in order to create real electoral strategies and parties. Both the President and the parliament speaker, Kassym-Jomart Tokayev, announced that Kazakhstan will gradually transition to the presidential parliamentary system. But we don't see the details yet. There is a risk that it will go no further than just words, as usual.

Last but not least, it is interesting to note the strengthening of some members of the presidential family and representatives of old guard, each of whom can play a role in the forthcoming transit of power. A case in point is Dariga Nazarbayeva's nomination as Deputy Prime Minister. If one takes a closer look at key positions in the government, one will see that they are held by representatives of these two powerful groups: the presidential family and the old guard.

Our second main question is the following: when will the 'zero hour' come? This is the million dollar question. I thought it would come immediately after 2010, when all the legal pre-requisites for the president to quietly leave his post while remaining the 'leader of the nation' were secured. The more we are losing time, the more we risk moving toward a Turkmen scenario. But Kazakhstan is not Turkmenistan. Mr. Berdymuhamedov had it easy because he didn't have so many figures on the chess board to deal with. In Kazakhstan, there are many more figures, rich, ambitious, and powerful.

The third question to ask ourselves is how the system operates without a supra-system player. Knowing who the successor is going to be is not so important. Whoever he is going to be, he will have to change the system, to transform it after his own image. The current system is custom-made for the current leader—both for his charisma and for his political weight. The new president will not be the 'leader of the nation' anymore, but one among many others who consider themselves as equal to the successor. The system will have to adapt to this new feature. One can identify three groups. The first one is the status quo group: all those, among elite and the bureaucracy, whose main goal is to preserve the current system and stability, even if the stability is beginning to be reminiscent of stagnation. The second group is that of reformers, i.e. members of elite who are proponents of an evolutionary development. A third group is that of radicals, i.e. members of the elite who would like to completely change the rules of the game and activate grassroots movements in support of their claims for change.

Kazakhstan's society is not monolithic. It consists of a number of groups, each of which lives within its own space and uses its own sources of information. Some gain their information from the Internet, some watch Russian media, some read extremist sites; all of them have their own perception of Kazakhstan. In our book we tried to identify the two main "mainstreams" of the future: national-patriotism, and religious patriotism. In another one of our books, *Molotov Cocktail,* we address the issue of youth resentment and its relationship to religious ideology. These two ideological mainstreams could go in parallel, but at some point they could collide. Both may seem far away from established power, but both are in fact growing among younger representative of the elite, and they will participate in shaping the future of Kazakhstan.

Moving beyond the Leadership "Parlor Game": Foreign Investment and the Succession Issue in Kazakhstan

J. Edward Conway[1] **(2013)**

As a recent *PONARS Eurasia Policy Memo* on leadership succession in Kazakhstan aptly noted, "Speculation about succession has long been a favorite 'parlor game' of Kazakhstani intellectuals,"[2] to whose players we can also add the vibrant community of Central Asian specialists in government, think tanks, and the private sector. But whereas transition can be approached from a variety of angles, each with its own set of unique consequences, this particular policy brief speaks to this latter category—the private sector—in assessing a post-President Nazarbayev Kazakhstan for both existing and potential foreign investors. Unlike just about every other analysis in the last few years to concern itself with succession in Kazakhstan, here we drop altogether the "parlor game" of playing who's who among the country's elites, and instead focus on the much less sensational, but the much more telling structural grounds for why no matter who leads the country after Nazarbayev, Kazakhstan will likely continue to separate itself from the other Central Asian states as the preeminent destination for foreign direct investment in the region.

Beyond Personalities

The tragedy in Zhanaozen, a city in western Kazakhstan, where unarmed protestors were shot at by police and riots troops, leading to the deaths of at least 16 people in December 2011, and the processes thereafter have both confirmed and questioned many of the existing assumptions held among Central Asian specialists on stability within the country. The heavy handed tactics aimed at stifling dissent, the use of the demonstrations-turned-riots as an excuse to round-up the political opposition, the suppression of free speech, and then the rosy statements, post-Zhanaozen, from government officials about the improved situation in the region, all come as little surprise. But one decision in particular sent a shockwave throughout the London-, New York- and Beltway-based strategic advisory firms and political risk consultancies: the sacking of Timur Kulibayev, the president's son-in-law, as the head of Samruk-Kazyna—the sovereign wealth fund behind the state-run company from which the Zhanaozen demonstrators were on strike.

For "parlor game" enthusiasts, Kulibayev had been the frontrunner for the presidency, particularly after Nazarbayev's political advisor, Ermukhamet Ertysbayev, mentioned rather casually in an interview back in the summer of 2011 that if anything happened to the president, Kulibayev could step in without any problems.[3] The events of Zhanaozen threw that assumption on its head, however. There are, of course, other figures identified as presidential hopefuls. Some still hang on to a contender emerging from the exiled elite in London, others to the former prime minister and now the Head of Presidential Administration, Karim Massimov. Just as Ertysbayev's comments and Kulibayev's sacking revived succession rumors, when the prolific tweeter Massimov stopped tweeting one day, political risk analysts held their breath—*had he been punished? Too high a profile?*—only to see him promoted to a position that has increased his status as a possible heir.

But tracking potential successors in Kazakhstan is in many ways like following a company on the stock market from day to day, hour by hour: individuals gain favor, then they lose it, then they gain it back again: in the end, the outside observer (or analyst) has come no closer to figuring out where the stock is headed, or in the case of Kazakhstan, who will be the next president. The fault is in the focus: it is less about who will be in power and more about who won't—Nazarbayev—and whether or not his absence will

1 University of St. Andrews, Scotland.

2 Sean R. Roberts, "Resolving Kazakhstan's Unlikely Succession Crisis," *PONARS Eurasia Policy Memo* No. 231, The George Washington University, Washington, DC, September 2012.

3 See, for example, G. Voloshin, "Post-Nazarbayev succession becoming most discussed issue in Kazakhstan," *Central Asia-Caucasus Institute Analyst*, March 8, 2011.

have a serious impact on foreign investment in the country. Does he lead with a heavy hand? Absolutely. But will the country collapse when he's not at the helm, with foreign investors running for the door in realized fears of expropriation? At this point, having watched trends in Kazakhstan over a period of more than two decades since independence, the answer is a resounding *highly unlikely*.

Behind Closed Doors

Many analysts who are not regularly concerned with the activities of foreign businesses in Central Asia do not realize that in Kazakhstan the ministries and the business community maintain a relatively positive and close relationship and frequently meet together behind closed doors—but not in the shady way one may suspect. These closed-door meetings are not James Giffen-inspired, back-room dealings but rather dull, unexciting working groups that pair mid- to high-level government officials with their private sector counterparts to revise tax legislation, reform the permitting and licensing process, or improve the legal climate for foreign investors, to name a few examples.

Take, for instance, the Foreign Investors' Council's (FIC) Tax Working Group. The FIC was set up by Nazarbayev as a forum for improved relations between the government and foreign investors, and while the annual plenary session that includes Nazarbayev is more theater than forum, the meetings of the monthly working groups that take place over the year are nonetheless very significant. The Tax Working Group is chaired by Marat Kussainov, the Vice-Minister of Economic Development and Trade, and Zhanna Tamenova, a partner in Ernst & Young and the head of the firm's Kazakhstan-based Tax and Legal practice. The members of the group include a handful of directors and deputies within the Ministry of Finance and the Ministry of Economic Development and Trade along with most of the accountants and tax specialists within the foreign business community, from ConocoPhilips and PwC to HSBC, Baker & McKenzie, ArcelorMittal, and Philip Morris, among several others.[4]

While the group can point to a series of practical successes—such as working together to decrease reporting period timelines from a monthly to a quarterly basis, or to limit property taxes to only "immovable property"—the structural value in these sorts of working groups is in the fact that ministry officials and their private sector counterparts are working together, forming relationships, and becoming more and more sensitized to each other's daily operating challenges and needs.

The same goes for working groups within the American Chamber of Commerce in Kazakhstan, or within the industry-specific associations that are heavily represented both by foreign *and* domestic businesses. The Association of Mining and Metallurgical Enterprises (AGMP), for instance, maintains close relations within the Ministry of Industry and New Technologies, as well as the appropriate legislators within the Majlis, and new legislation that would affect the mining industry is regularly coordinated with the association to allow for comments and suggested additions, subtractions, or clarifications. Again, practically speaking the AGMP might be able to point to a vague phrase within the legislation that may expose a mining company to unwarranted corruption and thus have it amended, while on a structural level the mining communities and their governmental counterparts are forming lasting bonds and coming to appreciate both what it takes for a mining operator to be successful as well as the legitimate policy interests of the ministries and the Majlis.

A Strong Executive…Decentralized

While it is no doubt true that the system of government in Kazakhstan concentrates power heavily in the executive branch, the mistake is to assume that an overly powerful executive and an overly centralized government are synonymous. In Kazakhstan, for instance, a very significant level of power is decentralized to the oblast akims (heads of local governments), a distribution of power that has significant implications for the business community as we think beyond Nazarbayev. Specifically, the oblast akimat maintains wide powers in the approval process for general permits and licenses, is responsible for enforcing legislation that comes out of Astana, and further, is the primary point of negotiation on an annual basis for the many social projects that foreign businesses are compelled to support financially. Just

4 See www.fix.kz for more information.

as is the case with the working groups, the practical aspects to this system are almost secondary to the fact that the system itself forces foreign businesses to engage regularly—and thus form relationships—with local level leadership, sensitizing these officials to the daily operational challenges of a foreign firm in a given industry, while at the same time recognizing and responding to the very real interests of local level government.

Take, for instance, the combined akimat-level duties of permitting and licensing approval along with enforcing national-level legislation. Astana, quite frankly, moves at a legislative pace that the oblasts have trouble matching. What this means in practice is that local level inspectors and regulators, along with the permit and license approval offices, often unwillingly misinterpret or willfully reinterpret existing laws with little consistency. This has forced the more sensible foreign operators to form very close relations with these individuals, ensuring that both the inspector and the foreign firm interpret the given law or regulation in the same way and in advance of its enforcement. This process is as simple as it sounds—local representatives for the foreign firm literally sit down with the local level inspectors and go through the relevant rules and regulations together to make sure everyone is on the same page.

Further, through a series of tax incentives, legal requirements and good old-fashioned "encouragement" from the Kazakh government, foreign firms typically invest in a variety of social projects on an annual basis—the key negotiator for these projects is the oblast akim. Often more formally referred to as the "Memorandum on Social Cooperation" that a firm will sign with the akim each year, the process once again literally involves the foreign operator sitting down with the akim, reviewing the akim's list of desired social projects in the oblast, and the foreign operator communicating to the akim what the company can and cannot do (either because of legal risks or the shareholder-instituted corporate philosophy of the firm). This process, particularly with akims that are less sensitized to the anti-corruption requirements of foreign firms, can at times be particularly tense, but over time both the akim and the firm typically find the middle ground that satisfies the akim's ultimate goals while allowing the firm to operate within the constraints imposed by its home country.

Taken together, while these developments are by no means ideal, and certainly would make the development assistance or good governance specialist rightfully cringe, it remains the case that decentralizing power to the oblasts has had the structural effect over time, not unlike the largely Astana- or Almaty-based working groups, of bringing foreign businesses and local government together, allowing these corresponding stakeholders to better understand each other's interests and challenges.

Memories Die Hard

The final structural element working strongly in favor of a relatively stable investment environment after Nazarbayev is the most obvious: that the quality of life in Kazakhstan has increased remarkably since independence, a trend that is largely attributed to Nazarbayev's leadership and the country's ability to draw foreign investment. A sizeable percentage of the population will still remember—*in a post-Nazarbayev Kazakhstan*—how bad it really was during the early 1990s, or at the very least will recall the stories retold to them by their parents of living in a world of daily uncertainty, with salaries unpaid for months at a time. Arguably, the privatization process under Nazarbayev's leadership during the 1990s is possibly the single most significant event that is subject to very different interpretations by Central Asian specialists and ordinary Kazakh citizens. In case of the former, we read stories about crony corruption, the selling of the state at bargain prices, and the consolidation of power under Nazarbayev for purely personal gain. But for the latter, the so-called selling of the state led to a return in production capacities that had plummeted in the early 1990s, to a return in budget revenues, and to a return to salaries paid regularly, on-time, and eventually at a higher rate. In the 2000s, for instance, coal miners working for the privatized Karaganda Metallurgical Enterprise (now owned by ArcelorMittal) saw their wages increase by over 80 percent.

Many within Kazakhstan, if not most, attribute the country's success since independence to Nazarbayev, whether analysts agree with such an assessment or not. And for any occasional doubters within the country, they need look no further than to their respective Central Asian neighbors, still seemingly struggling to find an economic "way out" since independence—an observation not lost on the Kazakh populace.

Even those most critical to Nazarbayev's rule still admit that he would almost certainly be re-elected

with a healthy majority even if an election was to be declared "free and fair" for the first time in the country's history. The net effect of such popularity, rooted in the country's comparative success, is his legacy—he will be remembered fondly, and as such, whoever succeeds him will be compelled to connect his or her own narrative into the narrative of Nazarbayev. One can easily imagine the president's successor stepping too far out of the Leader of the Nation's shadow, or poorly handling a local crisis, only to be corralled back into line by local sentiment such as, "If Nazarbayev were still president, he would have never allowed *that* to happen." People do not want to return to a situation like the early 1990s, and thus the momentum of the country will largely move toward supporting a leader that, in essence, represents an extension of Nazarbayev, and thus, an extension of an investment environment that is comparatively friendly amongst its Central Asian peers.

Astana relations, oblast relations, and a populace that views Nazarbayev's leadership since independence as a glass half full, are only a handful of examples that all point to larger structural trends within the country that will constrain the next leader, whoever it may be, into maintaining the status quo, making the parlor game a lot less relevant than many of us think (as fun as it might be to play). Admittedly, the status quo might not be desirable for advocates of free speech and human rights, but for foreign investors, more of the same is a net positive.

Lessons from Zhanaozen. Bringing Business, Government, and Society Together

Aitolkyn Kourmanova[1] **(2012)**

Kazakhstan still does not have a sustainable and efficient framework to invest these profits in improving the living conditions of its population. The inefficient social spending has had violent consequences, the oil worker riots in West Kazakhstan's town of Zhanaozen in December 2011 being a prime example of it. The riots took place in the oil-rich region of the Mangistau Peninsula, in an area of diminishing oil reserves with harsh climate conditions and poor socio-economic infrastructure. The workers of several oil companies have been on strike for more than eight months and their grievances over low wages have been dismissed as groundless by both employers and government labor regulating bodies. The clash ended violently with at least 17 people killed and more than 100 injured.

What Went Wrong in Zhanaozen?

The key regions where Kazakhstan's oil wealth is extracted are suffering from various socioeconomic problems despite significant government and private spending. The economy of Mangistau region is heavily dominated by oil production. The local poor economic diversification means higher prices for imported goods, lopsided employment, and undeveloped small business. The oil operations are accompanied with a worsening environmental situation, and increased tensions between local population, ethnic 'repatriates' (Kazakhs from abroad who have been repatriated to Kazakhstan by the 'Oralman' state program) and foreign labor force. These influxes, in addition to cost reduction policies of the oil companies, drastically change the local politics, and some communities now exhibit increasingly regionalist nationalism, or turn to more radical versions of Islam.

The employment boom is set to bust once the oil reserves become exhausted. Some of oil projects are closing down due to field depletion, while the big exploration projects (such as the North Caspian Kashagan project) are finalizing their developmental phases. From 2010 to 2011, some 20,000 people in the North Caspian project had already been laid off as a result of Bolashak plant's completion.[2] According to the Atyrau's regional administration, up to 16-18,000 people will be additionally laid off from oil projects by the end of 2012.[3] These foreseeable trends have not been forecasted by the government when projecting the regional oil development. To improve the situation, local authorities are relying on big companies to enter long-term agreements to suspend lay-offs. At the same time, wage formation and coordination are inadequate, with contradicting policies of business and government. The Zhanazoen conflict was the unfortunate result of these multiple misunderstandings. The pay negotiations have not taken public demand into account and lacked the concepts of equity and benchmarks of productivity as a basis of the wage changes.

Social inequality is the other side of the oil boom in West Kazakhstan. The oil economy is inherently isolated from other segments of the economy. This, in turn, limits the economic spillovers into other industries. Exacerbating this problem is the reliance on imports, foreign capital and foreign labor, all of which decimates the local economy. Indeed, direct employment by oil companies is often small as the oil industry is capital intensive but creates few jobs. Moreover, these qualifications are rarely found locally, thus much of this labor is imported to meet the needs of the oil firms. Another factor of inequality is ill-conceived public spending, usually at the behest of political lobbies. The grievances of Zhanaozen strikers were largely based on the unequal distribution of oil revenues they had extracted. The big oil projects are often focused on the development of large cities and the upper class, rather than more universal and

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2 Ulbolsyn Kozhantaeva, "Ot proekta do proekta," *Delovaya nedelya*, September 7, 2012, http://www.dn.kz/index.php?option=com_content&view=article&id=665:2012-09-07-06-25-18&catid=5:2011-10-23-11-45-05&Itemid=6.

3 Talgat Ibraev, "Bar'er na puti sotsial'noy modernizatsii," *Nomad.su*, September 17, 2012, http://nomad.su/?a=3-201209170031.

equal development, including investment in rural and bleak regions.

In most of Kazakhstan's oil regions big oil companies are already superseding the role of the regional governments in building social infrastructure. They often have contractual obligations to support the social infrastructure and the annual amounts they allocate for social needs are quite substantial. Today, the Egilik program of TengizChevroil (TCO), which operates in the Atyrau region, spends US$20 million per year. Additionally TCO budgets approximately $1 million annually for a voluntary community investment program.[4] North Caspian Operating Company B.V. (NCOC) splits its social investment equally between Atyrau and Mangistau regions. The company reports that between 1998 and 2010 over $215 million was spent in both regions on more than 136 social and infrastructure projects.[5] The Karachaganak Petroleum Operating (KPO) commits $10 million per annum to the development of social infrastructure projects within the Western Kazakhstan region.[6] In addition to their contractual contributions, oil companies, including the smaller ones, make regular 'voluntary' and charity donations.

However, these amounts have not done a remarkable job. Spending is often done with a lack of transparency, inefficient implementation mechanisms and poor management. Currently, the process of identifying the social needs, designing and implementing projects is done in close collaboration with local authorities and thus remains largely outside of public control (local communities and the NGOs). Only in some rare cases pressures from the local NGOs to make a process of social spending more transparent have been successful. For example, in 2009 the Mangistau region created a commission which includes oil companies, *akimats* (local administration), NGOs and media to discuss transparency issues involved in implementing social infrastructure projects.[7] A 2008 survey made by the Soros Foundation Kazakhstan in five oil producing regions of Kazakhstan showed that the local populations consider many of social projects as ineffective.[8]

Accountability is another important factor for successful social projects. To be effective, control mechanisms need to be implemented in order to oversee the implementation of the whole project to exclude corruption, embezzlement and unduly management. The Soros survey showed that public organizations have difficulty in accessing feasibility studies for social projects, and cannot carry out independent monitoring of disbursed amounts.[9] The priorities for social investment could be different with public hearings to assess which social objects to finance. The local communities should be empowered to safeguard their economic, social and cultural rights as they are the final recipients of these public goods. They are also, in theory, owners of natural resources. The better development needs are addressed in the local communities; the lower is the risk of conflict eruption.

It is, therefore, not enough to increase investment in the social sector, Kazakh authorities need to plan such social projects with a long-term perspective and efficiently implementation. A longer term impact of such investment can be provided with a stronger focus on training of entrepreneurial activity as well as institution and capacity building. The famous 'Hartwick rule' states that a nation should invest all rent earned from exhaustible resources in infrastructure to offset declining stocks of non-renewable resources and promote a long-run economic sustainability. In the absence of efficient framework for social investment and community development, mistrust rise between the government and oil companies on one side and the society on the other. In Kazakhstan's oil regions, local authorities indicate the priorities of the region as they see, oil company provide financing and general surveillance, and *akimats* launch implementation of the project through the formal procedures involving tenders, evaluation of the bids and contract awards. Civil society, however, remains absent, and the public debate very limited.

The government can be blamed for making this process prone to high levels of corruption. There are also managerial mistakes on the governmental side

4 See TCO website, http://www.tengizchevroil.com/en/responsibility/.

5 See NCOC website, http://www.ncoc.kz/en/oil-and-gas/socials.aspx.

6 See KPO website, http://www.kpo.kz/social-responsibility.html?&L=0.

7 See the conference "Trekhstoronnee partnerstvo, natselennoe na ustoychivoe razvitie i nezavisimyy monitoring i otsenku proektov," Aktau, January 20-30, 2010, http://ecomangystau.kz/ru/1/trestoronnee-partnerstvo-natselenoe-na-ustoychivoe-razvitie-i-nezavisimyiy-monitoring-i-otsenka-proektov.html.

8 More at http://soros.kz/ru/programs/public_finance_transparency.

9 Ibid.

such as miscalculation of the project costs and timelines, as well as overall poor quality of implementation, which is particularly critical as social spending often goes to the construction of schools and hospitals. It is often a matter of prestige for the local authorities to have a high number of new schools and kindergartens as well as hospitals, roads and public utilities, all of which can be constructed in a relatively short timeframe. However, sustainability of such investments are questionable as new schools lack good teachers, new gyms need maintenance within a year after construction, while fancy cultural facilities remain unattended. A new school built on the oil money in Zhanaozen, for instance, is still unable to attract high quality teachers as they prefer to move to larger cities with more diversified economies and stable income.

The oil companies can be also blamed for having a business mentality in social spending. They often see the latter as an additional tax, either de facto or de jure. The government not only 'expects' some social contributions, in particular under production contracts, but also poses strict rules on local content and local labor, requiring companies to prioritize local suppliers and workers, but the deficit of both remains. Oil companies' main motivation for providing social funds is therefore to reach their corporate objectives,[10] which are not necessarily aligned with the interests of society.

Yet, as the Zhanaozen conflict has shown, the guilt was laid almost exclusively on the society and its demands. In the view of the extensive spending, the communities were blamed for growing culture of parasitism (*izhdivenchestvo*), reckless reliance on the outside subsidies, greed, large appetite for easy money, and inability for hard work and self-development.

The strike in Zhanaozen had undoubtedly gone beyond a simple labor conflict. The reason for the escalation is a complex set of factors, mostly associated with the revenue distribution, or a so-called oil curse.[11] This does not necessarily happen in all oil countries as the level of societal development, institutions and norms can often prevent disruptive conflicts over revenue distribution. The success of some countries, like Norway, can for instance be explained by the presence of collective action and coordination in wage negotiations, which are linked to productivity performance. Most Norwegian wage negotiations go through a collective and transparent forum, with the results being reported daily in the media.[12] This example proves that oil is not in itself a source of the curse, but rather weak institutions and poor governance. The better institutional capacity NGOs have, the better monitoring they can therefore provide.

Stopping Further Strikes

The measures used by the authorities to pacify the Zhanaozen clash have shown that Kazakhstan is far from reaching a stable social contract. Reaction to strike has been harsh and further alienated the government from society. In its 2012 report *Striking Oil, Striking Workers: Violations of Labor Rights in Kazakhstan's Oil Sector*, Human Rights Watch (HRW) states that "mass dismissals that followed the workers' strikes, attempts by the authorities to break up the strikes, and the imprisonment of union leaders for participation in peaceful strikes all violate rights guaranteed under international law."[13] According to HRW, both the Kazakh authorities and the employers violated workers' fundamental rights, including freedom of association, collective bargaining and expression, and the right to strike. The trial of the strike activists[14] revealed the hard approach taken by the authorities. In the best traditions of the trial from the Stalin area, some of the accused, under obvious pressure of the investigation, opted to free themselves with a confession and testify against the others.

The overall message the government sent in using such an approach is clear enough: it views the conflict as an unfortunate accident where the state had played only a marginal role. In interview with Al Jazeera, Usen Suleyman, Kazakhstan's foreign

10 Jedrzej George Frynas, *Beyond Corporate Social Responsibility: Oil Multinationals and Social Challenges* (Cambridge: Cambridge University Press, 2009).

11 Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (Oxford: Oxford University Press, 200).

12 Erling Reed Larsen, *Escaping the Natural Resource Curse and the Dutch Disease? Norway's Catching up with and Forging ahead of Its Neighbors* (Oslo: Norwegian Research Council, 2001).

13 "Striking Oil, Striking Workers. Violations of Labor Rights in Kazakhstan's Oil Sector," Human Rights Watch, 2012, http://www.hrw.org/sites/default/files/reports/kazakhstan0912ForUpload.pdf.

14 The trial of Vladimir Kozlov, leader of the unregistered opposition party Alga!; Serik Sapargali, a member of the People's Front opposition movement; and Akzhanat Aminov, an oil worker from Zhanaozen is still ongoing as of September 2012.

ministry official, said that "if we get to the core of the issue it was not the authorities who violated [the law] but the company management."[15] The guilt for the conflict is also laid on Kazakh ethnic repatriates (Vice-Minister of Labor and Social Welfare, Birzhan Nurymbetov, said that 26 percent of laid-off oil workers were Oralmans or ethnic repatriates[16]) and 'provocateurs' financed by ousted businessman and now opponent Mukhtar Ablyazov.

The Zhanaozen strike is not purely an accident which can be explained by sporadic violence. It ignited a series of country-wide strikes in other mining projects as well. In 2012, a number of smaller scale strikes were registered in such mining companies as copper giant Kazakhmys, coal producer ArcelorMittal Temirtau, and several others. Some demands for higher wages were quickly satisfied by the employers, who obviously feared that the strike could spiral out of control. The real causes of this domino effect are again deeper than just wages: workers complained about poor safety conditions, high injuries and casualties due to obsolete equipment, and absence of decent health insurance. Sustainability of the job market in sectors with depleting reserves is also an element of stress for local populations. During their May strike, the workers of the Annensky mine at Kazakhmys, for example, worry about longer-term perspectives in the view of falling levels of production and lack of new discoveries in Zhezkazgan, where the mine is located.[17]

The increased activity of the strikers convinced the Kazakh government to launch new socioeconomic programs. A Society of Universal Labor, which had been suggested by President Nazarbayev in July 2012, lays down a framework for the 'social modernization' of Kazakh society and calls the people of Kazakhstan to 'engage into productive labor.' But the initiative is vague and narrowly focuses on labor issues and the tightening of labor regulations to the detriment of independent trade unions and freedoms to strike.

The government plans to orient its post-Zhanaozen action into three main directions: industrialization (which should help to create more jobs and change the oil-dominated structure of the economy), balanced regional development (to help cope with increasing internal migration and youth unemployment), as well as 'social modernization' (not clearly defined). To address the problems of the bleak cities, a special program has emerged to help 'mono-cities', i.e. towns with roughly 20 percent of their industrial output and larger share of the labor force concentrated in one or two large enterprises (the definition also includes cities and towns where such enterprises have left or gone bankrupt).[18] A total of 27 mono-cities have been identified with population total of 1.5 million people. This constitutes 16 percent of total urban population in Kazakhstan. In 19 mono-cities, large enterprises are identified as stable (mainly in oil regions, including Zhanaozen and Kulsary in Atyrau region), in five as partially stable and in three as non-functional (Tekeli, Kentau, Serebryansk).[19]

The task that the authorities put forward is to direct the efforts of *akimats* to find new employment for workers who are laid off as the result of the reduction or closure of industrial operations. Regional authorities are expected to develop far-reaching business plans for their respective cities to identify new sources of economic growth. The same *akimats* should be responsible for offering new investment projects and searching new funding sources while the central government will allocate special subsidies for small and medium business development.

Additionally, residents should be given the opportunity to get new professional qualifications and in some cases, receive the financial assistance to move to larger cities. But these incentives to increase urbanization should take into account the lack of economic hubs in the country. All of the main urban centers, including Almaty and Astana, need to significantly expand and improve their social infrastructure. The demand for jobs may be high in large cities but the transition of rural youth to urban life, and of low to high qualified specialists, will not be

15 "Are workers protected in Kazakhstan?," *Al Jazeera*, September 12, 2012, http://www.aljazeera.com/programmes/insidestory/2012/09/2012912982931415.html.

16 Igor Nesterov, "Zamestitel' Truda i sotsialnoy zashchity naseleniya vstretilsya s bastuyushchimi neftyannikami Mangistau," *Lada.kz*, November 17, 2011, http://lada.kz/aktau_news/society/1153-zamestitel-ministra-truda-i-socialnoy-zaschity-naseleniya-vstretilsya-s-bastuyuschimi-neftyanikami-mangistau.html.

17 Miras Nurmukhambetov, "Zhezkazgan: chemu radovat'sya pobedivshim rabochim?," *Guljan.org*, May 7, 2012, http://www.guljan.org/ru/news/komments/2012/May/1906.

18 "Pravitel'stvom RK prinyat proekt programmy razvitiya monogorodov na 2012-2020 gody," *Zakon.kz*, May 21, 2012, http://www.zakon.kz/4491772-pravitelstvom-rk-prinjat-proekt.html.

19 See the Kazakhstan's Program for Development of Mono-cities for 2012-2020 at http://adilet.minjust.kz/rus/docs/P1200000683.

easy. It is noteworthy that only a year ago the government was encouraging public sector specialists, particularly Bolashak graduates with Western diplomas, to move to rural areas. Today, these authorities are planning to slow down influx of migrants and repatriates, focusing on Kazakh citizens to fill in the jobs instead.

So far, the deficiencies of the new state program lie in its overwhelming dependence on local authorities, who do not possess the required expertise and skills to develop solid business plans and reshape their economies, and a lack of status given to civil society. Yet, the program will try to meet its objectives by disbursing funding to residents and meet societal needs to avoid another Zhanaozen. Such programs set a cooperation framework with national conglomerates in oil and mining to engage the needs of corporate social investment. For example, the state-owned oil company KazMunayGas Exploration and Production, KMG E&P, will finance a project to resettle villagers from Baichunas and Yeskene settlements to the city of Atyrau. This project was proposed in districts where the local government is unable to meet its obligations and the socio-economic environment deteriorates. There have been several other initiatives to promote higher corporate social investment in troubled sectors and regions. However, none of them factor in any community involvement to tackle their own problems.

Deputy Prime Minister Umirzak Shukeyev, chairman of the Samruk Kazyna sovereign welfare fund, stated that the fund will require the firms and corporations under its supervision to undertake a certain package of social obligations in exchange for receiving funding. Additionally, a rating system for the companies' social stability will be introduced, in order to detect any early signs of social unrest.[20] The fund has also established a special Center for Social Partnership to address labor and social issues among the companies under its supervision.

The Zhanaozen conflict has therefore become a watershed moment in domestic politics as it had raised a whole set of serious issues such as the management of natural resources and associated revenues, regional planning and development, social justice, internal migration, respect for international human rights and labor norms. The strike also had some political implications, as regional elites are increasingly challenging the hegemony of central authorities over oil taxation and revenue distribution.

The conflict has seriously affected the local business climate, especially at this difficult time when Kazakhstan's mining sector has started to lose its attractiveness. There are no new major discoveries and only already ageing deposits are being developed. The post-Zhanaozen tensions, coupled with a lack infrastructure and complex regulatory regimes, deter potential investors, as the uncertainty in basic labor regulation has been used by many striking miners as a negotiation tool. More importantly, the Zhanaozen conflict has widened the gulf of mistrust between the society and the government. These wide ranging factors do not help attract new investors.

The Need for a Tripartite Partnership

The problems in Zhanaozen and other bleak cities in Kazakhstan have cried out for urgent attention from both business and government. For some, workers' demands might seem excessive and groundless but the privatization of oil and mining fields in the country has come as a real success for the companies and the government, thanks to skyrocketing prices for natural resources and respective increase in taxes. Society, in turn, has called for sharing these benefits, reduce inequalities and broaden the distribution of revenues. This is legitimate if one keeps in mind the long-term negative effect on local communities from oil and mining operations, including environmental damage, pollution, job relocation and social exclusion.

To address the issues the Zhanaozen conflict has raised, a more complex approach is needed: a right mix of vision, financing, cross-sector engagement and leadership. Whatever approach is taken, the most successful will be one where all parties can participate in equally. A tripartite or tri-sector partnership between business, government and civil society is a model to follow as it takes into consideration the development needs of local communities, negotiate the wages, distribute benefits among the stakeholders equitably and promote sustainable economic growth. Civil society participation (whether NGOs, community leaders, or trade unions) will improve the rate of successful implementation of social projects and reduce information asymmetry and the bureaucracy's corruption.

20 "Glava Samruk Kazyna raskritikoval uroven' podgotovlennosti kadrov v strane," *Nur.kz*, May 3, 2012, http://news.nur.kz/216782.html.

Creating an atmosphere of trust is very important to consolidate a tripartite agreement. Local communities are also able to implement, manage and maintain their own development programs and projects. The World Bank has for instance a special multi-sectoral program, Social Funds, that finance small projects targeted to benefit a country's poor and vulnerable groups. These projects are based on the demand generated by local groups and selected against a set of eligibility criteria. Social Fund programs are demand-driven and aim to involve the active participation of several local actors (communities and community-based organizations, NGOs, local governments) but are managed by a semi-autonomous government body that appraises and supervises the implementation of subprojects.[21]

On the other side, local communities and civil society actors should also understand that the oil companies have valuable assets such as technology, innovation, managerial talent, and know how to deal with problems created by oil extraction.

Concluding Remarks

Social conflicts pose a serious risk for oil production, especially in the wake of Arab Spring. As a result, the government should focus on prevention of public unrest and ramp up social spending to meet the growing needs and expectations of local communities. However, these efforts should be directed to achieve long-term sustainable benefits and not assuage short-term discontent. The elected officials are the most responsible block in the tripartite partnership, as they need to demonstrate political will by reforming the current system, fostering the role of regional elites, abandoning rent-seeking behavior and accepting a great level of criticism from civil society. The Zhanaozen events demonstrated that Kazakhstan still needs to develop a stronger public sector, one that is perceived as just, efficient, and efficacious. Once this is accomplished, it will be possible to lay out the basis for a stronger social contract between citizens and government.

21 More on World Bank's Social Funds Initiative, see http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTSF/0,,menuPK:396384~pagePK:149018~piPK:149093~theSitePK:396378,00.html.

PART II. STRENGHTS AND WEAKNESSES OF KAZAKHSTANI ECONOMY

Kazakhstan's 'Resource Nationalism': Its Sources and Motives

Robert M. Cutler[1] **(2012)**

Kazakhstan's policy of 'resource nationalism' scored another win earlier this year when the North Caspian Operating Company (NCOC), which is managing the development of the offshore Kashagan deposit, declared its readiness to help KazMunayGaz (KMG) to secure a US$4 billion loan from National Fund of the Republic of Kazakhstan (NFRK). It was reported in March that the funds are to be issued in two tranches, in 2013 and 2015. The offshore Kashagan hydrocarbon deposit is the largest strike in the world since Prudhoe Bay in Alaska over four decades ago. This decision is in line with President Nursultan Nazarbayev's earlier declaration that the Fund's money should not gather interest in foreign banks but instead be put to work financing domestic economic development.[2]

Nearly half of Kazakhstan's government revenues originate in the extraction and export of oil. KMG is the principal "national champion" through which Astana has sought, with success, to gain influence in energy resource development. It is fully state-owned and was created by presidential decree in 2002 as the successor firm bringing together the exploration and development company KazakhOil on the one hand and, on the other hand, the pipeline company Transport Nefti i Gaza. The NFRK was established in 2000 as a stabilization fund to guard the economy against external shocks. At the end of July 2012 the NFRK reported $53.5 billion in assets.[3] The March decision by NFRK follows a request to the Kazakhstani government by the NCOC consortium's participants to approve a 20 percent increase in the Kashagan project budget. The new budget estimate now reaches $46 billion. This request was approved on the understanding that the Western partners would bear the brunt of the increased costs themselves.[4]

Kazakhstan's Participation in the Major Exploration and Development Consortia

Tengiz

Kazakhstan was involved in Tengiz development from the start. The first test well was drilled in 1979 and in the late 1980s the Soviet government began to develop the necessary infrastructure for systematic exploitation of the deposit. Commercial production began in 1991, and in 1992 Chevron and Kazakhstan agreed to establish a joint venture. This joint venture TengizChevrOil (TCO) was created in 1993 with Chevron and KazakhOil (an ancestor of KMG) having equal shares. Of its 50 percent share, Kazakhstan sold a 25 percent share in 1996 to the U.S. firm Mobil (which merged with Exxon in 1999 to form ExxonMobil, a subsidiary of which now manages the

1 Robert M. Cutler studied at the Massachusetts Institute of Technology, earned a PhD at The University of Michigan, and is a research associate of the Centre for European, Russian and Eurasian Studies, at Carleton University (Canada). He has worked at the intersection between research and policy on Central Asian energy development and security geo-economics for nearly two decades, with occasional forays into international relations theory.

2 Miramgul Maralova, "National Fund to lend KMG NC $4bn for development of Kashagan," *Halyk Finance*, March 1, 2012, http://www.halykfinance.kz/en/site/index/research/news:80362.

3 "Mezhdunarodnye rezervy i aktivy Natsional'nogo Fonda RK," Natsional'nyy Bank Respubliki Kazakhstan, August 2012, http://www.nationalbank.kz/?docid=285.

4 Nariman Gizitdinov, "Kazakhs Study Bid to Boost Kashagan Oil Cost to $46 Billion," *Bloomberg News*, January 11, 2012, http://www.bloomberg.com/news/2012-01-11/kazakhs-consider-bid-to-boost-kashagan-oil-cost-to-46-billion.html; and Nariman Gizitdinov, "Kashagan's Foreign Partners to Finance State's Share of Costs," *Bloomberg News*, May 24, 2012, http://www.bloomberg.com/news/2012-05-24/kashagan-s-foreign-partners-to-finance-state-s-share-of-costs.html.

share), and in 1997 a 5 percent share to LukArco (a joint venture between Russia's Lukoil and the U.S. firm Atlantic Richfield, which merged in 2000 with BP, which latter took over its share in LukArco).

Kazakhstan had a history of dissatisfaction with the pace of development of the project after independence. To give just one example, Chevron slashed its 1994 investment budget in Tengiz by 90 percent when it was asked to finance most of the cost of what became the Caspian Pipeline Consortium (CPC) pipeline but was offered only a minority stake in the finished pipeline itself. The justification for such a drastic move may have been to send a signal, it only drove home to the Kazakhstani their own inability to influence in a definite way not only investment decisions but also other management affairs.

TCO also came under pressure for environmental violations at about the same time. The oil from Tengiz is very high in sulfur, which must be removed before it is put into pipes that it would otherwise corrode. A $71 million fine in 2003 for storage of sulfur in the open air was imposed, although this was reduced to $7 on appeal. In 2006 a fine of $609 million was imposed for continued failure to deal with the problem in a timely fashion.[5] Kazakhstan alleged that the sulfur was simply piled up into football-stadium sized blocks and left exposed to the elements.

In 2003, in order to prevent TCO from using accounting devices that might limit the Western partners' tax burden, the Kazakhstani government decided that TCO should take steps so that its bookkeeping practices conformed better to international standards. One other result of this move, which increased transparency of accounting, was that further delays in implementing the investment plan became more difficult to justify. TCO finally agreed to the original investment plan and its implementation after KMG also played a blocking role in preventing TCO from modifying its terms. After TCO conceded to agree to the original investment plan in 2003, Nazarbayev signed a new foreign investment law that he nevertheless promised would not affect existing investment projects.

Kashagan

The organizational development of the Kashagan consortium was even more tortuous than Tengiz's, but at least some details are important to understand Kazakhstani motivations for resource nationalism. Kazakhstan was involved in the Kashagan consortium from the start but then sold its stake only to wedge its way back in later. Yet even in the beginning when it had a stake, it was largely excluded from significant participation in decision making, partly due to a relative lack of expertise concerning the advanced technologies that were necessary and partly because it could be blocked out by a critical mass of foreign firms acting together.

In 1993 the KazakhstanCaspiiShelf (KCS) consortium was established equally among BG, a BP-Statoil joint venture, KazakhOil, Eni, Mobil, Shell, and Total. In 1997, the KCS became the Offshore Kazakhstan International Operating Company (OKIOC). In 1998 Phillips Petroleum and Inpex separately joined the OKIOC when each purchased half of the Kazakhstani company's stake. In 2001 the BP-Statoil joint venture sold its stake to the other participants. Total (by then TotalFinaElf) moved to acquire larger shares and hoped to become operator of the consortium, but complicated maneuvering and Kazakhstani government intervention led to the Italian firm Eni becoming the project operator as OKIOC acquired a new organizational form and changed its name to Agip Kazakhstan North Caspian Operating Company (Agip KCO).

In 2003 BG attempted to sell its stake to two Chinese companies but its partners in Agip KCO exercised their first-refusal privilege to pre-empt the sale. KMG had by now been created and negotiations allowed it to buy half of BG's stake while the other half was shared out among the other partners in the consortium, which exercised pre-emption rights. Eni, Shell, Total, ExxonMobil now each had slightly over 18.5 percent, ConocoPhillips (the successor to Phillips Petroleum) a little over 9.25 percent, and KMG and Inpex both had 8.33 percent. The Kazakhstani government once more had a representative in the consortium itself.

By mid-2007 the Kashagan consortium, which had continually postponed the projected date of production from 2005 to 2010 to 2012 to 2013, was saying that the original cost estimate of US$27 billion could more than double to $60 billion. The government thereupon observed the final cost could be as much as twice that again and in August that year suspended work for a minimum of three months due to environmental violations. At the end of September 2007, Nazarbayev signed legislative amendments al-

5 Anthea Pitt, "Chevron hit with $609m Tengiz fine," *Upstream,* October 3, 2007, http://www.upstreamonline.com/live/article141698.ece.

lowing the government to amend or even annul natural-resource contracts if they were deemed contrary to national security.

Just before the three-month suspension expired, the Western members of the consortium agreed in principle to increase the share held in it by KMG, to do a better job of training Kazakh personnel at the management level, and to introduce organizational reforms increasing transparency along with KMG's oversight capacity. At the same time, shares were adjusted bringing the Western principals down in proportion and KMG up, so that KMG had the slightest symbolic plurality of shares in addition to new powers of management enforcement.[6]

Karachaganak

The Karachaganak natural gas deposit was developed during the Soviet era, Karachaganak gas was intended for treatment at a gas-processing plant run in Orenburg, just across the Russian border, run by Orenburggazprom. After 1991, Karachaganak gas had to compete with Russian gas on the Russian market. Accordingly, the Orenburg treatment plant limited quantities that it would accept from Karachaganak.[7] Even during the late Soviet period, however, technological hurdles in field development required plans for cooperation with foreign firms. Discussions began even before Kazakhstan became independent, but it took years until finally in 1997 a production-sharing agreement (PSA) for Karachaganak was signed for a 40 year term. The shares of the company called Karachaganak Petroleum Operating (KPO) were apportioned: BG and Eni each obtained 32.5 percent, Chevron got 20 percent, and Lukoil was in for 15 percent.

Following the success of its strategy of entering and exerting greater influence from within the Kashagan consortium in the middle of the last decade, Kazakhstan took aim at Karachaganak. New tax claims were laid against the non-Kazakhstani partners in late 2009 and early 2010, while KMG (which was not formally a KPO member, at least not yet) asserted that the consortium's postponement of implementation of an investment plan had almost doubled the cost of Karachaganak Phase Three from $8 billion to $14.5 billion.

In 2010, Astana accused KPO of excess oil production, i.e., beyond the amount permitted by contract. The consortium was also fined $210 million for environmental violations for the year 2008, and prosecutors revealed that further claims amounting to $136 million for back taxes and penalties were already under preparation for calendar year 2004 alone: not to mention total charges of over $1 billion in accumulated export duties. The KPO consortium began negotiations with the government to sell it a 10 percent interest in the field.

Those negotiations were successful, and the consortium's erstwhile participants ceded their stakes in proportional fashion: BG and Eni each gave up 3.25 percent from their 32.5 percent stakes, Chevron gave up 2 percent from its 20 percent, and Lukoil 1.5 percent from its 13.5 percent stake. KMG thus obtained a 10 percent share, the cost of shares being $3 billion (judged by some observers to be relatively low), "including non-cash equivalent." Of that amount, $1 billion went to the Kazakhstani state budget, and also in return Astana increased the quota for oil allowed to Karachaganak through the CPC pipeline by 500,000 tons per year with a further increase of 1.5 million tons to come later. The agreement also provided for settlement of all tax claims and any disputed customs duties.

Kazakhstan's Motives and Strategies

This review of relations between the government and the three largest consortia in the country reveals that the principal goals for Kazakhstan's resource nationalism appear to have been to insure the timely development of hydrocarbon energy deposits and to promote the rational use of resources and profits for the benefit of social infrastructure and social programs. Motives for realizing those goals include discontent over delays in implementing production plans, increased costs at least partly attributable to such delays, and disputes over how to cover those increased costs, as well as concerns over ecological security and violations of environmental legislation.

Possibly also Astana has not forgotten how Washington in particular, after making unspecified

6 Robert M. Cutler, "Kazakhstan's Foreign Investment Law Changes Again," *Central Asia – Caucasus Analyst*, December 12, 2007, http://www.cacianalyst.org/?q=node/4754; also Robert M. Cutler, "Kazakhstan announces new energy directions," *Asia Times Online*, February 13, 2008, http://www.atimes.com/atimes/Central_Asia/JB13Ag01.html.

7 Richard McManus, "BG in Kazakhstan," Investis, London, June 9, 2002, http://ir.bg-group.com/bggroupplc/presentations/2002-09-06/powerpoint.pps, slides 14–16; cited in Robert M. Cutler, "The Caspian Energy Conundrum," *Journal of International Affairs* 56, no. 2 (2003): 91.

general promises concerning the promotion of natural-resource investment, seemed to lose official interest in Kazakhstan after the latter voluntarily agreed in 1992 to transfer its nuclear warheads to Russia and acceded two years later to the Non-Proliferation Treaty. Like all energy-rich former Soviet republics with the exception of Russia, Kazakhstan lacked, in the early and mid-1990s immediately after the USSR's disintegration, the human resources adequately to represent its interests in highly complex technical negotiations with market-oriented industrialists having wide experience on the global scale.

The Kazakhstani side's preoccupations across all three cases summarized here are similar, not difficult to understand, and not altogether illegitimate. Ecological concerns, even including fines and penalties and threats of same, are not exclusively a figleaf of the government for forcing foreign firms to do what they want them to do. Despite the one-party dominant political system in Kazakhstan and the unchallengeable personal (and familial) political hegemony of Nazarbayev, the ruling elite remains sensitive to public opinion about such issues and moves to take preventative action against possible discontent.

The 1985 Tengiz fire (a horrendous explosion that shot a pillar of fire 200 meters into the air and required a full year to be capped and extinguished because the inferno's gas was lethal) is not the only catastrophic ecological event in the country's recent history that is seared into the popular consciousness. The national health care delivery system is today still burdened with the effects of nuclear fallout on the population from the above-ground testing at Semipalatinsk (Semei) during the Soviet era. Indeed, Nazarbayev rode to power in the late 1980s partly on the back of the transnational civil society organization 'Nevada-Semei' that mobilized a good proportion of Kazakhstan's population against Soviet policies in general. To this also should be added to effects of nuclear fallout blowing across the border from the Chinese testing ground in Lop Nor.

Paradoxically, or rather ironically, the much-lauded progress of Kazakhstan in the 1990s and early 2000s towards the modernization of its banking system, and increased competence of the regulatory framework in general, set the groundwork for the proposal and implementation of some of the measures now seen as 'resource nationalism'. Insistence on bookkeeping reforms at Tengiz, for example, would have been impossible in the absence of national financial and taxation reforms, including the training of Kazakhstani personnel in the pertinent international norms. Generally increased competence on the Kazakhstani side also enabled legislative reforms to be drafted with the required technical specificity and then implemented.

While Kazakhstan's redress for its past relative weakness and inequality of negotiating position hurts international investor confidence by threatening unilateral revision of contracts or imposition of new duties, its ever-deepening energy ties with China make it rather less dependent than it once was upon the industrialized West, which no longer holds a technological monopsony except in admittedly important cutting-edge technologies, without which Kazakhstan in fact cannot do. Astana does indeed require not only large capital investment to develop its resources but also those advanced technologies to which it can gain access only through cooperation with global leaders in the sector, including but not limited to re-injection of extracted gas and oil and various gas processing technologies.

Concluding Remarks

To repeat: The principal motives of Kazakhstan's 'resource nationalism' appear to have been to insure the timely development of hydrocarbon energy deposits and the rational use of resources and profits for the benefit of social infrastructure and social programs. The Kashagan affair displays most of the legal and bureaucratic armamentarium at the disposal of Astana and also shows how Kazakhstan hesitates to take out its destructive artillery other than for the purpose of putting its existence into evidence in order to persuade. The principal explanation for what seems like the government's policy zigzags is not irrational patrimonial rent-seeking, and certainly not to the point of killing the goose that lays the golden egg, but rather the rational drive to make reality conform to the perceived need to 'level the playing-field'.

Other energy-rich, former Soviet republics in the Caspian Sea basin have manifested an evolution in their foreign energy-economic policy that is similar to Kazakhstan's. It is therefore possible to understand Kazakhstan's 'resource nationalism' on a more general basis: it is learned behavior emerging from the accretion of new experience onto past experience. The standpoint of much of scholastic Western political science makes it impossible to appreciate this fact.

The North American discipline's general antipathy towards the concept of foreign policy learning, which it straitjackets by limiting the scope of application, contributes significantly to that blindness.[8]

Yet it is not even necessary to mention Russia's special and especially controversial particular situation (BP-TNK for example) to make the point. Some years after the Soviet Union fell apart, both Azerbaijan and Turkmenistan also began to move, independently of one another and of Kazakhstan, to establish the 'relative autonomy' of their national energy development and export policies.[9] The fact that Azerbaijan and Turkmenistan did this at almost the same time as Kazakhstan, just after the middle of the last decade, strengthens the case in favor of a learning-based general explanation in the context of a common international business and political environment.

8 For an applied treatment by the present author, see Robert M. Cutler, "Gorbachev as CEO Roadkill: Lessons for the Modern Corporation from the Soviet Foreign Policy Establishment's Failure to Manage Complexity," in *Managing Complexity in Organizations,* ed. M. R. Lissack and H. P. Gunz (New York: Quorum, 1999), 352–370; for a theoretical treatment, see Robert M. Cutler, "The Paradox of Intentional Emergent Coherence: Organization and Decision in a Complex World," *Journal of the Washington Academy of Sciences* 91, no. 4 (2006): 9–27. The argument of the former is being expanded for Robert M. Cutler, *Why Soviet Foreign Policy Failed: What Complexity Science Tells Us That Nothing Else Can* (Litchfield Park, AZ: Emergent Publications, forthcoming).

9 Robert M. Cutler, "The Central Eurasian Hydrocarbon Energy Complex: From Central Asia to Central Europe," in *Secure Oil and Alternative Energy*, ed. M. P. Amineh and Y. Guang (Leiden-Boston: Brill, forthcoming), chapter 3.

Kazakhstan's Agriculture after Two Decades of Independence[1]

Richard Pomfret[2] (2013)

Agriculture plays an important part in Kazakhstan's self-image, and continues to be a significant economic sector, employing about a third of the workforce. In the two decades since independence, agriculture has experienced dramatic swings in performance and in public policy. During the 1990s the sector suffered from external shocks, reduced public support, and inchoate land tenure reform, while providing a safety net for families suffering from the transitional recession. Since the turn of the century, the booming economy has seen rural-urban migration and substantial public funds devoted to the agricultural sector. In the twenty-first century, agricultural performance has improved substantially and tenure arrangements are more transparent. However, the reform process remains incomplete. The path to land reform has left a legacy of weak land markets and difficulty in using land as collateral. The institutional arrangements are inadequate for coherent agricultural and rural development. While farm output has increased, interventionist policies and distrust of market mechanisms lead to resource misallocation and hamper productivity growth. In times of plenty, resource misallocation can seem a minor problem, but if a goal of diversification is to make the non-oil sector more resilient, then inefficient policies that promote an output mix determined by officials will not succeed in achieving this goal.

Agriculture's Role in the Soviet Era

Until the mid-1800s agriculture in the territory of Kazakhstan was traditionally pastoral and nomadic. With increasing Russian control, Slavs settling in the rain-fed lands of the southeast introduced sedentary farming, and some nomads began to plant winter grain. South Kazakhstan became part of the Central Asian cotton economy, although Kazakhstan remains a much smaller cotton producer than its Central Asian neighbors. After the 1917 revolution, the most dramatic change was the enforced collectivization of 1928–29, which was resisted and accompanied by a huge reduction in the number of livestock and by famine.

The second important policy decision in the Soviet era was the Virgin Lands program introduced in the 1950s in northern Kazakhstan. The program brought about 25 million hectares into cultivation (i.e. over 60% of current arable land), and Kazakhstan became a major producer of wheat and barley. Variable climatic conditions led to volatile harvests, and the soils in some of the new lands (about 30%, according to the World Bank) were unsuited to long-term cultivation.

In the late Soviet era, agriculture was favored by budget subsidies, input and market support, as well as by subsidies (such as cheap fuel and transport) that were not agriculture-specific. During the final decades of the Soviet era, grain and cotton farmers received favorable relative prices, and a prime aim of Soviet policy was to increase the output of the livestock sector in order to increase living standards through higher consumption of meat and dairy products. Meat output in the Soviet Union increased by 60 percent during the 1970s and 1980s, supported by the import of feed grains and soybeans from the United States and elsewhere. In the 1980s Kazakhstan exported 300,000 tons of meat per year, 250,000 tons of milk, and 150 million eggs to other Soviet republics.

In 1991 just over a quarter of the workforce was formally employed in agriculture, although agricultural output accounted for less than 15 percent of GDP. Of 39 million hectares of cultivated land, 65 percent was devoted to cereals and 33 percent to fodder crops. Although less important in terms of total

1 Parts of this paper are related to work done as a consultant to the Organization for Economic Cooperation and Development and to the World Bank. All of the information referred to in the paper is in the public domain (full documentation is available on request) and the views expressed are my own.

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acreage, rice and cotton were significant crops in the south, and cotton was Kazakhstan's third largest export to non-Soviet markets after mineral fertilizers and coal. Oil crops, regionally important in two eastern regions, supplied 40 percent of domestic demand.

Agricultural Reform during the 1990s

In December 1991 the Soviet Union was dissolved. The farm sector, like the economy as a whole, was affected by the disruption of supply chains both for inputs and to markets. In January 1992, other Soviet successor states, still using the ruble as a common currency, had to follow Russia's price reform. Price and trade liberalization changed the incentive structure, and most farmers were operating in undistorted product markets during the second half of the 1990s.

Policy toward agriculture in the 1990s was largely one of neglect, as the government addressed other more pressing priorities. Trade policy was fairly liberal with moderate tariffs on imports and few tariff peaks or non-tariff barriers to trade in agricultural products. OECD producer support estimates for agriculture in Russia and Ukraine are highly positive up to 1991, and then fall dramatically in 1992 to around zero or to negative values. A similar picture almost certainly applies to Kazakhstan, as price liberalization removed the benefit of receiving key inputs at below world prices. During the 1992–94 hyperinflation, farmers' input prices increased by at least twice as much as output prices.[3] Subsidies for agriculture declined from 10–12 percent of GDP before 1991 to 2–3 percent in 1993, and between 1995 and 1999 subsides for agriculture were negligible. Some farmers faced locally monopsonistic buyers for their outputs (e.g. cotton gins, dairies, grain merchants, or flour mills) and for all producers trade costs were high.

As the decade progressed, farm reform and restructuring added to the pressures for change in the agricultural sector. Privatization in principle broke up large farms, but in practice many farms remained essentially unrestructured. When farms went bankrupt during the second half of the 1990s, farmers, mechanics, and others in the rural economy received land or equipment in lieu of wages. The sector was characterized by the continuing power of former state-farm managers and of local authorities, and by the Soviet-era phenomenon of household plots producing a large share of output, especially of milk and meat and of fruit and vegetables.

Output of all agricultural products fell substantially after 1990. According to World Bank data, the annual growth rate of agricultural value-added between 1990 and 2001 was minus 3.22 percent. Grain production in 1998 was 6.5 million tons compared to 30 million tons in 1992. The trend is difficult to determine due to the volatility and generally poor climatic conditions of the 1990s, but average output was 50 percent lower in 1996–2000 than in 1987–1991 (Table 1).

Table 1: Grain and Meat Production and Net Exports, 1987–2010, Million Metric Tons

	Grain		Meat	
	Production	Net Export	Production	Net export
1987–91	21	4.6	1.1	0.2
1992–95	19	5.7	0.9	0.1
1996–2000	11	4.3	0.5	(0.0)
2001–5	14	4.6	0.5	(0.1)
2006–10	17	7.4	0.7	(0.2)

Source: USDA[4]

Notes: Figures for grain are averages for five marketing years (July-June) and for meat of five calendar years; grain excludes rice, sorghum, and pulses, and meet covers beef, pork, and poultry broilers. Numbers in parentheses are net imports.

Large-scale livestock farming almost disappeared as animal stocks became concentrated in small household plots, and meat, milk, and eggs became essentially non-traded goods. The number of cattle fell from nine million to less than four million. In addition to the disorganization and shift in the relative price of inputs to outputs, this was an adjustment to the policy of the previous two decades that had encouraged meat production and consumption to a level that was far higher than in other countries with similar income levels. The drastic decline in livestock numbers explains the pattern of grain production and trade in Table 1, where output fell dramatically but net exports did not. What was being reduced was the demand for feedstock, which had been met by domestic production or by imports,

3 Mark de Broeck and Kristina Kostial, "Output Decline in Transition: The Case of Kazakhstan," *IMF Working Paper* WP/98/45, International Monetary Fund, Washington D.C., 1998.

4 Reported in William Liefert and Olga Liefert, "Russian Agriculture during Transition: Performance, global impact, and output," *Applied Economic Perspectives and Policy* 34, no. 1 (2012): 37–75.

while output and exports of higher quality grains for human consumption held up much better.

Despite the dismal output performance of agriculture during the transition of the 1990s, the number of people dependent on farming may have increased. As other parts of the economy collapsed, people returned to their villages or used their dachas to become self-sufficient. Policymakers were inclined to see the decline of the agricultural sector as a problem, both because they believed that Kazakhstan had a strong comparative advantage in many farm products and also because of social issues associated with a large population with rural connections.

The Tortuous Path of Land Reform

Although economic reforms were sporadic during the 1990s, Kazakhstan had a market-based economy by the end of the decade. After an uncertain start in the 1990s, macroeconomic management has been good since the turn of the century. In the twenty-first century, the European Bank for Reconstruction and Development gives Kazakhstan high marks for progress in small-scale privatization, price liberalization, and trade and forex system, slightly lower scores for large-scale privatization and competition policy, and low marks on its financial sector, infrastructure, and, especially, enterprise restructuring. The farm sector reflected this aggregate pattern, with a slow and difficult process of land reform.

Initial land reforms in 1991 asserted state-ownership of land and lifetime use rights. Over the next dozen years, the government was cautious about deciding whether land belonged to the state or whether to embrace private ownership of land, and hesitant about restructuring large agricultural enterprises, equating size with efficiency. The 1995 law "On Land" set out the principles of state ownership of land with private use rights under 99-year leases. The lands of restructured agricultural enterprises were distributed among workers and pensioners and 2,270,000 shares covering 118 million hectares had been allocated in 1997, but by 2002 less than 30 percent of the share-owners had exercised their rights to form individual family farms. A 2001 decree changing the length of leases to 49 years and mixed signals from the state about the desirability of sub-leasing created further confusion about land rights, until in 2003 a new Land Code allowed private ownership with full property rights.

The reforms led to an increase in the number of individual farms, but the process was slow and sub-sectors remain dominated by large enterprises run by the former state farm managers (grain) and by household plots (meat, milk, and eggs). The number of farms increased from 5,000 in 1990 to 161,962 in 2006, of which 4,919 were corporate farms (average size 12,000 hectares) and 156,978 family farms (average size 248 hectares); the remaining 65 state farms are all experimental stations. In 2002 corporate farms accounted for 63 percent and family farms 36 percent of agricultural land use, but by 2006 these shares were almost equal (51% and 48%).[5]

There is, however, large variance between the northern wheat-growing regions, where family farms accounted for only 30 percent of land, and southern and southeastern Kazakhstan, where family farms accounted for about 70 percent of land use. There is also a correlation with output mix; in 2006 agricultural enterprises produced about two-thirds of grain output while family farms produced 95 percent of cotton, 70 percent of sugar beet, and 64 percent of sunflowers. The five million household plots produced 91 percent of milk, 83 percent of meat, 79 percent of potatoes, 74 percent of fruits, and 64 percent of vegetables.

The slow and at times uncertain reform of land tenure led earlier analysts of farm restructuring to emphasize lack of genuine change, while later analysts see an ongoing and incomplete process.[6] By the turn of the century there had been a paper reform of agriculture, whose consequences were still being worked out in the context of pervasive farm indebtedness; as

5 A group of some fifteen very large grain holdings had also emerged by the mid-2000s, e.g. Ivolga-Holdings controlled about a million hectares of farmland and owned eleven elevators in Kazakhstan (as well as 140,000 hectares and ten elevators in Russia) and accounted for 500,000–700,000 tons of grain exports from Kazakhstan per year. See Jürgen Wandel, "Agroholdings and Clusters in Kazakhstan's Agro-food Sector," *IAMO Discussion Paper* No.126, Leibniz Institute of Agricultural Development in Central and Eastern Europe, Germany, Halle, 2009.

6 See, for example, John Gray, "Kazakhstan: A Review of Farm Restructuring," *World Bank Technical Paper* No. 458, World Bank, Washington D.C., 2000; Zvi Lerman, Csaba Csaki, and Gershon Feder, *Agriculture in Transition: Land policies and evolving farm structures in post-Soviet economies* (Lanham MD: Lexington Books, 2004); Nora Dudwick, Karin Fock, and David Sedik, "Land Reform and Farm Restructuring in Transition Countries: The Experience of Bulgaria, Moldova, Azerbaijan, and Kazakhstan," *The World Bank Working Paper* No. 104, 2007; Martin Petrick, Jürgen Wandel, and Katharina Karsten, "Farm Restructuring and Agricultural Recovery in Kazakhstan's Grain Region: An update," *IAMO Discussion Paper* No. 137, Leibniz Institute of Agricultural Development in Central and Eastern Europe, Germany, Halle, 2011.

late as 2006, two-fifths of all farms were still unprofitable. The 2003 Land Reform legalized private land ownership and restructuring continues, but it is slow in part due to the absence of an active land market in which enterprising farmers can expand by purchasing neighboring property. Leaseholders paying a low rent to the state on a 49-year lease are often unwilling to take out the option of private ownership. Thus, even as the number of individual farms increases, there is still not a well-functioning land market.

Agricultural Policy after 2002

The turning point in agricultural policy dates from the *aul* (village) program initiated in 2001, or more definitively the billion-dollar 2003–5 Agriculture and Food Program (AFP) announced in 2002. The driving force was the oil boom, which provided revenues for public support, as well as causing concerns about lack of economic diversification. The Ministry of Agriculture's budget increased from 26 billion tenge in 2001 to 81 billion in 2005, and its share of the total central budget went from 2.5 percent to 6.5 percent.

The AFP's stated objectives were to ensure food security, establish an efficient agro-industrial system, increase sales of farm products in domestic and foreign markets, and optimize state support for agriculture. The AFP provided general services support to agriculture aimed at improving infrastructure and product quality. Input subsidies (e.g. on fertilizers, fuel, and seeds) and price support schemes aimed to stimulate output. Price support was provided through increased funds for the Food Contract Corporation (FCC), which had been established in 1997 and which purchased 1.5 million tons or 20 percent of the grain harvest in 2002, and for a parastatal created in 2001 to provide producer support for the livestock sector.

The situation of the livestock sector improved dramatically after 2000 as the government took steps to end neglect of the sector and to reverse the decline in quality that accompanied the disintegration of large production units. The nominal rate of assistance to livestock producers went from minus 15 percent in 2000 to plus 31 percent in 2004.[7] Wheat producers in the early 2000s had negative market price support—that is, farm-gate prices were below a reference (border) price; the price gap was due mainly to high trade costs, rather than lack of public support. Conditions in the market-based cotton sector are far better than in neighboring Uzbekistan, and trade costs are lower than for wheat farmers due to the more concentrated location of farmers in the south. In sum, the pattern was of increased support, especially to livestock farmers, as agricultural policy became much more favorable for farmers in Kazakhstan between 2000 and 2005.

Evaluation of the AFP in 2006–7 pointed to institutional weaknesses.[8] Implementation of the subsidy programs for grain and livestock producers was plagued by discrimination and inefficiency. Fuel subsidies encouraged corruption as farmers requested more gasoline than they needed and sold the surplus for profit. The fertilizer subsides were paid only to domestic suppliers, acting in a similar trade-distorting way to local-content requirements.

With growing evidence of a financial market bubble, associated distrust of market mechanisms, and increased economic nationalism in the oil and gas sector, the reaction was to reorganize rather than reform institutions. After the collapse of several large banks, the holding company Samruk-Kazyna was created in October 2008, with affiliates producing over half of GDP. This strategy was mirrored in the agricultural sector in 2007–8 with the consolidation of policy-related institutions, first under the aegis of the Ministry of Agriculture and then under the KazAgro holding company, which had been established in December 2006 to amalgamate seven institutions providing support to agriculture. The Ministry of Agriculture's budget continued to increase, to 139 billion tenge in 2008, of which some 45 percent went to KazAgro. In the 2008–9 crisis program, KazAgro received 120 billion tenge. The KazAgro budget is dominated by price support and financing (92% of the budget in 2011), while a separate entity, KazAgro Innovation, is responsible for promoting technical change.

In sum, the level and composition of Ministry of Agriculture spending changed dramatically after the turn of the century. The share of subsidies increased

7 Estimates in this paragraph are from Richard Pomfret, "Kazakhstan," in *Distortions to Agricultural Incentives in Europe's Transition Economies,* ed. Kym Anderson and Johan Swinnen (World Bank: Washington D.C., 2008), 219–63.

8 In, for example, report "Kazakhstan - Agricultural Policy Assessment," The World Bank and the Government of Kazakhstan in collaboration with USAID and FAO, 2006; and the report "Kazakhstan: Public Expenditure and Institutional Review for the Agricultural Sector," The World Bank, 2009.

from 6 percent in 2001 to 24 percent in 2008 and 39 percent in 2009, and the majority of this goes to area (i.e. per hectare) subsidies. In the same period, the share of spending on infrastructure fell from 16 to 5 percent and on crop and livestock services from 19 to 17 percent.

Policy Challenges

The current state planning system was adopted in 2009. Agriculture is a priority development area for the decade to 2020, and the Ministry of Agriculture is focusing on eight subsectors (fruit and vegetables, grain, meat, milk, oil crops, poultry, sugar, and wool), which have priority over other products such as honey or cotton. Since October 2009 these subsectors have received priority loans from KazAgro, and larger subsidies or lower interest rates on loans/leasing. Regions are responsible for implementation, but central control ensures coherence. Evaluation of policies is primarily in terms of quantitative targets, mostly for output, with little concern for allocative efficiency. Socio-economic and environmental concerns are referred to, but do not appear to have a high priority in practice.

Agricultural policy is almost entirely supply-side oriented. KazAgro Marketing has two main functions: price monitoring (which is also done by the State Statistical Agency) and consulting services that mainly provide advice on how to obtain state support. The FCC buys grain, but does little to help farmers to increase the unit value of their sales by creating international awareness of Kazakhstani quality standards or by improving supply chains. The 2010 customs union with Russia and Belarus reinforces this pattern with, for example, quantitative targets for supply of beef from Kazakhstan to Russia.

Some goals are poorly articulated or inconsistent. Although reference is made to public good provision, the share of funds devoted to infrastructure has fallen. Food security is defined by a minimum level of domestic supply (80% for each food product), rather than in terms of the ability of households to obtain food (allowing for substitution from goods with increasing prices). WTO accession is made more difficult by the subsidy policy, under which too many agricultural subsidies are in the amber box of WTO-incompatibility; Kazakhstan is seeking developing country status at the WTO, which would allow it to exceed the subsidy guidelines, and is not acknowledging the costs to itself of such subsidies. In providing subsidized credit KazAgro works with the commercial banks, but by directing credit to specific producers it is crowding out independent commercial loans; because government loans are at pre-determined interest rates, this may be reducing the prospects of financing for riskier but potentially high-return projects.

Implementation is bureaucratic, and policies are poorly coordinated. Farmers complain of the difficulty in knowing what support is available and how to obtain it. Even when subsidies or other support are provided they are often delayed—for instance, arriving after the farmer has purchased inputs for sowing and fertilizing—and apparently transparent rules on subsidy scales appear to be discretionary when applied at the local level. In order to increase production of tomatoes, cucumbers, and so on, in semi-arid regions, drip irrigation is promoted, but its success depends upon use of high-quality fertilizers, which is discouraged by the subsidies for using domestic fertilizers, which are not of top quality.

Division of responsibilities among government ministries is not accompanied by coordination. The Ministry of Education finances fundamental research, but the Ministry of Agriculture funds applied research. Implementation is largely by regional administrations that can augment schemes with their own funds, leading to regional inequities and cross-regional inefficiencies. To facilitate consolidation of farms in order to realize scale economies, the Ministry of Employment is responsible for providing alternative jobs for self-employed farmers, for example by providing microcredit or relocating people from regions with poorer economic prospects. Land improvement is financed by the Ministry of Ecology.

Conclusions

Kazakhstan's economic history since independence is divided into that of a grim decade of transitional recession and a boom era since 1999. Agriculture followed these developments, while also offering an important coping mechanism during the depths of the recession. In the twenty-first century the government has sought to use revenues from the oil boom for future security, investment in human capital, improved infrastructure, and economic di-

versification. Farming and agri-business have been given an important role, especially in economic diversification. This paper illustrates the steps taken to consolidate and improve Kazakhstan's position as a major agricultural producer and exporter, while also highlighting the shortcomings of current policies. A feature of policymaking in Kazakhstan is the government's flexibility in learning and adapting policies; this will be tested in the evolution of its agricultural policies.

The Fall of the Tenge. A Critical Analysis of the Official Narrative on the Kazakhstani Currency Devaluation

Genadiy Rau and Bakhytzhan Kurmanov[1] (2015)

On August 20, 2015 the Government of Kazakhstan and the National bank of Kazakhstan announced the introduction of a free floating exchange rate and abandoned the peg band that was revised on July 15, 2015 and was widely expected to last until the end of the year. The subsequent sharp depreciation of tenge, which had been a stable currency for a long time, has surprised foreign investors and financial analysts worldwide.[2] However, the decision was not a big surprise for local experts and representatives of the Kazakhstani business community, as they strongly advocated for devaluation, claiming that it was necessary for the local manufacturing products to compete with their neighbors. Moreover, the macroeconomic data was indicating a sharp slowdown of economic activity (the GDP growth forecast for 2015 was revised down to a meager 1.5%).[3]

In this paper the arguments of devaluation proponents are examined, critically analyzed and empirically verified. Supporting devaluation was justified with three main arguments: a need to increase the competitiveness of Kazakhstani manufactured goods' exporters, the importance of saving the foreign currency reserves, and the adoption of new monetary policy instruments such as inflation targeting. The arguments of devaluation advocates were strong and on the surface persuasive, but few months after the devaluation we can see that tenge is still experiencing downward pressures and remains highly unstable. The narrative used by the Kazakhstani business community and the Government concealed a real objective of devaluation to improve the earnings of resource exporting companies. This essay argues that the overall devaluation of tenge has not achieved its stated goals (i.e. the aforementioned three arguments) and, on the contrary, has weakened the long-term competitiveness of the local manufacturing industry and the financial sector.

The Story of Tenge Devaluation

The August 2015 decision to devalue the tenge, i.e. free floating exchange rate, was highly controversial and quite distinct from previous rounds of devaluations because it was highly anticipated by market players who laid additional pressure on policy-makers, who then delayed the decision to devalue the currency after the ruble plunge in December. The Kazakhstani authorities had to use all of its gears to neatly introduce devaluation of the currency. The right to announce key changes in the monetary policy of the country was given to the Prime Minister of the country – Karim Massimov. The second voice in support of the free floating exchange rate was President Nursultan Nazarbayev, who rarely commented on exchange rate policy and needless to say delivered such unpleasant news to the people of Kazakhstan.[4] And last, by the end of the long month of August was a statement from Kairat Kelimbetov, the Chairman of the National Bank of Kazakhstan, who had usually delivered such news in the past and was considered to be the main spokesperson on monetary policy of the country.[5]

1 Genadiy Rau, Head of the Unit for Monitoring Regions' Development, Economic Research Institute, Ministry of National Economy of Kazakhstan (genadiyr@gmail.com); Bakhytzhan Kurmanov, Project manager, UNDP office in Kazakhstan (Bakhytzhan.kurmanov@undp.org).

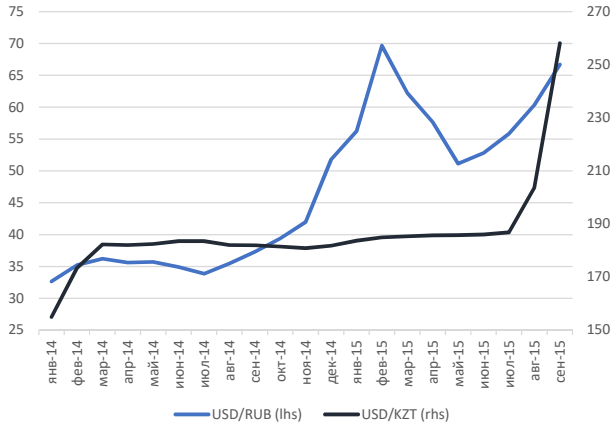
2 "Kazakhstan floats tenge, currency tumbles," *CNBC*, August 20, 2015, http://www.cnbc.com/2015/08/20/kazakhstan-floats-tenge-currency-tumbles.html.

3 "ADB predicts Kazakhstan's GPD to slow down to 1.5 percent in 2015," *Tengri news*, September 30, 2015, http://en.tengrinews.kz/finance/ADB-predicts-Kazakhstans-GPD-to-slow-down-to-15-percent-in-262257/.

4 "Nazarbayev explains reasons for switching to floating exchange rate," *Tengri news*, August 24, 2015, http://en.tengrinews.kz/politics_sub/Nazarbayev-explains-reasons-for-switching-to-floating-261708/.

5 "Kazakhstan central bank on why fixed currency exchange rate had to be renounced," *Tengri news*, August 20, 2015, http://en.tengrinews.kz/finance/Kazakhstan-central-bank-on-why-fixed-currency-exchange-rate-261696/.

Figure 1. The Exchange Rate of Russian Rouble and Kazakh Tenge to US Dollar



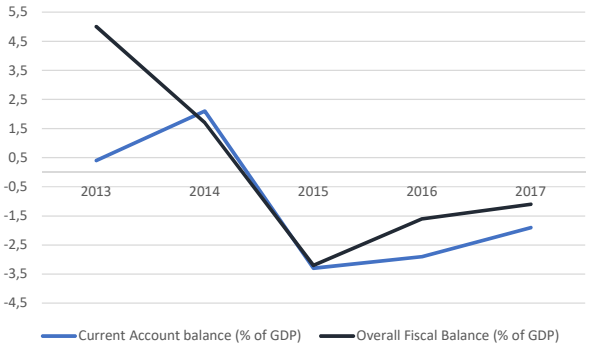
Source: Central Bank of Russia and National Bank of Kazakhstan

The sequence of speakers was carefully planned and aimed at sparing the National Bank of Kazakhstan from criticism and rendering greater credibility to the decision to introduce a free floating exchange rate. The Government, together with leading figures from the national business community, put enormous efforts toward supporting the argument for devaluation. The analysis of the three aforementioned criteria provides wealth of data on reasons to devalue the currency and neatly summarizes the main arguments of advocates for devaluation.

Argument 1: Kazakhstani producers cannot compete with Russian and Chinese producers due to the depreciation of the ruble and renminbi

The sharp devaluation of the Russian ruble at the end of 2014, while the Kazakhstani tenge maintained its peg to the US dollar, opened up significant current accounts and an overall fiscal deficit emanating from trade (see Figure 2). Historically, goods and services in Kazakhstan were considered to be more expensive than Russian ones, largely because of transportation costs and limited information on prices of goods and services, i.e. information asymmetry. Importing goods to Kazakhstan was profitable, but was not a lucrative business. However, in December of 2014, when overnight the ruble collapsed 40% in its value, ordinary people realized that cars, equipment and other consumer goods appeared considerably cheaper (at least 40% in lieu with devaluation) in neighboring Russia in comparison with Kazakhstan.[6]

Figure 2. Current Account Balance and Fiscal Balance are Expected to Worsen in Kazakhstan from 2015



Source: IMF Country Report No. 15/241

Uncomfortably for the government of Kazakhstan, it lacked administrative tools to restrict the movement of capital across the border. The integration agenda and establishment of the Eurasian Economic Union on January 1, 2015 made it hard to establish any trade barriers or tariffs on Russian products. At the border with Russia, some roadblocks were set temporarily; however, it did not stop the process and the only inconvenience was long waiting lines on the border crossing between countries.[7] The first to see the impact were the Kazakhstani car manufacturers who noticed a 40% collapse in the sales of cars in January.[8] Slowly, complaints were raised by agricultural products producers, consumer goods manufacturers and other businesses. The message was loud and clear that devaluation of the ruble gave an unfair competitive advantage to Russian goods and services.

The summer of 2015 also appeared turbulent with the unexpected collapse of the Chinese stock market, investors pulling out investments from developing countries, further slowdown of global economy and low commodity prices. All those events further eroded the terms of trade for Kazakhstani goods and services as the president pointed out that, in monetary terms, exports in the first half of 2015 col-

6 "Kazakhstantsy massovo skupayut rossiyskuyu valyutu," *Zakon.kz*, November 29, 2014, http://www.zakon.kz/4671765-kazakhstancy-massovo-skupajut.html.

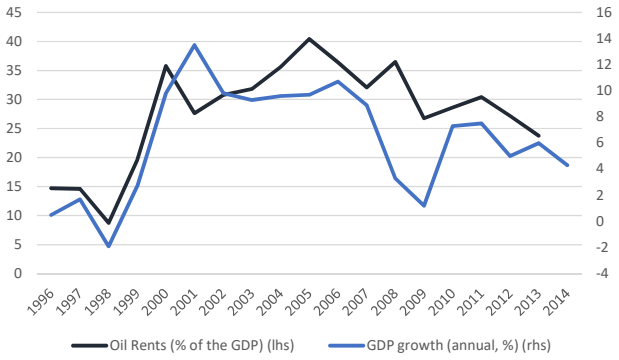
7 S. Golunov, "How Russia's Food Embargo and Ruble Devaluation Challenges the Eurasian Customs Union," *PONARS Eurasia Policy Memo* No. 363. The George Washington University, Washington, DC, June 2015, http://www.ponarseurasia.org/sites/default/files/policy-memos-pdf/Pepm363_Golunov_June2015_1.pdf.

8 "Prodazhi avtomobiley v Kazakhstane upali na 40 protsentov za dva mesyatsa," *Tengri news*, February 23, 2015, http://tengrinews.kz/kazakhstan_news/prodaji-avtomobiley-kazahstane-upali-40-protsentov-dva-270547/.

lapsed by a whopping 73%.[9] We can also note that the hope of oil prices rebounding in the near future were evaporated by August of 2015, and it became obvious for the Government that in the medium term perspective, maintaining huge trade deficits is not sustainable. Thus, the solution was to join the race to the bottom by devaluing the tenge.

To respond to the proponents of competitive devaluation, we should first critically analyze the underlying factors of the competitiveness of the Kazakhstani economy. Competitive devaluation is defined as the process of external adjustment for a country's export products when lowering the exchange rate improves competitiveness in the global market. However, one has to look at the Kazakhstan's export structure. In 2014 commodities constituted 77.8% of exports, while manufactured products only 22.2% (conversely, manufactured products accounted for 94% of imports to Kazakhstan).[10] Hence the currency devaluation disproportionately affects imports rather than helping to boost exports, as the price for commodities are set at global markets. The overall positive effect on the Kazakhstani economy due to improvement of the local manufacturers' competitiveness will be limited, if one considers that the impressive GDP growth during 2000s was driven mainly by the expansion of the oil sector.

Figure 3. The GDP Growth of Kazakhstan Coincided with the Expansion of the Oil Sector



Source: World Bank

In the case of the Kazakhstani tenge devaluation against foreign currencies, it is important to consider the quality variance between local and foreign products along with their position in value chains. The basic tenet of those who compare the price of two products is that the quality of those products has to be roughly the same. For instance, a study conducted by OECD looking at the agricultural production in Kazakhstan singled out inadequate quality of produce as the main challenge for development of the sector (58% of respondents).[11] From this point of view, Kazakhstani consumers are pushed to buy locally-produced, lower quality products, while foreign products are comparatively of higher quality and often cheaper. Thus, in the case of currency devaluation, economics suggests that Kazakhstani consumers might prefer to decrease their consumption of Russian or Chinese goods of higher quality rather than switch to Kazakhstani manufacturing or food produce. This clearly shows that despite the official narrative, the devaluation of the tenge would not necessarily lead to increased exports of Kazakhstani goods abroad or the rise of consumption of local products.

Another dimension to the story is that the Kazakhstani business community bears a large part of responsibility for the economic stagnation of the country. Over the last decade, the Government has launched an impressive scale of programs for entrepreneurship development, industrialization, and business opportunities promotion. It provided enormous support for businesses and industry during the crisis of 2009 and implementation of the first industrial policy in 2009-2014. It upgraded infrastructure and subsidized business loans. While critics can argue that a chunk of investments were ineffective or waste, overall the Government was going in the right direction. Despite attracting a high level of investments, the manufacturing exports dropped (as seen in the Figure 4). This clearly reveals that Kazakhstani businesses failed to develop competitive products on global markets.

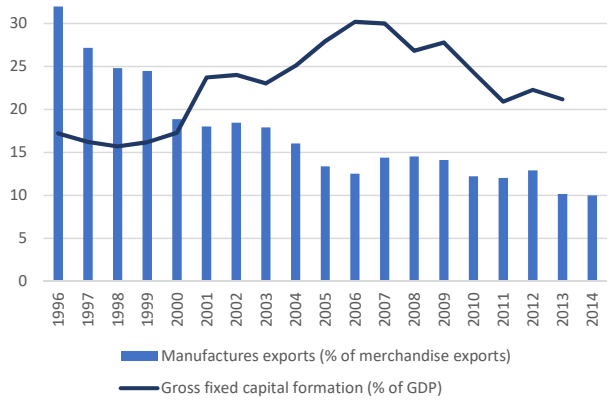
In the meantime, Kazakhstani businesses learned to live off of generous government subsidies while not investing in R&D (the rate of innovative activity was 8.1% in 2014) or producing high quality goods. The Return on Investment (ROI) of the government is thus significantly negative, with businesses primarily exploiting resource extracting industries,

9 "Kazakhstan's exports down 73% in first half of 2015 – President," *KAZINFORM*, August 20, 2015, http://www.inform.kz/eng/article/2809290.

10 "Analiz sostoyaniya vneshney torgovli RK za 2014 god," KAZNEXINVEST, 2015, http://export.gov.kz/storage/ec/ec9701639de1f0a52c56ea8871e64f44.pdf.

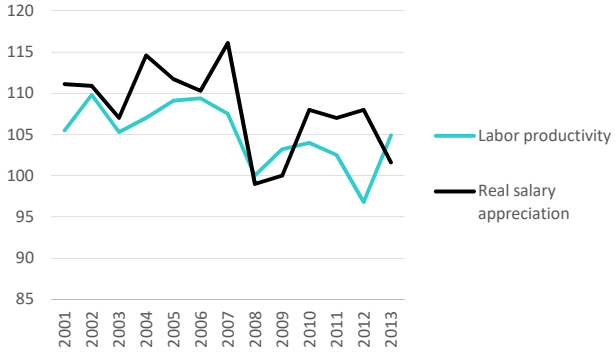
11 "Competitiveness and Private Sector Development: Kazakhstan 2010: Sector Competitiveness Strategy," OECD Publishing, Paris, 2011, DOI: http://dx.doi.org/10.1787/9789264089792-en.

Figure 4. The Share of Manufactured Exports Dropped Threefold Despite the Growth in Investments in Kazakhstan



Source: World Bank

Figure 5. Productivity vs. Real Income



Source: Statistics Office

which provide windfall profits for little effort.[12] The Whiteshield Partners recent report, *Diversification of Kazakhstan's Economy: A Capability-based Approach*, registers decreases in the Economic Complexity Index and Opportunity Value in the period from 2009 to 2014, which means that the country was moving towards the periphery of the Product Space, reducing the complexity and sophistication of its products.[13] The lowest Regional Capability was registered in resource-extracting regions of Kazakhstan. Kazakhstani businesses adjusted to make profits and capture rents in the lucrative oil and gas sectors, along with the booming real estate and services sectors, but did not invest in innovation or quality.

Moreover, over the past 15 years, income appreciation exceeded productivity gains. While having on average lower productivity than in Russia or Eastern Europe, incomes in Kazakhstan were rapidly converging. This situation was not sustainable in the long run with the solution either to cut salaries or raise productivity (for instance, automation of production), most likely a combination of both.

Viewing the story from that angle, one can conclude that the government had to discipline the business community by cutting excessive wasteful subsidies, encouraging it to produce high quality/value-added and novel products, fostering investments in R&D, and undertaking other related measures. This was arguably done in South Korea, Taiwan and other tiger economies during their economic development.[14]

The expected result of currency devaluation was a net positive impact on the cash flow of Kazakhstani commodities exporters. Commodity exporters generate revenue in foreign currency, while expenses are incurred in local tenge. So a 30% devaluation of tenge increases revenue of exporters by 30%, while salaries at least for a while stay the same. This logic was confirmed by the national oil extracting company KazMunayGas, which revealed that devaluation enables it to achieve profitability of approximately 500 billion tenge in 2015.[15] However, it sends the wrong message to the business community, that of a lack of need to invest in productivity, R&D or innovation, as if profitability would magically return to comfortable high levels after currency depreciation. This in turn instills devaluation expectations, reluctance to conduct long term/over distance business due to currency risks, and heightened volatility caused by speculations.

Meanwhile, a rather unexpected outcome was witnessed by manufacturers and agriculture producers. The devaluation wiped significant amount of wealth and made consumers poorer, which limited their purchasing power and willingness to spend in uncertain economic times. By some estimates, the

12 "Diversification of Kazakhstan's economy: A capability-based approach," Draft Report. Whiteshield Partners, EBRD, 2015.

13 Ibid.

14 J. Studwell, *How Asia works: Success and failure in the world's most dynamic region* (London: ProfileBooks, 2014).

15 "Zampred KazMunayGaz: Deval'vatsiya tenge polozhitel'no skazalas' na pribyli natskompanii," *Tengri news,* October 8, 2015, http://tengrinews.kz/money/zampred-kazmunaygaz-devalvatsiya-tenge-polojitelno-skazalas-282051/.

middle income class was reduced by 10-15% over September of 2015.[16] Diminishing wealth and incomes in dollar terms circumvented spending power of consumers and many had to tighten their belts, which reduced aggregate demand in the economy. Rapid fluctuation of the exchange rate brought panic and negatively impacted investment sentiment in the country. Some banks restricted availability of the credit while businesses and people who borrowed in foreign currencies and generated income in tenge suffered from currency risk. Overall, the promised benefits did not materialize, except for commodities exporters, while the action generated a number of negative externalities impacting Kazakhstan in the long run.

Argument 2: Saving the National Wealth Fund and not wasting the foreign currency reserves of the National Bank of Kazakhstan

Another important argument of free floating exchange rate devaluation advocates is that it is prohibitively expensive to maintain the peg to dollar. Everyone knew that the National Bank of Kazakhstan was intervening in the exchange market by selling US dollars, but few knew the price tag of the currency stability. On August 20, 2015, it was revealed that over the period of 2014-2015 it cost the government $28 billion to maintain the peg.[17] This is a rather large amount of money for a country which only has reserves of approximately $100 billion. Assuming that there is no windfall proceeds to the reserves due to low commodity prices indicate that such excessive spending may not last even a decade.

It is critical to note that data on the National Wealth Fund of Kazakhstan or the foreign exchange reserves has not been fully transparent. The National Bank of Kazakhstan has been criticized by numerous experts for not fully revealing its currency intervention records and for not providing the full picture on the assets of the National Wealth Fund. Apart from an obscure presidential decree, there is no official legislation on the functions and monitoring procedures for the Fund; almost no parliamentary or public scrutiny is produced on the operations of the National Bank that involves the foreign currency reserves. Moreover, lately the government had to tap into the National Wealth Fund not only to maintain the peg, but also to finance its current and investment spending. The Nurly Zhol program of infrastructure investment that was announced in November of 2014 was entirely funded by transfers from the National Wealth Fund. Over a period of three years, the program is expected to cost $12 billion (5.8% of GDP), with large chunk coming from the Fund and $7 billion in loans contracted from Multinational Development Banks (MDBs).[18]

The analysis of the state budget for 2015 paints a rather alarming picture. Income from taxation constitutes slightly more than half (52%) of the revenue stream in 2015, while a big chunk of the money (more than 42%) comes from the National Wealth Fund.[19] As it was demonstrated in the graph above, most of the investments have not supported the rise of manufactured exports. To top it off, we can noticethat the budget actually assumes a deficit of 3% of GDP. The simple conclusion is that the government spends beyond its means, which is not sustainable in the long run.

Introduction of the free floating exchange rate was supposed to alleviate the government from "wasteful" spending on maintaining the peg by concentrating on infrastructure and other priorities. However, this idea proved to be unviable by the events of September 2015. The exchange rate fluctuations were wild, with movements of up to 20% in a single trading day. This introduced distrust and uncertainty as many exchange kiosks shut their doors. By the middle of September, the tenge appeared in a free fall, depreciating 50% to the early August levels.

On September 16, 2015, after the dollar reached an unprecedented high value of 300 tenge per $1, the National Bank of Kazakhstan intervened by selling $144 million. Hence, in the period from September 16 to October 9, the National Bank spent $1,366 bil-

16 "Posle padeniya kursa tenge sredniy klass v Kazakhstane sokratilsya na 10-15%," *Nur.kz*, October 7, 2015, http://finance.nur.kz/914928-posle-padeniya-kursa-tenge-sredniy-kla.html.

17 "Making sense of Kazakhstan's decision to float tenge," *Tengri news*, August 21, 2015, http://en.tengrinews.kz/politics_sub/Making-sense-of-Kazakhstans-decision-to-float-tenge-261700/.

18 "Republic of Kazakhstan," *IMF Country Report* No. 15/241. International Monetary Fund, Washington, D.C., September 2015, https://www.imf.org/external/pubs/ft/scr/2015/cr15241.pdf.

19 "Zakon Respubliki Kazakhstan ot 28 noyabrya 2014 goda № 259-V "O respublikanskom byudzhete na 2015-2017 gody"," *Zakon.kz*, March 11, 2015, http://online.zakon.kz/Document/?doc_id=31635546.

lion to stabilize the value of tenge.[20] The interventions are likely to continue in the foreseeable future, at least until the oil price returns to a comfortably high level. The stated goal was not achieved, and the National Bank of Kazakhstan further diminished its credibility by first claiming that it would not intervene (i.e. free floating exchange rate), but then altering the rules of the game by intervening.

Argument 3: Introduction of free floating exchange rate adds inflation targeting to the toolkit of National Bank of Kazakhstan

A rather unexpected argument, but the most often reiterated on August 20, 2015 was that free floating exchange is needed to pursue inflation targeting. However, all speakers failed to explicitly state the target, which was later revealed to be 6-8% in 2015.[21] However, it is a rather unexpected justification, as the inflation in the period of the six firth months of 2015 was barely reaching 1.5%, which was the lowest level in the modern history of Kazakhstan. Such low inflation was caused by import of cheap goods from Russia and China, while local producers had to adjust their prices in order to regain competitiveness. So curiously the government was not happy with the low level of inflation in 2015 and tried to increase it by choosing the most radical instrument of currency devaluation. The issue of a low or negative inflation rate is common for many developed countries and lately the preferred tool has been quantitative easing and infrastructure investment.

Because of devaluation, Kazakhstani consumers saw an overnight appreciation of foreign goods and services. Prices for foreign products started to go up, while manufactured products accounted for 94% of imports to Kazakhstan in 2014. Sharp devaluation, approaching 50% by mid-September 2015, threatened the achievement of the set 6-8% inflation band by overshooting it.[22] Therefore, the National Bank of Kazakhstan, in accordance with the playbook of economics, decided to increase the base interest rate by setting the one day (overnight) repo rate to 12% and further raising it to 16% on October 2, 2015. Officially, it was aimed at pursuing financial and price stability.

However, economic commentators pointed out that credit would become prohibitively expensive, which would annihilate investments at the time when it is the most needed. Many draw parallels between actions pursued by Central Bank of Russia in the fall of 2014 and National Bank of Kazakhstan.[23] The result was that credit and funds were available and affordable only to established and reputable businesses. Meanwhile, entrepreneurs and start-up businesses faced high interest rates, which demotivated investors from taking a chance. Effectively, in order to achieve the inflation target, the National Bank has shown willingness to drive the economy into a recession, which could prove to be counterproductive in the long-term.

Conclusion

The competitive devaluation of Kazakhstani tenge has not achieved the stated goals that were declared in the official narrative of authorities. Moreover, it has made a bad situation even worse by failing to provide a foundation for sustainable growth. This essay shows that the only party to benefit from the tenge devaluation was commodities exporters. This makes them attractive for investors, but does not help to achieve the declared goal of economic diversification. On the contrary, it further reduces incentives to invest in R&D, innovation and quality improvement as Kazakhstani businesses lose motivation due to competitive currency depreciation expectations.

Moreover, the Government has been setting a dangerous precedent by changing its strategy casually and without consulting all stakeholders. In the hypothetical not-so-distant future case of facing tough competition from foreign producers, the business community of Kazakhstan could spend more effort to pressure the Government to once again devalue the tenge instead of looking for niches, innovating new goods/services or otherwise outcompeting others in terms of quality and/or price.

There are two major lessons to be inferred from the experience of the Kazakh tenge devaluation to oil

20 "Natsbank vlozhil eshche 78,1 milliona dollarov v podderzhku tenge," *Tengrinews*, October 12, 2015, http://tengrinews.kz/markets/natsbank-vlojil-781-milliona-dollarov-podderjku-tenge-282218/.

21 http://newskaz.ru/economy/20151007/9839715.html.

22 "Analiz sostoyaniya vneshney torgovli RK za 2014 god," KAZNEXINVEST.

23 Zhantore Kasym, "Natsbank: mezhdu molotom i nakoval'ney," *Kapital*, October 7, 2015, http://kapital.kz/finance/44365/nacbank-mezhdu-molotom-i-nakovalnej.html.

and other resource dependent countries. First, the official narrative, which has received all-encompassing support from the Government and the Central Bank, can masquerade the true reasons for the devaluation, but it still destroys trust and improperly motivates consumers and businesses. Despite the announced goal of inflation targeting and support for locally produced goods, the financial system remains fragile and Kazakhstani consumers are yet to be persuaded to switch to local goods.

Second, resource exporting countries with small and undeveloped financial markets switching to a free floating exchange rate increases volatility in short and medium-term. Conventional wisdom dictates that resource-rich countries need to switch to a free floating rate that would provide stabilizers in times of boom and bust.[24] This classic theory argues that devaluations of the exchange rate are often seen as an appropriate response to macroeconomic shocks that impair a country's competitiveness when nominal prices and wage are rigid, providing a case for floating exchange rates. However, as observed in the case of the Kazakh tenge, a sharp devaluation and pre-mature switch to a floating exchange rate can significantly increase risks for the financial system and the National Bank will still need to spend its foreign exchange reserves to prop up the local currency.

24 https://www.imf.org/external/np/seminars/eng/2014/lic/pdf/Ploeg1.pdf.

Invisible Pubic Debt: The Case of Kazakhstan

Kassymkhan Kapparov[1] (2016)

"Lying rides upon debt's back."
Benjamin Franklin

After an oil boom, the majority of oil-rich countries end up in more debt. Latin American countries, for example, faced a debt crisis in the 1980s after the oil price collapse. Thirty years later, the same countries are still paying one-third of their export earnings to service those debts and foreign creditors owe half of their GDP.[2] In 2016 Kazakhstan celebrates the 25th anniversary of its independence. In 2000-15 the country experienced what can be considered a classic oil-boom period: every second dollar earned by the country during that time came directly from oil exports.[3]

Like many other oil-rich countries, Kazakhstan did not avoid the overspending driven by windfall profits. As a result the debt of state-owned companies increased significantly since 2008 and poses a risk for the country's long-term development. The financial crisis that began in 2007 was caused by the inability of banks and the private sector to pay their short-term external debt. In 2016 the overall picture has changed and now it is the quasi-public sector that is facing the issue of high external debt. In the situation of economic uncertainty caused by lower oil prices, there is risk of defaults by some state-owned companies. The largest state-owned company, Samruk-Kazyna, employs over 320,000 people, while its revenue accounts for 13 percent of the national GDP.[4] In case of an insolvency, the government will have to step in to prevent social instability.

Rating agencies have assigned high ratings for the debt of state-owned companies, primarily due to the notion that they have "an almost certain likelihood of receiving extraordinary support from the government in the event of financial difficulties."[5] This confidence in the ability of the government to provide such support is based on the considerable savings that Kazakhstan accumulated in its oil fund, the National Fund of Kazakhstan (NFK), which currently stands at around 30 percent of the country's GDP.[6] High ratings allowed state-owned companies to increase their external borrowings and implement aggressive expansion programs.

I use the term "invisible public debt" to refer to the debt of state-owned companies. The problem is that the government does not acknowledge it as part of the public debt. To illustrate, in January 2016 prime minister Karim Massimov stated that the government bears no responsibility for the debt of state-owned companies and that the latter should be treated the same as debt of any other private corporate entity. The prime minister also noted that "according to Article 3 of the Law on Joint Stock Companies, a company is not responsible for the liability of its shareholders, hence the shareholder is not responsible for the liability of the company."[7] Official economic development programs and policies do not include the risk of debt insolvency of state-owned companies. As a result, the government is not ready to face the problem: there are no funds in the state budget reserved for this situation and there is no plan in place to deal with it.

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2 Marcos Arruda, *External debt: Brazil and the international financial crisis* (London: Pluto, 2000), 7.

3 "Trade statistics for international business development," International Trade Centre (ITC), accessed March 25, 2016, http://www.trademap.org/Bilateral_TS.aspx.

4 "Sovereign Wealth Fund," *Samruk-Kazyna,* 2014 Annual Report, Astana, 12, http://sk.kz/section/6928?lang=en.

5 Elena Kosolapova, "S&P lowers Kazakh Sovereign Wealth Fund's rating," *Trend News Agency*, February 25, 2016, http://en.trend.az/business/economy/2499260.html.

6 "International Reserves and Assets of the National Oil Fund," National Bank of Kazakhstan, accessed March 25, 2016, http://nationalbank.kz/?docid=180&switch=english.

7 "Official response to the request of parliament members No. 20-11/5112," Office of the Prime Minister of Kazakhstan, January 5, 2016.

My research question is therefore: "Why should the invisible public debt accumulated by state-owned companies be recognized as part of the government debt?" To answer this question I analyze the case of the state fund Samruk-Kazyna and two state-owned companies with the largest debt, and show examples of state support to repay these debts. My research is based on my own experience as an economist who has worked in the public and private sectors and has consulted various international organizations on the issues of economic development in Kazakhstan. In order to validate my hypothesis and preliminary findings, I triangulate them with primary sources that include official statistical data and company data, as well as with secondary sources represented by relevant news flow information and informal interviews with executives of state-owned companies.

I argue that the issue of the external debt of state-owned companies poses a significant risk to Kazakhstan's economic development and that the government should admit the existence of this invisible public debt by including it in its economic agenda. I conclude the paper with a set of recommendations for both the government and international organizations.

The Current Economic Situation in Kazakhstan

Kazakhstan's economy is highly dependent on the export of mineral resources. This implies the vulnerability of the economy to external shocks. Major crises in Kazakhstan have been caused by external shocks—the oil price drop in 1998 and the closure of global markets for the corporate sector and banks in 2007 amid the global financial crisis. Mineral resources, though providing revenue for the country, can also become harmful, based on the experience of other developing countries that suffered from the so-called "resource curse." The main problem for Kazakhstan is its high dependence on oil exports and, as a result, the "Dutch disease," which causes appreciation of the national currency and thus reduces the competitiveness of local production, especially manufacturing.[8] Another problem is so-called "rent-seeking behavior" that leads to a decrease in entrepreneurial activities and intensifies the fight over sources of rent (extractive sector, state budget, non-tradable sectors such as construction, trade, and financial services).[9]

Since 2000 Kazakhstan has enjoyed a decade of uninterrupted economic growth averaging 7 percent. The growth was mostly driven by the favorable global prices on its main export good—crude oil. Kazakhstan is in the Top-10 of oil exporters in the world, comparable to Venezuela.[10] The share of mineral resources in total exports has increased from 54 percent in 1995 to 81 percent in 2013. At the same time, the dependence of the economy on exports has also increased: the share of exports in the GDP grew from 32 percent in 1995 to 58 percent in 2013.[11]

The windfall profits coming from the oil and gas sector allowed the government to increase the size of the public sector to almost 70 percent of the economy, if accounting for the state-owned companies. In addition, in the aftermath of the crisis of 2007–8, the state has entered some troubled banks and companies in order to keep them afloat. For example, the Kazakhstani state had to buy out BTA bank, which could not pay for its external borrowings. The bank was considered "too big to fail" as it accounted for 30 percent of total retail deposits.[12] The government had to invest over US$9bn in the bank's rehabilitation, but had to let it default on the debt in 2012 and eventually to shut it down in 2014.[13] Since 2008, similar situations have occurred in different sectors—manufacturing, construction, retail—and the government had to use the NFK assets to buy troubled companies in order to avoid bankruptcies that could lead to an increase in unemployment and social pressure. The decline in oil prices in 2015 has led the national economy into recession. Economic growth was only 1.2 percent in 2015 and the IMF predicts that the econ-

8 "Republic of Kazakhstan: Selected Issues," *IMF Country Report* No. 13/291. International Monetary Fund, Washington, D.C., 2013, 7.

9 Robert T. Deacon and Ashwin Rode, "Rent Seeking and the Resource Curse," in *Companion to the Political Economy of Rent Seeking*, ed. Roger D. Congleton and Arye L. Hillman (Edward Elgar, 2015), 227.

10 Daniel Workman, "Crude Oil Exports by Country," World's Top Exports, April 11, 2016, http://www.worldstopexports.com/worlds-top-oil-exports-country.

11 "Vneshnetorgovyy oborot Respubliki Kazahstan," Statistics Committee of Kazakhstan, accessed April 12, 2016, http://stat.gov.kz/getImg?id=ESTAT101842.

12 "Svedeniya po klassifikatsii aktivov i uslovnykh obyazatel'stv," National Bank of Kazakhstan, accessed April 5, 2016, http://nationalbank.kz/?docid=1063&switch=russian.

13 "Bank defaults: Kazakhstan's Groundhog Day," Euromoney, March 2016, accessed April 8, 2016, http://www.euromoney.com/Article/3535089/Bank-defaults-Kazakhstans-Groundhog-Day.html.

omy will grow a mere 0.1 percent in 2016 and 1 percent in 2017.[14] The sudden decrease in oil prices from $110 to $40 in 2014-16 caused a plunge in export revenues, budget revenues, and personal income. Due to the drop in "windfall profits" from oil exports, the NBK had to move to a floating exchange rate regime. As a result, the national currency (KZT: tenge) has lost half of its value and was recognized as the most volatile currency in the world, followed by the Russian ruble and the Nigerian naira.[15] Kazakhstan's government has been actively trying to integrate into the global economy: in 2010 the country became a founding member of the Eurasian Customs Union (in 2015 expanded to the Eurasian Economic Union) and entered the WTO in 2015.[16] This put additional pressure on the economy, as Kazakhstan's market instantly opened to imports (especially from Russia) but the production of goods that could be exported would require more time.

In 2015 the country has entered a period of stagnating economic growth. International development organizations have downgraded their growth forecasts for the country. The burden of servicing the debt of state-owned companies can lead to collapse in investment and output growth and thus significantly undermine economic growth.[17] If the state-owned companies cannot service their external debt, the government will have to use the NFK assets to support them. In that case the NFK funds will be spent on foreign debt repayment and will not enter the local economy.

Overview of the External Debt of State-Owned Companies in Kazakhstan

Methodology and Research Limitations

In this paper I analyze the following main indicators:

- External debt
- Public sector external debt
- External debt of state-owned companies

In addition to this, I provide case studies of three state-owned enterprises with more detailed company information. Sources used for the paper include official government statistics, data from international organizations, and previously conducted research on the topic. I also interviewed and discussed preliminary results of the research with economists and researchers from following organizations: the IMF's Kazakhstan country team, GWU's Central Asia Program, World Bank Kazakhstan Country Office, international consulting firms based in Washington DC, and think tanks from Kazakhstan.

In my analysis of the external debt I show separate figures that exclude "intercompany lending," as this type of financing is done within one multinational corporation and has a different nature. The creditor lends to a related entity based on not only its ability to repay, but also in terms of the overall profitability and economic objectives of the multinational operation.[18]

The scope of work done for this research is limited due to the time constraint—the research was conducted from January to July 2016. The focus of research was limited to the external (foreign) debt of state-owned companies and did not cover other public debt or the local debt of state-owned companies. The research does not assess the need for foreign borrowing by state-owned enterprises or its terms and timeliness. It also does not analyze the efficiency of use of the funds borrowed. The paper focuses on the state-owned companies of the Samruk-Kazyna holding and does not cover the Baiterek and KazAgro holdings, although I acknowledge the need for such research in the future.

Information on some of the direct foreign borrowings by state-owned companies was not publicly available at the time when this research was conducted. This is especially the case for direct company loans from Chinese state-owned and private entities. The information on these transactions that can be retrieved from the news does not provide details on the nature of these loans or their terms and therefore does not allow us to analyze their possible implica-

14 "Regional Economic Outlook Update for Middle East and Central Asia," International Monetary Fund. Washington, D.C., April, 2016.

15 Casey Michel, "Why Is Kazakhstan's Currency the World's Most Volatile?," *The Diplomat*, October 7, 2015, http://thediplomat.com/2015/10/why-is-kazakhstans-currency-the-worlds-most-volatile/.

16 "General Council approves Kazakhstan's membership terms, only ratification left," World Trade Organization, July 27, 2015, https://www.wto.org/english/news_e/news15_e/acc_kaz_27jul15_e.htm.

17 Graciela L. Kaminsky and Alfredo Pereira, "The debt crisis: lessons of the 1980s for the 1990s," *Journal of Development Economics, Elsevier* 50, no. 1 (1996): 1-24.

18 "External debt statistics: guide for compilers and users," International Monetary Fund. Washington, D.C., 2014, 41.

tions for the indebtedness level of state-owned companies in Kazakhstan.

Research limitations of this paper also include the insufficient and inaccurate reporting on the external debt of the quasi-public sector. There is a problem with accurate reporting of the external (foreign) debt of state-owned companies. The National Bank of Kazakhstan (NBK) and the Ministry of Finance of Kazakhstan (MOFK) do not publish detailed data on public and publicly guaranteed external debt and external debt of the quasi-public sector. International databases do not have proper information on the matter, partially due to the fact that the official data is not being properly disseminated. For example, the WB's specialized online database—the QPSD (Quarterly Public Sector Debt) lacks data for Kazakhstan's public debt.[19] In some cases the data reported to the World Bank's International Debt Statistics differ significantly from the data reported locally.[20] The NBK produces official statistics on the external debt in accordance with international standards set by the IMF. However the NBK updated its external debt statistics methodology only on January 1, 2013.[21] Prior to that the NBK reported only public and publicly guaranteed external debt and had no separate reporting for the external debt of state-owned companies.

External Debt of State-Owned Companies in Kazakhstan

Statistics on public debt are produced by two agencies in Kazakhstan: the MOFK reports on public debt and the NBK reports on the external debt, including the government's.

Domestic public debt is issued in the form of government notes (bonds) and is denominated in the local currency. In the period of high oil prices and budget surplus (proficit), domestic debt was used as a means to provide short-term liquidity to smooth out the budget expenditures schedule with the budget revenues. However, in 2016 the government will use domestic government bonds to borrow 350bn KZT (estimated $10bn) from the state pension fund (IAPF) to finance the budget deficit.[22]

Public debt is a debt of the public sector that comprises the general government, the central bank, and those units in the deposit-taking corporations, except the central bank, and other sectors that are public corporations. Publicly guaranteed private sector external debt is the external debt liabilities of the private sector, the servicing of which is contractually guaranteed by a public unit resident in the same economy as the debtor.[23] The amount of the government and government-guaranteed external debt in Kazakhstan is not significant—in 2015 it was $13bn or 18 percent of total external debt excluding the intercompany lending (8 percent of total external debt).[24]

In 2013 NBK started to publish statistics on Public Sector External Debt including the debt of the quasi-public sector. This reporting method is based on the IMF's guidance on reporting the external debt of public corporations that in some way are controlled by the government and monetary authorities. A public corporation is defined as a non-financial or financial corporation that is subject to control by government units, with control over a corporation defined as the ability to determine general corporate policy. Because the arrangements for the control of corporations can vary considerably, it is neither desirable nor feasible to prescribe a definitive list of factors to be taken into account. The following eight indicators, however, will normally be the most important factors to consider:

(1) Ownership of the majority of the voting power
(2) Control of the board or other governing body
(3) Control of the appointment and removal of key personnel
(4) Control of key committees of the entity
(5) Golden shares and options (golden shares give the holder a decisive vote, even without a majority of shares)
(6) Regulation and control
(7) Control by a dominant customer
(8) Control attached to borrowing from the government.

19 "Quarterly Public Sector Debt," World Bank, accessed March 28, 2016, http://datatopics.worldbank.org/debt/qpsd.

20 "International Debt Statistics," World Bank, accessed March 28, 2016, http://databank.worldbank.org/data/reports.aspx?source=international-debt-statistics.

21 "Balance of Payments and International Investment Position Manual, 6th edition," International Monetary Fund. Washington, D.C., 2009.

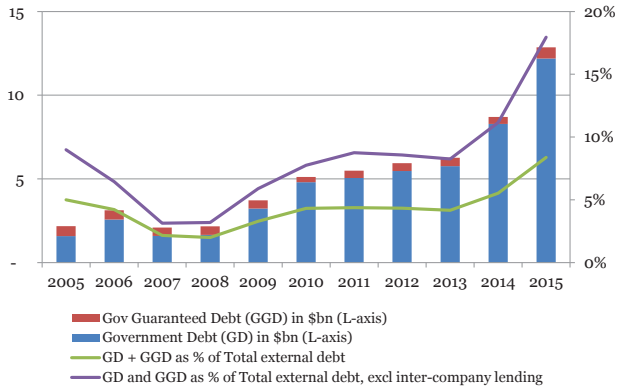
22 Vaal Tamara, "350 mlrd. tenge iz sredstv ENPF pravitel'stvo napravit na finansirovanie defitsita byudzheta," *Vlast*, February 15, 2016, https://vlast.kz/novosti/15754-350-mlrd-tenge-iz-sredstv-enpf-pravitelstvo-napravit-na-finansirovanie-deficita-budzeta.html.

23 "External debt statistics: guide for compilers and users," International Monetary Fund. Washington, D.C., 2014, 49-50.

24 "External Debt," National Bank of Kazakhstan, accessed March 25, 2016,http://nationalbank.kz/?docid=202&switch=english.

In addition it may be possible to exercise control through special legislation, decree, or regulation that empowers the government to determine corporate policy or to appoint directors.[25] Most of the entities within Samruk-Kazyna meet one or several criteria of the public corporation listed above.

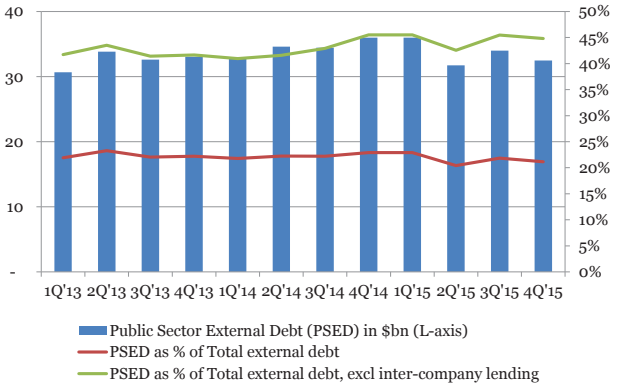
Figure 1. Dynamics of the External Government Debt



Source: National Bank of Kazakhstan. Public Sector External Debt. Accessed on March 21, 2016. http://nationalbank.kz/?docid=202&switch=english

The external debt of Kazakhstan has been growing 6 percent annually on average since 2008 and reached $153bn ($4,053 per capita) in 2015. It is now equal to 83 percent of the country's GDP—which is not high relative to its peers and actually is considered to be moderate according to the World Bank.[26] Fifty-three percent of the external debt ($81bn) is intercompany lending, and state-owned companies comprise only 1 percent of intercompany lending. Currently the annual debt repayment amount (around $22bn in 2016) is much higher than the annual amount of foreign direct investments in Kazakhstan ($4bn in 2015) and is equal to 40 percent of exports ($53bn).[27] Due to a fall in oil exports in 2015, almost half of the country's income went to repaying the external debt. Within one year the debt-service ratio jumped from 35 percent to an estimated 53 percent.[28] Total debt service is the sum of principal repayments and interest actually paid in currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments (repurchases and charges) to the IMF.

Figure 2. Dynamics of the External Public Debt



Source: National Bank of Kazakhstan. Public Sector External Debt. Accessed on March 21, 2016. http://nationalbank.kz/?docid=202&switch=english

The external debt of state-owned companies has grown rapidly since 2008. As a response to the financial crisis of 2007, the government nationalized some troubled banks and provided funding—direct (to commercial banks) and indirect (low-interest loans for state-owned companies and debt refinancing for mortgage holders). This led to increased state participation in the economy and growth in spending of public funds on subsidies for inefficient companies. This policy was also driven by the need to keep up employment and to decrease social instability.

In order to sustain a high level of spending, the government had to borrow aggressively. As a result, its external debt has increased over seven times since 2008 and reached $12bn in 2015. External debt of the public sector includes government external debt, government guaranteed external debt and external debt of state-owned companies (enterprises with 50 percent or more of shares controlled by government units). In 2015 the extended public sector's external debt reached $32bn and accounted for 45 percent of the total external debt excluding intercompany lending (or 21 percent of the total external debt). State-owned banks had an external debt of almost $6bn that was more than two times larger than that of private banks ($2bn). State-owned companies owed almost $14bn and comprised a quarter of the total external debt of non-financial corporations (excluding intercompany lending).[29]

25 "External debt statistics," 50.

26 "Kazakhstan – Low Oil Prices, an Opportunity to Reform," World Bank, accessed April 3, 2016, http://www.worldbank.org/en/country/kazakhstan/publication/kazakhstan-economic-update-spring-2015.

27 "Balance of Payments," National Bank of Kazakhstan, accessed March 21, 2016, http://nationalbank.kz/?docid=199&switch=english.

28 "World Development Indicators," World Bank, accessed March 29, 2016, http://databank.worldbank.org/data/reports.aspx?source=2&series=DT.TDS.DECT.EX.ZS&country=KAZ

29 "Public Sector External Debt," National Bank of Kazakhstan, accessed March 21, 2016, http://nationalbank.kz/?docid=202&switch=english.

Summarizing, since 2008 the growth of the external debt was mostly driven by borrowings of the state and state-owned companies. Most of these funds were raised in order to sustain the increasingly inefficient public sector through subsidies in various forms and to implement aggressive investment programs set in state development programs. Although the new data on extended external public debt were available, since 2013 the government has not revised or adjusted its economic and fiscal policies. As a result a large portion of the public debt remains invisible for the government, parliament and the general population and might potentially cause a substantial risk to the economic stability in the country.

Case Studies on External Debt of State-Owned Companies

For more detailed case-analysis, I chose to look at state-owned companies with the largest debt: Samruk-Kazyna fund and its subsidiary companies, the national oil company KazMunaiGas, and the national railway company Kazakhstan Temir Zholy (hereinafter KazTemirZhol). The analysis is based on public sources of information—news, official public records, and information from companies' websites.

Box 1. Samruk-Kazyna

The Sovereign Wealth Fund "Samruk-Kazyna" (hereinafter Samruk-Kazyna) is a 100 percent state-owned fund and is the largest corporate entity in Kazakhstan. It was created in 2008 to implement anti-crisis measures, develop infrastructure, and diversify the economy away from oil.[30] In 2015 assets of Samruk-Kazyna were around $65bn or 37 percent of the country's GDP ($92bn and 42 percent in 2014). Revenue of Samruk-Kazyna in 2015 was around $10bn or 6 percent of GDP (13 percent in 2014).[31]

Samruk-Kazyna manages directly and indirectly over 500 companies, some of which are natural monopolies in areas ranging from airlines to commercial banks to telecom and pipelines. In all of these companies the state maintains the majority stake. The government transferred operational management to the holding company Samruk-Kazyna in order to increase the efficiency of the state-owned companies.

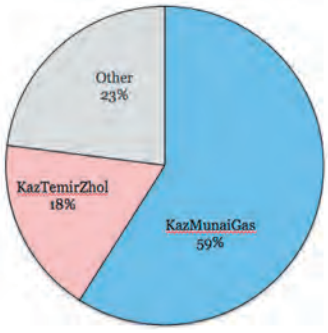
Samruk-Kazyna is managed under a separate law and the Law on Public Procurement does not regulate its procurement.[32] This means that there is no direct control by the parliament over the expenses of Samruk-Kazyna. Moreover, the company is not directly linked to the state budget and is not part of the state budget process. Samruk-Kazyna is considered to be an entity separate from the government, even though the Prime Minister heads its board of directors.

Samruk-Kazyna's debt/EBITDA ratio in 2015 was 4.9, meaning that it would take the company almost five years to fully repay its debts. In 2015 the company's external debt grew by 10 percent and was equal to $17bn, or 10 percent of the country's GDP. Eighty percent of the debt is in foreign currency, while revenue is mostly in local currency, which lost half of its value in 2015.

Samruk-Kazyna has conflicting goals—on one hand, to increase the efficiency of its companies; on the other hand, to support the development projects of state programs. In addition, it also funds the image-conscious activities of the government, including but not limited to the 2011 Asian Winter Olympic Games; the Astana bike-racing team; the middle-weight champion of the world, boxer Gennady Golovkin; the 2017 EXPO World Fair in Astana; and the 2017 Winter Universiade in Almaty.

Samruk-Kazyna is thus Kazakhstan's largest company and its financial stability directly affects the national economy. Samruk-Kazyna has strong ties with the government—it carries the burden of investment in social projects and state development programs and in return is guaranteed full support from the government. As a result, Samruk-Kazyna has accumulated significant debt and is currently facing an issue of increased interest payments. I expect that the government will continue to provide support for the debt repayment of Samruk-Kazyna.

Figure 3: Structure of the Debt of Samruk-Kazyna in 2015



Source: Samruk-Kazyna Sovereign Wealth Fund. 2015 Consolidated Financial Statements, Almaty, April 11, 2016. Accessed May 15, 2016, http://sk.kz/page/download/8835?lang=en

30 Decree No. 669 "On some measures on competitiveness and sustainability of national economy," Office of the President of Kazakhstan, October 13, 2008.

31 "2015 Consolidated Financial Statements," Samruk-Kazyna Sovereign Wealth Fund, Almaty, April 11, 2016, http://sk.kz/page/download/8835?lang=en.

32 "The Senate of Kazakhstan's Parliament adopted the new Law "On the National Welfare Fund"," Samruk-Kazyna Sovereign Wealth Fund, accessed May 1, 2016, http://sk.kz/event/view/94?lang=en.

Box 2. KazMunaiGas

The state-owned company with the largest debt is KazMunaiGas, the national oil company that accounts for a quarter of domestic oil production and comprises 45 percent of Samruk-Kazyna assets.[33] KazMunaiGas is comprised of two entities: "National Company KazMunaiGas" and its subsidiary, "KazMunaiGas Exploration and Production," but given their joint responsibility for their debts I refer to them as to one entity.

Despite the high oil price period, the company has accumulated over $17bn of debt.[34] The drop in oil prices resulted in an earnings squeeze for the company. Currently 100 percent of its earnings go to interest payments. Over 93 percent of the company debt is denominated in foreign currencies (primarily US dollars), while only 73 percent of its revenues and 51 percent of costs were US dollar denominated in 2015.[35] Devaluation of the local currency has thus increased its debt, which was mostly in foreign currency. This led to the situation of potential breach of its Eurobond covenants that has a limit of 3.5 on the company's net debt/EBITDA ratio. The covenant breach would result in additional fees and changes in the conditions for its debt. In order to reduce the debt level, the company had to seek support from the government.

In July 2015 the state stepped in to help KazMunaiGas to reduce its debt levels. The NBK used $4bn from the NFK that it manages on behalf of the government, to acquire from Samruk-Kazyna a 10 percent+1 share in KazMunaiGas. The transfer was part of a scheme whereby Samruk-Kazyna bought from KazMunaiGas a 50 percent share in KMG Kashagan BV for $4.7bn.[36] The later company owns 16.88 percent in Kashagan operating company NCOC. It is important to note that the NFK was created in 2001 with the mission to reduce the oil dependency of Kazakhstan's economy and to serve as a "future generations fund." Instead, as a result of this operation,the NFK assets were used to support the highly indebted, inefficient state-owned oil company. In May 2016 assets of the NFK stood at $65bn.[37]

To cover its debt payments KazMunaiGas plans to sell all of its refineries and its network of gas stations in Kazakhstan, as well as its assets abroad. In December 2015 it reached an agreement with CEFC China Energy Company Ltd to sell 51 percent of its subsidiary company KazMunaiGas International (KMGI, formerly Rompetrol Group). Key assets of KMGI are a 100,000 barrels-per-day refinery and a 400,000 tonnes-per-year fertilizer plant in Romania, along with nearly 1,000 petrol stations in Romania, Spain and France. For this deal KMGI was preliminarily valued between $0.5bn and $1bn.[38] It is worth noting that KazMunaiGas has spent $3.6bn to buy this asset (75 percent in 2007 and 25 percent in 2009).[39]

In order to reduce its debt in April 2016 KazMunaiGas also signed a deal to sell its future oil exports from its 20 percent stake in the largest Tengiz oil field. The loan of $3bn was provided by the commodities trader Vitol in cooperation with six international banks. The price of the loan is estimated at around 185 basis points over LIBOR.[40] KazMunaiGas will thus get no dividends from Kashagan after the project starts commercial oil production.[41] Kashagan oil field was called "the world's most expensive energy project in history ($116bn)" by *CNN*[42] and dubbed "Cash-All-Gone" by *The Economist*.[43] The complexity level and harsh conditions of this offshore project are often compared to Arctic oil projects. To cover the development costs and generate reasonable profits from oil production at this field, an oil price of over $100 per barrel is required.[44] In the low oil prices environment there is a high risk that this offshore oil production site could turn into a white elephant project.

33 "2014 Annual Report," Samruk-Kazyna Sovereign Wealth Fund, Astana, accessed April 15, 2016, http://sk.kz/section/6928?lang=en.

34 "Fitch Affirms National Company KazMunayGas at 'BBB'; Outlook Stable," Fitch Ratings, July 1, 2015, https://www.fitchratings.com/site/pressrelease?id=987258.

35 "Fitch Affirms National Company KazMunayGas at 'BBB-'; Outlook Stable," Fitch Ratings, June 30, 2016, https://www.fitchratings.com/site/pressrelease?id=1008234.

36 Joanna Lillis, "Kazakhstan: Central Bank Steps in to Prop up Cash-Strapped Oil Giant," *Eurasianet.org*, July 31, 2015, http://www.eurasianet.org/node/74466.

37 "International Reserves and Assets of the National Oil Fund," National Bank of Kazakhstan, accessed March 25, 2016, http://nationalbank.kz/?docid=180&switch=english.

38 Chen Aizhu, "China's CEFC to take control of unit of Kazakh state-run oil firm," *Reuters*, December 15, 2015, http://www.reuters.com/article/china-kazakhstan-idUST9N0NH05G20151215.

39 "KazMunayGas and Rompetrol Holding SA Announce the Acquisition by KazMunayGas of a 75 percent Interest in The Rompetrol Group NV," Rompetrol, accessed May 1, 2016, http://www.rompetrol.com/kazmunaygas-and-rompetrol-holding-sa-announce-acquisition-kazmunaygas-75-interest-rompetrol-group-nv.

40 Helen Reid, "KazMunaiGas signs $3 bn prepayment deal as it reduces debt pile," *TXF*, April 1, 2016, http://www.txfnews.com/News/Article/5500/KazMunaiGas-signs-3bn-prepayment-deal-as-it-reduces-debt-pile#.

41 "Fitch Affirms National Company KazMunayGas at 'BBB-'."

42 Steve Hargreaves, "10 most expensive energy projects in the world," *CNN. Money*, August 27, 2012, http://money.cnn.com/gallery/news/economy/2012/08/27/expensive-energy-projects/10.html.

43 "Cash all gone," *The Economist*, October 11, 2014, http://www.economist.com/news/business/21623693-one-worlds-biggest-oil-projects-has-become-fiasco-cash-all-gone.

44 Catherine Putz, "Will Kashagan Be Pumping by the Fall?," *The Diplomat*, April 6, 2016, http://thediplomat.com/2016/04/will-kashagan-be-pumping-by-the-fall/.

The government's support to KazMunaiGas through getting money from further privatization is limited. Valuation of the company is under pressure from low oil prices, high debt level, and the non-investment rating of the company. The government currently owns only 58 percent of KazMunaiGas and I expect that the government would want to keep at least a majority stake in the company given its strategic importance for the country's economy. KazMunaiGas is thus not capable of generating enough revenue to cover its interest payments. Currently, the company is selling off its assets and future revenue stream in order to meet the Eurobond covenants. In 2015 the government stepped in to provide additional funds to cover its debt. Given there is no significant increase in the oil prices, I expect that this situation will continue and that the company will require more support from the government.

Box 3. KazTemirZhol

National railroads company KazTemirZhol is the largest employer in the country, with more than 150,000 employees. It provides employment in rural and remote areas and bears obligations to support social infrastructure throughout the country. The company accounts for half of all cargo traffic in Kazakhstan. Its operations have a significant impact on the economy, as railroad transportation costs are reflected in almost all goods produced and consumed in the country.

In 2014 KazTemirZhol accounted for 15 percent of total assets of Samruk-Kazyna.[45] The company has been investing aggressively to fulfill the government's agenda on infrastructure development. In 2015, KazTemirZhol saw a 12 percent drop in revenues and profitability, driven by a decline in transit of passengers and because there was no tariff indexation that year. Another negative factor was a 14 percent drop in freight volume due to a decline in commodities exports to China and trade imbalances caused by the devaluation of the Russian ruble. KazTemirZhol generates 80 percent of its revenue in local currency. In addition, the company's ability to increase prices for its services is limited by its status as a national monopoly. Any significant price increase would directly impact the competitiveness of local producers.

By 2015 KazTemirZhol has generated $6bn of debt, half of which was in foreign currency. Adjusted debt/ EBITDA of the company was around 10, meaning that it would need 10 years to repay its debt. Revenues that KazTemirZhol generated in 2015 were not enough even to cover the interest payments on its debt.[46] As a result, in April 2016 the government had to step in and provide support to KazTemirZhol to refinance its $350 million bond. The government provided funding by purchasing the company's new KZT50 billion (around $150mn) local bond using the money of the IAPF state pension fund. Money from the pension fund was provided in local currency. Therefore, the currency risk was moved from an inefficient state-owned company to the future pension savings of the people of Kazakhstan. There was no public or parliamentary discussion held on that decision. The remaining funding for bond repayment was provided by Samruk-Kazyna and the EBRD ($100mn) and a loan from Halyk bank ($100mn).[47]

KazTemirZhol faces a high risk of "credit cliff" due to the decline in its revenue, high indebtedness, and its non-investment rating. In addition to that, the company bears the cost of extensive social obligations that would be difficult to cut during the crisis time. I expect that KazTemirZhol will not be able to service its debts and that the government will continue to provide support for the company.

Policy Issues of Managing the External Debt of State-Owned Companies

State-owned companies always have strong ties with the government. For example, the current CEO of Samruk-Kazyna is a former deputy prime minister, while its Board of Directors is headed by the Prime Minister and includes several current members of the cabinet. Another example: in May 2016 the head of another state-owned fund, Baiterek, exchanged seats with the Minister of Economy. It is no surprise that the government perceives state-owned companies as its second budget to implement social and development programs and that this leads to inefficient use of funds and to large corruption.

Since the country gained independence, political stability in Kazakhstan has been based on the economic success of the country. The social contract has rested on a semi-official consensus that can be summarized as "Economy First, Politics Later," meaning that democratic reforms should be implemented gradually and should follow the increase in average income. The current crisis poses a real risk to the preservation of this status quo. The main reason for that judgment is that the nature of the crisis stems from the current economic model, which is based on exports of raw materials (oil, metals, grain) that can no longer be sustained due to a decrease in global demand. This means that changes in the social contract will become inevitable if the government is not able to find a new growth driver to substitute for oil exports. Otherwise the government will have to move

45 "2014 Annual Report."

46 "Moody's confirms ratings of KTZ and KTT; negative outlook," Moody's, April 27, 2016, https://www.moodys.com/research/Moodys-confirms-ratings-of-KTZ-and-KTT-negative-outlook--PR_347964.

47 Ibid.

toward a new economic model that should be based on broader liberalization and a lower level of state participation in the economy.

Currently the issue of the debt of state-owned companies remains excluded from the agenda of the government. There is not enough detailed information on the current status of indebtedness of the quasi-public sector. The government's economic policy and budget plan does not include the risk of defaults of state-owned companies. Moreover, public awareness of this problem and its potential impact on the economic and social development in the country remains limited. The government does not want to acknowledge the issues of the invisible public debt and, as a result, at some point it might be forced to cut budget spending on social and development programs in order to cover the debt of state-owned companies.

Conclusions

During the period of high oil prices, rating agencies assigned high ratings to the debt of state-owned companies. Their evaluation was predominantly based on one assumption: "extremely high likelihood that the state will provide sufficient and timely tangible support when needed."[48]

In this paper I have presented two cases of state support to state-owned companies. First, the NBK has provided funds to KazMunaiGas from the NFK. The Fitch agency called this "a clear reflection of the state support." Second, the government used public funds from the pension system to refinance the debt of KazTemirZhol. At the same time, the prime minister stated that "the government will not be responsible for the debts of Samruk-Kazyna."[49]

A large portion of the public debt in Kazakhstan remains invisible to the general public. The government avoids taking the responsibility for this situation and does not develop a policy to prevent further build-up of the debt of state-owned companies. This debt was accumulated during the oil-boom period and it will define the economic well-being of people in Kazakhstan in the long-term future. Preserving the status quo on this issue will lead to further worsening of the situation, with the current government of Kazakhstan passing on to the next generation not savings but debts. This will seriously damage the country's ability to achieve sustainable economic development in future. The invisible public debt accumulated by state-owned companies should thus be recognized as part of the government debt. I presented clear evidence that the state *de-facto* provides support to state-owned companies to service their debt payments. In order to respond to this issue the government has to *de-jure* recognize the existence of the invisible public debt and include it in its economic policy.

Policy Recommendations

My recommendations for the *government* include four major steps.

- As a *first* step, the government needs to recognize the problem. It should include invisible public debt in the government's economic policy. The government could start with creating a working group on the debt of state-owned companies that should be headed by the Prime Minister. The current state of state-owned companies' debt and guidance on its size should be discussed at Parliament sessions as part of the annual budget process.
- The *second* step is to stop further debt increases. The government has to put a cap on the total debt of Samruk-Kazyna and on individual state-owned companies. As a possible cap I suggest using a threshold on the debt/EBITDA ratio. It also might be wise to allocate funds within the state budget that could be used to provide support to state-owned companies for repaying the interest on their debt.
- The *third* and most important step is to start to control the invisible public debt. The debt of state-owned companies should be included in the budget process and should be approved by the Parliament. The management of Samruk-Kazyna should present the results of its work to the Parliament on an annual basis. The Parliament should make decisions regarding remuneration of the top management of the state-owned companies based

48 "Fitch Affirms National Company KazMunayGas at 'BBB-'."

49 "Official response to the request of parliament members No. 20-11/5112 on January 5, 2016," Office of the Prime Minister of Kazakhstan.

on their meeting goals and key performance indicators, including the target on the company's debt.

- *Fourth*, the government should ensure a higher level of transparency and data availability. Given the size and importance of the state-owned companies in the national economy, the government as a major shareholder should oblige state-owned companies to disclose detailed information on their debt and make it publicly accessible. This information should be monitored and analyzed closely by the government, the Parliament and civil society to ensure budget discipline, and by the NBK as part of its financial stability assessment. The NBK should publish data on the external debt of the quasi-public sector fully in accordance with international standards. It is vital that the government and the NBK ensure timely and accurate reporting of the debt figures to the international organizations, in order to guarantee the transparency of the public debt and maintain long-term credibility.

A recommendation for *international organizations* is to give more attention to the quality of their databases on the foreign debt of countries. I also advise putting more emphasis on ensuring the adoption and use of the latest methodology for official data reporting by member countries. Unreported data on the debt can potentially lead to omitting crucial factors when analyzing the economic performance of a country, which significantly impacts the quality of the analysis and policy recommendations.

Appendix

Table 1. Dynamics of the External Government Debt

Year	Government Debt (GD), $bn	Gov. Guaranteed Debt (GGD), $bn	GD + GGD as Percent of Total External Debt	GD and GGD as Percent of Total External Debt, Excluding Inter-Company Lending
2005	1.58	0.59	5.0	9.0
2006	2.57	0.55	4.2	6.4
2007	1.60	0.50	2.2	3.1
2008	1.65	0.51	2.0	3.2
2009	3.24	0.49	3.3	5.9
2010	4.80	0.31	4.3	7.8
2011	5.05	0.44	4.4	8.8
2012	5.47	0.47	4.3	8.6
2013	5.76	0.50	4.2	8.3
2014	8.29	0.42	5.5	11.2
2015	12.19	0.67	8.4	18.0

Source: National Bank of Kazakhstan. External Debt. Accessed on March 25, 2016, http://nationalbank.kz/?docid=202&switch=english

Table 2. Dynamics of the External Public Debt

Quarter	Public Sector External Debt (PSED) in $bn	PSED as Percent of Total External Debt	PSED as Percent of Total External Debt, Excluding Inter-Company Lending
1Q'13	30.66	21.9	41.7
2Q'13	33.83	23.3	43.5
3Q'13	32.60	22.0	41.4
4Q'13	33.05	22.2	41.7
1Q'14	32.94	21.8	40.9
2Q'14	34.60	22.2	41.6
3Q'14	34.43	22.2	42.9
4Q'14	35.98	22.9	45.5
1Q'15	35.98	22.9	45.5
2Q'15	31.71	20.4	42.5
3Q'15	33.99	21.8	45.4
4Q'15	32.46	21.1	44.8

Source: National Bank of Kazakhstan. Public Sector External Debt. Accessed on March 21, 2016, http://nationalbank.kz/?docid=202&switch=english

Table 3. NBK Quarterly Report Form on Public Sector External Debt (in Mln $)

Items	12/31/2015
Public Sector External Debt*	**32,456**
Short-term	*282*
Long-term	*32,173*
General Government	**11,292**
Short-term	*0*
Long-term	*11,292*
Central Bank	**900**
Short-term	*77*
Long-term	*823*
Banks and Other Sectors	**19,422**
Short-term	*205*
Long-term	*19,216*
Banks and other financial corporations	**5,774**
Short-term	*17*
Long-term	*5,757*
Nonfinancial corporations, households, and NPISHs	**13,648**
Short-term	*188*
Long-term	*13,460*
Direct Investment: Intercompany Lending	**843**
Memorandum item:	
Private Sector External Debt	**121,001**
Short-term	*6,166*
Long-term	*114,834*
Banks and Other Sectors**	**40,004**
Short-term	*6,166*
Long-term	*33,838*
Direct Investment: Intercompany Lending	**80,997**
Total External Debt of Kazakhstan	**153,456**
Short-term	*6,448*
Long-term	*147,008*

Source: National Bank of Kazakhstan. Public Sector External Debt. Accessed on March 21, 2016, http://nationalbank.kz/?docid=202&switch=english

* Public Sector External Debt covers:

- Liabilities of the General Government, Monetary Authorities;
- Covers liabilities those entities in the banking and other sectors that are public corporations, i.e. non-financial or financial corporations which are the subject to control by government and monetary authorities. Control is established (directly or indirectly) through ownership of more than half of the voting shares or otherwise controlling more than half of the shareholder voting power;
- Publicly guaranteed external debt.

**According to the article 8 of the Law of Republic of Kazakhstan "On governmental statistics" information which allows directly or indirectly determine the respondent is considered confidential and is allowed to be published only if there is an agreement from the respondent. As a result the sector "Banks" is united with sector "Other sectors."

Abbreviations

EBRD	European Bank for Reconstruction and Development
IAPF	Integrated Accumulative Pension Fund of Kazakhstan
IMF	International Monetary Fund
KMGI	KazMunaiGas International
KPI	Key Performance Indicator
KZT	Kazakhstani Tenge
MOFK	Ministry of Finance of Kazakhstan
NBK	National Bank of Kazakhstan
NCOC	North Caspian Operating Company
NFK	National Fund of Kazakhstan
OECD	Organisation for Economic Co-operation and Development
TNC	Transnational Corporation
WB	World Bank

PART III. NATIONHOOD AND FOREIGN POLICY

Imagining the Nation: Identity, Nation Building, and Foreign Policy in Kazakhstan

Sabina Insebayeva[1] **(2016)**

The notion of nation-branding has become a permanent feature of the state discourse in Kazakhstan. Since becoming familiar with the idea of the "brand state,"[2] Kazakhstan has deployed a full panoply of branding strategies to cultivate a positive international image, including wide media exposure,[3] "spectacular urbanization,"[4] and aggressive pursuit of image-building projects (known as *imidzhdik zhobalar* in Kazakh and *imidzhevye proekty* in Russian).

Branding a nation is said to be such a crucial factor for "the economic, political and cultural flourishing of the state"[5] that no amount of public funds is considered too much to for it. The regular outflow of government funds and resources for image-building projects is the quintessential example of this practice in Kazakhstan. The country arguably spends about US$50 million annually on various public relations (PR) campaigns. These include the dissemination of information about Kazakhstan's economic and political achievements through international mass media outlets such as CNN and the BBC , special newspaper editions such as *The New York Times* and *The Economist*, and the distribution of other information materials such as brochures and posters.[6] The major expenditures incurred on image-building—mostly through the National Welfare Fund Samruk-Kazyna—are estimated as follows: $3 billion for the EXPO-2017, $1.65 billion for the 2011 Asian Winter Games, and $47 million the Winter Universiade 2017, to name just a few.[7] In its branding enthusiasm, in 2007 the government even established a special Department of International Information (now known as the Committee of International Information) under the Ministry of Foreign Affairs that was entrusted with the responsibility to build and maintain Kazakhstan's international image.[8]

Kazakhstan has mounted such a vigorous image-building campaign that at times its efforts are being interpreted as manipulative and propagandistic. The heavy investments in image-building projects, lavish spending on social media and advertising campaigns, and intense cooperation with select branding consultancies that are known for excelling in employing image-building techniques have earned Kazakhstan the reputation of "a PR state."[9] Despite this, Kazakhstan continues to devote considerable energy to presenting and promoting the country in a positive light by allocating funds to branding activ-

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2 Peter van Ham, "The Rise of the Brand State," *Foreign Affairs* 80, no. 5 (2001), https://www.foreignaffairs.com/articles/2001-09-01/rise-brand-state.

3 Jami Fullerton, Alice Kendrick, and Courtney Wallis, "Brand Borat? Americans' reaction to a Kazakhstani place branding campaign," *Place Branding and Public Diplomacy* 4, no. 2 (2008): 159-68, doi:10.1057/pb.2008.6.

4 Natalie N. Koch and Anar Valiyev, "Urban Boosterism in Closed Contexts: Spectacular Urbanization and Second-Tier Mega-Events in Three Caspian Capitals," *Eurasian Geography and Economics* 56, no. 5 (2015): 575-98, doi:10.1080/15387216.2016.1146621.

5 Somogy Varga, "The politics of Nation-branding: Collective identity and public sphere in the neoliberal state," *Philosophy and Social Criticism* 39, no. 8 (2013): 828.

6 "Kazakhstan v god tratit po $50 mln na 'stranovoy piar'," *Kursiv*, December 11, 2014, http://www.kursiv.kz/news/obshestvo/kazakhstan_v_god_tratit_po_50_mln_na_stranovoy_piar/.

7 "2017 zhylgy oysqy universiadanyn byudzhety 17 mlrd tengeni quraidy," Almary2017.com, November 23, 2015, http://almaty2017.com/kk/byudzhet-universiady-2017-v-almaty-sostavi/; Gulnoz Mukanova, "Kazakhstan potratit na EKSPO $3 milliarda," *LS*, July 8, 2014, http://lsm.kz/kazakhstan-potratit-na-e-kspo-3-mlrd/; Adil Urmanov, "Stoimost' provedeniya aziady sostavila $1.65 milliarda," *KAZTAG,* February 7, 2011, http://www.nomad.su/?a=4-201102080031.

8 Dina Ermaganbetova, "Pri MID RK sozdan komitet mezhdunarodnoy informatsii," *Zakon*, February 12, 2007, http://www.zakon.kz/82457-pri-mid-rk-sozdan-komitet.html.

9 Adrian Fauve, "Global Astana: Nation-branding as a Legitimization Tool for Authoritarian Regimes," *Central Asian Survey* 34, no. 1 (2015): 110-24.

ities, maintaining maximum visibility in various international organizations, and developing a remarkably proactive stance in its foreign policy.[10]

Nation-Branding for Tourism, FDI and Image-Making?

How can we explain Kazakhstan's continuous engagement in nation-branding exercises? Many commentators point out that a positive international image spurs economic development by promoting tourism, facilitating international trade, and attracting foreign investments.[11] From this perspective, the subsequent main goal of these fund allocations and unceasing efforts to practice nation-branding is ultimately wealth accumulation.

In a related vein, others argue that, beyond profit gain, nation-branding is essential for enhancement of national competitiveness in today's "world of images and influences."[12] This view is premised on the assumption that a country's international image determines its relative positioning in the international community.[13] With this in mind, Kazakhstan uses "the tools of branding,"[14] seeking to change its image in a positive way and "raise its prestige primarily among international businesses and the global community."[15]

However, nation-branding is not only an outward-looking endeavor. It also serves a legitimizing function for the rule of those in power; it enhances national pride and generates social cohesion. In the case of Kazakhstan, this reasoning is justified by the fact that the vast majority of the citizenry stand in support of the country's multi-vector foreign policy approach, its ability to project a positive image in the international arena, and its achievement in gaining recognition and status through various international initiatives.[16]

All of these explanations are plausible. However, to a certain extent they lose their explanatory power under more detailed scrutiny of the Kazakhstani case.

First, tourism promotion is said to be one of the rationales for Kazakhstan's nation-branding. This kind of reasoning is certainly logically valid, yet it is not backed up by statistical evidence. At first glance, statistics show a positive tendency of inbound tourism to Kazakhstan. Nevertheless, a large portion of these trips are attributable to foreigners traveling on business or visiting their family and friends, while the number of people traveling to Kazakhstan for holidays, leisure, and recreation remains quite insignificant as a share of the total.[17] The picture looks even less convincing when considering that most of these visitors come from neighboring countries.[18] In this respect, it is also worth noting that, while Uzbekistan and Kyrgyzstan spend much less than Kazakhstan on branding projects, both countries have seen a constant increase in tourists.[19]

Second, it has been argued that a country's image and reputation management have become hugely important with advances in new communication technologies, combined with an increase in compe-

10 See, for instance, Johan Engvall and Svante Cornell, "Asserting Statehood: Kazakhstan's Role in International Organizations," *Silk Road Paper*. Central Asia-Caucasus Institute, Johns Hopkins University, Washington, D.C., December 2015; and Erica Marat, "Nation-branding in Central Asia: A New Campaign to Present Ideas about the State and the Nation," *Europe-Asia Studies* 61, no. 7 (2009): 1123-36.

11 Fiona Gilmore, "A Country — Can It Be Repositioned? Spain — The Success Story of Country Branding," *Journal of Brand Management* 9, no. 4 (2002): 281-93; Anette Therkelsen, "Imagining Places: Image Formation of Tourists And Its Consequences for Destination Promotion," *Scandinavian Journal of Hospitality and Tourism* 3, no. 2 (2003): 134-50; Nigel Morgan, Annette Pritchard, and Roger Pride, *Destination-branding: Creating the unique destination proposition* (Oxford: Elsevier Butterworth-Heinemann, 2004); Michael Gould and Heather Skinner, "Branding on Ambiguity? Place Branding Without a National Identity: Marketing Northern Ireland as a Post-Conflict Society in the USA," *Place Branding and Public Diplomacy* 3, no. 1 (2007): 100-13; David Gertner, "Place Branding: Dilemma or Reconciliation Between Political Ideology and Economic Pragmatism?," *Place Branding and Public Diplomacy* 3, no. 1 (2007): 3-7.

12 Peter van Ham, "The Rise of the Brand State."

13 Eytan Gilboa, "Diplomacy in the Media Age: Three Models of Uses and Effects," *Diplomacy & Statecraft* 12, no. 2 (2001): 1-28.

14 Hlynur Gudjonsson, "Nation-branding," *Place Branding and Public Diplomacy* 1, no. 3 (2005): 283-98.

15 Erica Marat, "Nation-branding in Central Asia: A New Campaign to Present Ideas about the State and the Nation," *Europe-Asia Studies* 61, no. 7 (2009): 1123-36.

16 I.e. Kazakhstan's commitment to multilateralism, regional cooperation, and its leadership in nuclear non-proliferation.

17 56,333 tourist visitors out of 6,332,734 in 2014. See: Tatyana Trubacheva, "Pochemu v Kazakhstane plokho prodvigaetsya vnutrenniy turizm," *Forbes*, March 31, 2016, http://forbes.kz/finances/markets/zavernite_pojaluysta_1.

18 Russia, Uzbekistan, Kyrgyzstan, Tajikistan, and China.

19 Andrey Zubov, "Smeshnye tsyfry v"ezdnogo turizma v Kazakhstan," *365Info*, August 3, 2016, http://365info.kz/2016/08/smeshnye-tsifry-vezdnogo-turizma-v-kazahstane/.

tition between countries.[20] Indeed, Kazakhstan has attracted significant flows of foreign investment into the national economy since its independence and, until recently, demonstrated an upward trend in its trading activity. This was possible, however, "due to the country's massive oil reserves rather than any nation-branding efforts."[21] Recent studies, for instance, reveal that aggregate foreign direct investment (FDI) inflows to authoritarian countries continues to increase.[22] This suggests that the political regime of a particular country does not play a decisive role for investors who are interested in primary commodities; the investors are more concerned that their return on investment is secured. Some studies go so far as to argue that international economic actors—and foreign investors in particular—will maintain an interest in "supporting the regime" as long as "the political authority guarantees stability, subsidies and access to resources."[23] Thus, one cannot help but notice that the energy and mineral sectors continue to account for the largest share of FDI and exports still largely consist of primary commodities. Therefore, if the purpose of nation-branding is simply "to stimulate inward investments and boost exports,"[24] then the results achieved raise certain doubts about the feasibility and effectiveness of the chosen strategy.

Third, while in theory Kazakhstan carries out image-building projects that are designed to highlight positive cultural aspects and recent achievements in order to build an image of a successful state both at home and abroad, in reality these initiatives come at a price. Not only do Western journalists and analysts tend to frame the country in negative color, they also bring to light the hidden side of the soft authoritarian coin.[25] For example, Natalie Koch observes that the capital city Astana—whose urban development is one of Kazakhstan's main brands—is consistently depicted by Western observers as "Nowheresville," "Tomorrowland," or a "Potemkin village."[26] Analogous comments can be made with regard to Kazakhstan's EXPO 2017, which is being described by Western media as the country's main "corruption show." Arguably, very few decision-makers in Kazakhstan can be unaware of this trend.

Along this line, skeptical attitudes toward "image-building projects" are becoming increasingly noticeable among the general population. In times of economic downturn, some see it as an unnecessary luxury, while others regard it merely as a blatant waste of money and resources and yet another example of *raspiliada* (embezzlement of public funds as a result of hosting mega-events). A telling example is Kazakhstan's bid to host the 2022 Winter Olympic Games. At the end of 2014, an initiative group of Almaty residents gathered together to sign a petition that requested the government to withdraw its bid for hosting the Games due to serious concerns over financial costs and environmental issues. However, while other contenders (including Germany, Sweden, Poland, and Norway) withdrew their 2022 proposals one after another due to lack of public support, no concerns raised at home could stop Kazakhstan from staying in the competition.[27] To the great relief of many in Kazakhstan, China ultimately won the right to host the Games. Aside from ignoring the public's outcry, it is still hard to imagine that the government has the resources to fund international image-building projects that reap mockery and criticism in the midst of financial crisis, devaluation of the national currency, and falling prices for natural resources.

Thus, considering the previously discussed rationalist approaches to nation-branding as offering insufficient explanations for Kazakhstan's continuous engagement in nation-branding exercises, this

20 Mark Leonard, "Diplomacy by Other Means," *Foreign Policy* 132 (2002): 48; Ying Fan, "Branding the Nation: Towards a Better Understanding," *Place Branding and Public Diplomacy* 6, no. 2 (2010): 97-103.

21 Gyorgy Szondi, "Public Diplomacy and Nation-branding: Conceptual Similarities and Differences," *Clingendael,* January 2008.

22 Ida Bastiaens, "The Politics of Foreign Direct Investment in Authoritarian Regimes," *International Interactions* 42, no. 1 (2015): 140-71.

23 Assel Rustemova, "Rent Seeking and Authoritarian Consolidation in Kazakhstan and Uzbekistan," in *International Dimensions of Authoritarian Persistence: Lessons From Post-Soviet States,* 1st ed., ed. Rachel Vanderhill and Michael E. Aleprete Jr. (Lanham: Lexington Books, 2013), 74.

24 Keith Dinnie, *Nation-branding* (Oxford: Butterworth-Heinemann, 2008).

25 For instance, the preparation processes for such big events as the Asian Games 2011 and Expo 2017 were accompanied by a series of major corruption scandals involving high-ranking officials.

26 Natalie Koch, "Urban 'Utopias': The Disney Stigma and Discourses of 'False Modernity'," *Environmental Planning* 44, no. 10 (2012): 2445-62.

27 Norway, in particular, explained its decision to drop out of the contest by two arguments. First, it was the financial part - "most Olympic budgets end up being much more expensive." Second, it was "the very strange demands from the IOC." Even though Norway is a rich country, "Norwegian culture is really down to earth; when you get these IOC demands that are quite snobby, Norwegian people cannot be satisfied," said Ole Berget, a deputy minister in the Finance Minister. For more details see: Mark Lewis, "International Olympic Committee Blames Media for Misreporting 'Crazy Demands' after Oslo Drops Bid to Host 2022 Winter Games," *National Post*, 2014.

paper joins the flow of studies that advocate for the importance of non-material factors such as culture and identity in the analysis of nation-branding. This paper argues, above all, that Kazakhstan's branding initiatives should be understood not only as the presentation of a positive image at the international level, but also as part of the government's nation-building process at home.

To support this argument, the next section addresses the question of how national identity is connected to the concept of nation-branding and the study of Kazakhstan's foreign policy.

Negotiating Post-Soviet National Identity in Kazakhstan

Kazakhstan was confronted with the challenges of redefining its national identity in the wake of its independence and the Soviet Union's demise in 1991. The Marxist-Leninist discourse[28] that had shaped and sustained the Soviet national identity project over several decades eventually crumbled,[29] leaving space for a "re-imagining" of the national identity[30] through alternative discourses that existed in the wider discursive field of Kazakhstan. The struggle between these coexisting yet "competing and contradictory discourses with varying degrees of power"[31] made the process of national identity reconstruction an inherently challenging endeavor for post-Soviet Kazakhstan, where ethnic diversity issues, the language policy dilemma, and intra-Kazakh cleavages were compounded by political uncertainty, severe economic problems, and social tensions.

Before any further discussion, several issues need to be considered, for the sake of clarity. First, although the scope of discussion on nation-building processes in Kazakhstan is often restricted to a binary, ethnic versus civic discourse, the country's discursive field offers a stock of diverse narratives on national identity that are continuously vying for supremacy.[32] Second, power relations among these discourses has been evolving; some attain dominance while others become marginalized and subjugated.[33] While references to the Soviet nationalities policy dominated the public space during Soviet rule, by the mid-1980s, a competing nationalistic Kazakh discourse took shape after decades of silence and became a noticeable factor in the domestic politics of Soviet Kazakhstan. The rising prominence of this ethnic nationalist discourse, however, would not have been possible without a number of socioeconomic and cultural evolutions, such as demographic change in favor of Kazakhs,[34] an increase in their education attainment, and rapid urbanization.[35]

Although the origins of this discourse are rooted at least as far back as the early 1920s,[36] it was the December riots of 1986 that demonstrated the power potential of these counter-hegemonic ways of thinking. Already in 1989, in response to pressure from below and as in all other Soviet republics, Kazakhstan adopted the Language Law, making Kazakh the state language; in 1990, the Declaration of Sovereignty unambiguously emphasized the special role of the indigenous nation, the Kazakhs.[37] The policies of *glasnost* (openness) and *perestroika* (restructuring) introduced in 1985 by Moscow supported greater freedom of speech, freedom of media, and freedom of assembly.[38] This inevitably fueled the rise of al-

28 *Paul Dragoș Aligică* and Anthony John Evans, *The Neoliberal Revolution in Eastern Europe* (Cheltenham, UK: Edward Elgar, 2009); John B. Thompson, *Studies in the Theory of Ideology* (Berkeley: University of California Press, 1984).

29 Alfred B. Evans, *Soviet Marxism-Leninism* (Santa Barbara: ABC-CLIO, 1993).

30 Benedict Anderson, *Imagined Communities: Reflection on the Origin and Spread of Nationalism* (London: Verso, 1983), 15.

31 Chris Weedon, *Feminist Practice and Poststructuralist Theory* (Oxford, UK: B. Blackwell, 1987), 35.

32 Michel Foucault, *Discipline and Punish: The Birth of the Prison*, trans. Alan Sheridan (London: Allen Lane, Penguin, 1977), first published in French as *Surveiller et punir* (Paris: Gallimard, 1975).

33 Weedon, *Feminist Practice and Poststructuralist Theory,* 35.

34 For instance, in 1959 ethnic Kazakhs constituted 30% of the population (Russians 42.7%); by 1989, this number increased to 39.7%, making Kazakhs the largest ethnic group in the Republic (Russians 37.8%). See Bhavna Dave, *Kazakhstan* (London: Routledge, 2007), 60.

35 The share of urban population in Kazakhstan grew from 43.7% in 1959 to 53.5% in 1979 and 57.1% in 1989. See: "Urbanization in Central Asia: Challenges, Issues and Prospects," United Nations Economic and Social Commission for Asia and the Pacific, Tashkent, 2013, 3, http://www.unescap.org/sites/default/files/Urbanization%20in%20Central%20Asia_ENG_0.pdf.

36 It is worth noting that at that earlier time, the Kazakh nationalist discourse had developed specifically in opposition to tsarist Russia.

37 "The declaration of state sovereignty of the Kazakh Soviet Socialist Republic from October 25, 1990," Supreme Court of KazSSR, No. 44, 1990, 408.

38 Joseph Gibbs, *Gorbachev's Glasnost: The Soviet Media in the First Phase of Perestroika* (College Station, Texas: Texas A & M University Press, 1999); Archie Brown, *The Gorbachev Factor* (Oxford: Oxford University Press, 1996); Neil Robinson, *Ideology and the Collapse of the Soviet System* (Aldershot, Hants, England: Edward Elgar Publishing Limited, 1995).

ternative discourses and greater contestation of the hegemonic communist discourse informed by the Marxist-Leninist framework.

Since it is impossible to cover all potential alternative discourses, I mention here only the main competing narratives of national identity promoted by diverse actors in the early years of Kazakhstan's statehood.[39]

The Islamic nationalists (Pan-Turkists/Pan-Islamists), such as the Alash party, articulated their discourse through a triad of signifiers: "Islam-Turkism-Democracy."[40] For them, the construction of national identity was to be based on the principles of pan-Turkism (unity of all Turkic-origin peoples) and pan-Islamism (solidarity of all Muslims). They envisioned the creation of a united "Greater Turkestan" encompassing of all the Turkic-speaking peoples and a national revival of Kazakhstan as its historical core. Islam, as a state religion, should become a consolidating force in the nation-building process. Thus, being Muslim should be one of the main criteria in determining identity membership. Hence, Islamic nationalists urged the expulsion of Slavs from Kazakhstani territory, which was expressed through the slogan "Russians get out."[41] The distinctive features of their proposed foreign policy orientation were maintenance of a nuclear arsenal, close cooperation with the Turkic-Islamic world, and struggle against so-called Russian and Western neo-colonialism.

Ethnic nationalists, which included members of the National Democratic Party, the Azat Civil Movement, and the Zheltoksan National Democratic Party, advocated for the exclusivist nature of the national-identity project, i.e. identity is to be based on ethnicity. Within this discourse of exclusivist ethnic nationalism, Kazakhstan was imagined as a sovereign, one-nation (Kazakh), state. Although minorities were supposed to enjoy guaranteed basic human and civil rights, they would be regarded as representatives of diaspora nations.

Republic nationalists—well represented in the Republican Party of Kazakhstan—insisted on a more inclusive national identity, but proposed that members consider themselves to be Kazakh, respect Kazakh culture and traditions, speak the Kazakh language, and contribute to the further development of Kazakhstan. For them identity was closely linked to territory.[42] Therefore, they campaign against land privatization and advocate for the defense of absolute territorial integrity. According to this national identity project, Kazakhstan would become a non-aligned state that accepts principles of nuclear non-proliferation and disarmament.

Largely in opposition to Islamic, ethnic, and republican nationalists, a *Slavist* discourse, advanced by the LAD movement and the Russian Community (*Russkaia obshchina*), opposed the institutionalization of privileges granted on criteria of ethnicity and advanced claims in favor of granting Russian the status of a second state language, protecting Russian culture, and concluding agreements on dual citizenship with Russia.[43]

A small group of *liberals* advocated for the creation of a democratic civic identity based on democratic and liberal principles that would allow for diversity and equality among all Kazakhstan's citizens.[44] Liberals insisted that democratic rights should be extended to all members of Kazakhstani society, and that languages and cultures of all ethnicities should be supported and protected by institutions. Growing interaction with the international community provided an understanding of what constituted a legitimate international identity: a peace-loving state that adheres to the principles of "respect for rule of law, democracy and guarantees for minority, ethnic and national rights."[45]

39 Due to limited space, I do not discuss several discourses articulated by other actors, including Communists, Socialists, and Democrats. Communists held true to the idea of a "laboratory of friendship of people" and reiterated their commitment to the ideological dogmas of Marxism-Leninism. In terms of foreign affairs, they favored preserving the Soviet Union as a Slavic union. Later on, they advocated for the restoration and development of a unified economic space within the boundaries of the Commonwealth of Independent States.

40 Ludmila Polonskaia and Alexei Malashenko, "Islam in Central Asia," in *Central Asian Security: The New International Context,* 1st ed., ed. Roy Allison and Lena Jonson (London: Royal Institute for International Affairs, 1994).

41 Yaacov Ro'i, "Islam in the FSU - An Inevitable Impediment to Democracy," in *Democracy and Pluralism in Muslim Eurasia,* 1st ed., ed. Yaacov Ro'i (London: Frank Cass, 2004), 105.

42 Abdelhamid El Ouali, *Territorial Integrity in A Globalizing World* (Berlin: Springer-Verlag, 2012), 291.

43 Natsuko Oka, "The 'Triadic Nexus' in Kazakhstan: A Comparative Study of Russians, Uighurs, and Koreans," in *Beyond Sovereignty: From Status Law to Transnational Citizenship?,* ed. Ieda Osamu et al. (Sapporo: Slavic Research Center, Hokkaido University, 2006), 359-80.

44 Social Democratic Party of Kazakhstan, Socialist Party of Kazakhstan.

45 "United Kingdom Materials on International Law," *British Yearbook of International Law* 62, no. 1 (1991): 561.

These different strands developed distinctive views on national identity and foreign policy issues. But they all share the notion that democracy was the political future of Kazakhstan.[46] This can be explained by the widespread "end of history"[47] thinking and the hegemonic global discourse of liberal democracy. None of these discourses, however, gained state-level dominance in the 1990s.

The only discourse that stood out sharply was that of the *statists,* which was built around ideas of a strong independent state, stability, development, and technocratic rationality. Statists proposed to create a common "Kazakhstani nation" shaped on the matrix of civic nationalism. This discourse was guided by the understanding that the Kazakhstani nation should be constructed with due regard to ethnic differences, but with the ultimate goal of overcoming these differences through the creation of a common Kazakhstani identity. A primary role in the construction of this civic, albeit authoritarian, national identity was assigned to the state and to the ruling elites.

Imagining the Nation and the State

The statist discourse achieved a dominant status by the mid-1990s, and, for several reasons, it continues to maintain that position to this day.

First, statists were able to win the consent of masses by integrating various social and identity demands, in contrast to major alternative discourses. The latter all contain elements of opposition and differentiation (homogenization/assimilation, marginalization, exclusion) and constructed "in-groups" along ethnic, cultural, or religious lines. As a result, they all "ironed out" the variety of beliefs, practices, and ways of thinking"[48] that existed in Kazakhstan's society.

The statist discourse, however, succeeded in interweaving ethno-cultural, civic, and multicultural threads together. On the one hand, it has built around idea of tolerance of difference,[49] with multi-nationalism, multi-religionism, multi-lingualism, and multiculturalism as its main pillars. By de-emphasizing the primacy of ethnic, religious, and linguistic criteria in the construction of national identity, statists were able to accommodate the demands of Slavs and other minorities. On the other hand, the statist national identity proposal emphasizes the need to pay special attention to the interests of the titular Kazakhs. Some scholars framed this national identity project as "internationalism with a Kazakh face."[50] By articulating the interests of the titular Kazakhs, the statists were thus able to neutralize alternative discourses and achieve a fragile, passive consensus among this group of the population. Similarly, in the sphere of language policy, the state promoted the gradual introduction of the Kazakh language in all domains of public life, while guaranteeing protection of minority languages and rejecting calls to ban the Russian language.

Second, the statists' discourse contained "an additional component,"[51] namely an outward-looking focus on imminent threats that eventually facilitated the suppression of alternative discourses. In the early years of Kazakhstan's statehood, liberals posed a significant threat to the statists, as the former could credibly compete for supremacy. Both liberals' and statists' discourses offered similar proposals with regard to a variety of issues (e.g., national identity projects, economic and social policies, and nuclear disarmament). A fundamental difference stood out, however. The liberals' discourse was largely inward-looking, focusing on the state's internal vulnerability, and the Soviet legacy of "totalitarianism." Liberals made democracy the cornerstone of their discursive framework, conceiving it as essential for preventing the abuse of power by the state and creating a society based on values of equality, justice, freedom, and solidarity. In line with this, they argued for the immediate "de-ideologization" of politics, insisting on the limitation of state power.

Statists, however, were predisposed toward preserving power, and their discourse was built around a security-globalization nexus. Within this outward-looking worldview, Kazakhstan is situated in a

46 "Democracy" was not necessarily interpreted in the Western liberal tradition.

47 Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992); Francis Fukuyama, "The End of History?," *The National Interest* 16 (Summer 1989).

48 Titus Hjelm, *Social Constructionisms. Approaches to the Study of the Human World* (Palgrave Macmillan, 2014), 75.

49 In 1992, the President proposed to create a new social institute, namely, the Kazakhstan Assembly of Interethnic Harmony and Unity, a non-political, non-governmental organization whose main objective was to strengthen the interethnic and inter-confessional peace and harmony in the state.

50 Edward A. D. Schatz, "Framing Strategies and Non-Conflict in Multi-Ethnic Kazakhstan," *Nationalism and Ethnic Politics* 6, no. 2 (2000): 71-94.

51 Ted Hopf, *Social Construction of International Politics* (Ithaca: Cornell University Press, 2002).

world system defined by globalization, which entails both challenges and opportunities for the country. On the one hand, asymmetrical interdependence between states poses a threat to developing countries that lack a comparative advantage. As asserted by President Nursultan Nazarbayev in his speech at Columbia University in 1994, in "analyzing the modern world, it is impossible to deny the existence of the hierarchy of relationships along three dimensions: individual, state, and global society."[52] Yet even though the Charter of the United Nations provides for the sovereign equality of states, "in reality these principles have often had to be defended" by the newly independent states, which are particularly vulnerable to a complex set of threats. Consequently, new security risks force the state to redefine its security agenda. It is worth noting that security here is interpreted by the Kazakhstani state not only in military terms, but also as having environmental, economic, political, and social dimensions. As these dimensions of security are inherently interconnected, a threat to one may affect another.[53]

Statists thus argued that democratization would weaken the state's capacity to ensure security and peace at both the domestic and the international level. Rapid diffusion of power "would lead to chaos" as society was not yet ready for it. As a necessary measure, it was thus rational for "the orchestra" to have "only one conductor," as Nazarbayev himself stated.[54] Hence, the demand for a strong state was justified on peace and security grounds.[55] Rhetorically, however, the establishment of democracy was not completely dismissed; rather, it was deferred until later. It was argued that "democracy is not an inoculation against totalitarianism,"[56] neither is it helpful in avoiding colonization and dependency. Therefore, it was accorded a back-seat role.

On the flipside, however, in portraying globalization as a natural and unavoidable phenomenon, the statist discourse posits that Kazakhstan should ensure its security by taking advantage of opportunities offered by global processes.

In this light, building a positive international image, "enhancement of political authority in international society," a multivector foreign policy, and economic development are seen as necessary to ensure the formation of a so-called "belt of good-neighborliness" around the country. The statists share the belief that multilateralism—membership in international organizations identified not only as symbols of internationally recognized statehood (e.g., the United States), but as security assurance (e.g., the Collective Security Treaty Organization, the Shanghai Cooperation Organization)—will dilute, if not totally supplant, traditional security practices that involve the participation of a hegemonic actor. Therefore, the state should be involved in institution-building rather than a military race. Kazakhstan thus needed to adopt an active foreign policy approach, which involved obtaining membership in various international organizations and actively proposing initiatives to tackle global and regional issues.

Importantly, for a country engaged in world politics, a positive image by other states would serve as an indicator of the country's successful work to ensure its survival. This reading of the state sovereignty and security gave statists the grounds to claim legitimacy as "external recognition broadcast inward to domestic audiences."[57] "Attainment of an authoritative position in the world economy" was deemed impossible without trade liberalization and the transition to a market economy. In the context of a difficult political and socio-economic situation, it was stressed that exiting from the post-Soviet crisis would not be achieved through threats and strike actions, but through hard work, patience, discipline, and consolidation for the sake of growth. According to the statists, development would require temporary sacrifice, which people needed to be prepared for, and some failures would be an inevitable part of growth. Adjustment to new global realms would allow Kazakhstan to move from the "zone of backwardness and vulnerability" to the "zone of progress and prosperity."

52 Nursultan Nazarbayev, "Speech of the President of the Republic of Kazakhstan" (speech given at Columbia University, New York, February 16, 1994), http://online.zakon.kz/Document/?doc_id=30007143.

53 Ole Waever, *Identity, Migration, and the New Security Agenda in Europe* (New York: St. Martin's Press, 1993).

54 Nursultan Nazarbayev, speech given at the second session of the Assembly of people of Kazakhstan in Almaty, June 30, 1995.

55 Taking into account the developments in neighboring countries (Tajikistan and Afghanistan) as well as the amount of hardship the country was going through after gaining its independence, Kazakhstani elites adopted the discourse about the importance of protection of sovereignty, national unity, and territorial integrity, as well as maintenance of peace and security.

56 Nursultan Nazarbayev, speech given at the Council on Foreign Relations in New York, May 23, 1992.

57 Edward Schatz, "Transnational Image Making and Soft Authoritarian Kazakhstan," *Slavic Review* 67, no. 1 (2008): 50, doi:10.2307/27652766.

The statists' discourse is thus by essence inherently reform-oriented and forward-looking. Statists hold that the "survival" and integrity of the state are impossible without interethnic stability and unity at the domestic level. Taking into account that the level of ethnic diversity in Kazakhstan impeded the national identity construction processes, they chose a new vision that focused on a common future as the development trajectory for the purpose of distancing the state from its communist past. According to this forward-looking gaze, Kazakhstanis, despite being of different ethnicities, are united by a common ambitious goal, which is to build an independent state that would become a strong international actor.[58] Official discourse holds that Kazakhstani people comprise "the nation of the unified future;" it should put "the new values of the whole nation, such as the supremacy of law, state traditions, and Kazakhstani values, above their own ethnic behavioral models."[59]

In short, the ability to articulate the demands of different groups, an outward-looking focus, and a future-oriented gaze allowed the statists to retain power and neutralize alternative discourses.

National Identity and Nation-Branding

The statists' representation of the nation gained a sufficient degree of consent from the population in the early years of statehood, prevailing over alternative imaginaries of national identity by the mid-1990s. Having become an official discourse, however, does not mean it became everlasting. The dominant discourse is never fixed, and it continues to face challenges and resistance.[60] To maintain its status, it must be able to continue to silence or discredit alternative proposals on national identity.

Bearing this in mind, and given fierce political contestation with regard to national identity at the domestic level,[61] the domain of nation-branding provides a safe space within which the national identity may be constructed and reconstructed by the ruling elite. In other words, nation-branding remains an elite project that helps "naturalize" the official discourse on national identity. The following examples illustrate the point.

First, the Kazakhstani national identity project portrays Kazakhstan as a unique model of interethnic and inter-confessional concord in which all citizens, regardless of their ethnicity or religion, enjoy equal rights and freedoms. In 1995, the Assembly of People of Kazakhstan was established to ensure national unity on the grounds of civil identity, patriotism, and spiritual and cultural solidarity. In 2003, Kazakhstan initiated the Congress of Leaders of World and Traditional Religions. This "Dialogue of Civilizations" initiative presented Kazakhstan as a responsible international actor that promotes inter-religious and intercultural dialogue on a global scale and, even more importantly, has the authority to do so, due to both its experience in peaceful global conflict resolution and its unique model of interfaith harmony at home. Projected inward, this further sustains the chosen narrative of peace and tolerance, represented by the Palace of Peace and Accord built in Astana in 2006. Furthermore, it portrays Kazakhstan as a meeting point of various cultures and civilizations, reinforcing its image of being "a bridge between the West and the East." This leads the discussion to another linchpin of the official discourse: Eurasianism.

According to official discourse, Kazakhstan, which is situated in the "heart of Eurasia,"[62] is a "Eurasian country, which has its own history and its own future."[63] In line with this, "the unifying idea for all Kazakhstanis is the Eurasian idea, which synthesizes in the Kazakhstanis the best qualities of Asians and Europeans."[64] One example of nation-branding

58 Nursultan Nazarbayev, speech given at The Forum of People of Kazakhstan in Astana, December 14, 1994.

59 Nursultan Nazarbayev, "Ult zhospary - qazaqstandyq armanga bastaityn zhol," *Akorda*, 2016, http://www.akorda.kz/kz/events/akorda_news/press_conferences/memleket-basshysynyn-ult-zhospary-kazakstandyk-armanga-bastaityn-zhol-makalasy.

60 Michelle M. Lazar, *Feminist Critical Discourse Analysis* (Houndmills, Basingstoke, Hampshire: Palgrave Macmillan, 2005).

61 Serik Beissembayev, "Fenomen kazakhskogo natsionalizma v kontekste segodnyashney politiki: ot otritsaniya k ponimaniyu," *Soros.kz*, 2015, http://ru.soros.kz/uploads/user_68/2015_23_09__03_46_44__219.pdf.

62 Nursultan Nazarbayev, *Epitsentr mira* (Almaty: Atamyra, 2003); Nursultan Nazarbayev, *Kazakhstanskiy put'* (Karaganda, 2006).

63 Nursultan Nazarbayev, "Prosperity, Security and Ever Growing Welfare of All the Kazakhstanis. The Address of the President of the Republic of Kazakhstan," *Akorda*, October 10, 1997, http://www.akorda.kz/en/addresses/addresses_of_president/page_address-of-the-president-of-the-republic-of-kazakhstan-nursultan-nazarbayev-to-the-people-of-kazakhstan-october-10-1997_1343986436.

64 Nursultan Nazarbayev, "100 Steps for Five Institutional Reforms," *Akorda*, November 30, 2015, http://www.akorda.kz/en/addresses/state-of-the-nation-address-by-president-of-kazakhstan-nursultan-nazarbayev-november-30-2015.

through which the Eurasian idea consolidated was the 2011 Astana-Almaty Winter Games. The official mascot of the Games was the snow leopard Irby, which embodied Kazakhstan's Eurasian spirit, while the motto of the event—"Unity of purpose—unity of spirit" (*Maqsaty birdin – ruhy bir* in Kazakh and *edinstvo tselei –edinstvo dukha* in Russian)—symbolized a common goal and the nation's striving to achieve unity and harmony. The snow leopard brand was used for the first time in 1997 when Kazakhstan announced the prioritization of economic achievements over political developments and its adherence to the promotion of so-called Asian values.

Another example is the OSCE chairmanship, which Kazakhstan obtained in 2010. The chairmanship not only symbolized an appreciation of Kazakhstan's achievements with regard to modernization and interethnic and interfaith accord on the part of the global community, but it also consolidated the vision of Kazakhstan as a bridge between Europe and Asia and its Eurasian identity.

The 2030 and 2050 Strategies, too, reflect these forward-looking and reform-oriented references. The goal of both strategies is to develop a welfare nation built on the basis of a strong state with a developed economy, and to join the top 30 developed countries of the world. Trilingual development of the Kazakh, Russian, and English languages is a pledge of consolidation of the society and improvement of its competitiveness. However, the success of achieving this new Kazakhstani dream is dependent on the unity of the nation: "Our path is the path of unity and consistent formation of the nation based on the civic identity."[65]

In May 2016, Nazarbayev called for the creation of a Ministry of Information and Communications to ensure the effective implementation of five institutional reforms that he proposed in 2015. The fourth of them specifically focuses on strengthening Kazakhstani identity. To implement the five reforms, the president introduced the "100 steps" initiative, a plan that includes various measures aimed at strengthening Kazakhstan's civic identity, namely: the development and implementation of the large-scale project of the Assembly of People of Kazakhstan "Big Country—Big Family;" the national project "Menin Elim" (My Country); the promotion of the notion of the "Society of Common Labor;" and the national project "Nurly Bolashak" (Bright Future). The ministry of Information and Communications was thus created in part to provide information support to the development of "Kazakhstan's identity in mass media, the internet, new generation media, and social networks."[66]

In a similar vein, the international exposition EXPO 2017 is going to be held in Astana under the slogan "Future Energy." This slogan not only reflects the theme of the exposition (green energy technologies), but also symbolizes the spirit of Kazakhstan: future energy as Kazakhstan's striving for future progress and future energy as the potential of the Kazakhstani and the country itself.

Conclusion

As shown in this paper, the most widely accepted rationalist explanations for why a country would engage in nation-branding cannot be fully accepted in the Kazakhstani case. On the contrary, to a great extent, Kazakhstan's branding initiatives should be understood not only as the presentation of a positive image at the international level for the sake of tourism, investment attractions or political aspirations, but also as part of the government's nation-building process at the domestic level.

The Kazakhstani ruling elite continue to pursue the project of constructing an authoritarian civic national identity, based on the country's achievements over the years of independence, "imagined" shared values, and common nationality through nation-branding practices. These nation-branding efforts, however, simplify the national identity and disregard alternative discourses about national imagery that are inherently different from the official one. In light of the increasing salience and growing popularity of alternative discourses and the fragile passive consensus on civic national identity that were achieved in the 1990s and the 2000s, the dominant position of the official discourse may be challenged in coming years. It is at this critical juncture that the current regime will be tested for endurance.

65 Nursultan Nazarbayev, "Ult zhospary - qazaqstandyq armanga bastaityn zhol," *Akorda*, 2016, http://www.akorda.kz/kz/events/akorda_news/press_conferences/memleket-basshysynyn-ult-zhospary-kazakstandyk-armanga-bastaityn-zhol-makalasy.

66 Nazarbayev, "100 Steps for Five Institutional Reforms."

The Irtysh and Ili Transboundary Rivers: The Kazakh-Chinese Path to Compromise

Zhulduz Baizakova[1] **(2015)**

More than 20 rivers cross Kazakhstan's border with China, the largest of which are the Irtysh, Ili, Talas, and Khorgos Rivers.[2] Today the two largest, the Irtysh and the Ili, are under increasing strain due to China's water withdrawals. This problem first emerged few years ago when China launched its so-called "Project 635" to construct, build, modernize, and develop 635 different facilities to boost the economy of its western provinces, predominantly the Xinjiang Uyghur Autonomous Region. As Kazakhstan is downstream of both rivers, it is thus put at a disadvantage.

The two fundamental issues between Kazakhstan and China are "rational and equitable" water allocation,[3] and pollution prevention. Presently there is no universal solution to Kazakh-Chinese transboundary water issues, which are multifaceted and complex, and require a great deal of negotiations and compromise from both parties. This paper analyzes and assesses the current state of Kazakhstan-China relations concerning these two transboundary rivers, and provides an overview of the legislation and activities of joint bodies. Avoiding a comprehensive overview of 'high politics' and geopolitics, it concentrates mainly on ground-level issues, such as information openness, institutional structures, and the irrationality of water usage on the Kazakh side.

Water in Kazakhstan

Generally Kazakhstan receives 44 km^3 of its water reserves from transboundary rivers including the Irtysh, Ili, Ural, Chu, Talas, and Syrdarya Rivers, while the remaining 100.5 km^3 originates from within the country.[4] Kazakhstan's biggest river, the Irtysh, crosses four countries, its basin being shared by Russia (67%), Kazakhstan (29%), China (4%), and a small amount flowing through Mongolia.[5] The Irtysh passes through 618 km of Chinese territory and 1,698 km of Kazakh territory, its basin consisting of 354,000 km^2.[6]

The Irtysh watershed is inhabited by as many as 2.5 million people, covering the *oblasts* of both Pavlodar and Eastern Kazakhstan. The Irtysh also feeds into the Irtysh-Karaganda Canal, which is the main water source for Astana and Karaganda.[7] Out of 25 km^3 of Irtysh waters generated on the territory of Kazakhstan, the country currently uses only 2% for the needs of Irtysh-Karaganda Canal.[8] The water resources of the Irtysh River and its tributaries are used for industrial needs, housing and communal services, fisheries, agriculture, irrigation, hydropower generation, and shipping and navigation.[9] On the Irtysh, Kazakhstan has built three major water reservoirs: Bukhtarma (5,500 km^2), Shulba (255 km^2), and Ust-Kamenogorsk (370 km^2).[10] The river is navigable between Omsk and Semey.[11]

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2 Assem Mustafina, "Transboundary water issues between Kazakhstan and China," *IOSR Journal of Humanities and Social Science* 19, no. 1, Ver. III (2014): 91-94.

3 In different sources it can also be called "water sharing" and "water distribution."

4 Anatoliy D. Ryabtsev, "Threats to water security in the Republic of Kazakhstan in the transboundary context and possible ways to eliminate them," Interstate Commission for Water Coordination of Central Asia, http://www.icwc-aral.uz/workshop_march08/pdf/ryabtsev_en.pdf.

5 Sergei Vinogradov and Patricia Wouters, "Sino-Russian Transboundary Waters: A Legal Perspective on Cooperation," Institute for Security and Development Policy, 2013.

6 Z. S. Dyusebayeva, "Mnogoletnee izmenenie vodnogo stoka r. Chernyy Irtysh i usloviy ego formirovaniya," *Vestnik nauki Sibiri* 3-4 (2012).

7 Interview with anonymous SME.

8 "Sodeystvie Respublike Kazakhstan v podgotovke Tret'ego Natsional'nogo soobshcheniya v sootvetstvii s Ramochnoy Konventsiey OON ob izmenenii klimata," Technical report (project of the government of RK/PROON/GEF), August-November 2012.

9 K. Kobegenov, "O planakh i meropriyatiyakh Irtyshskogo Basseynovogo soveta po rabote s promyshlennymi i zhilishchno-kommunal'nymi predpriyatiyami basseyna," Interstate Commission for Water Coordination of Central Asia, http://www.icwc-aral.uz/15years/pdf/kobegenov_ru.pdf.

10 See: http://www.akimvko.gov.kz/en/prirodnie-resursi/ryibnyie-resursyi/.

11 Interview with anonymous SME.

The Black Irtysh[12] originates at the icy slopes of Mongolian Altay Mountains at a height of 2,500 m in the western part of Chinese Xingjian province.[13] To date there is no confirmed data on the annual runoff of the Black Irtysh, and figures in Kazakhstan and Russia vary.[14] Average annual runoff under natural conditions is registered at 9.5 km^3 at Buran station next to the Chinese border. China registers more or less same figures, at between 9.53 and 11.0 km^3.[15] Another uncertainty lies around the precise volume of water taken by China from the Black Irtysh. While one Chinese source declares that both eastern and western canals take no more than 1.57 km^3, another Chinese source provides the figure of 3.0 km^3 or 30% of annual runoff, justifying it by economic reasoning and international law.[16]

Xinjiang requires all the water it can basically get for its economic development, which means that even though China and Kazakhstan have defined a "strategic partnership," China will nonetheless not allow Astana to curb its far-reaching and ambitious water plans.[17] Since the mid-1970s the proportion of Han Chinese and ethnic minorities in Xinjiang has remained 40:60 respectively. Han Chinese are enticed to the region in order to boost its economic development in such areas as industry and science. An important fact to remember is that two-thirds of the Xinjiang's budget comes from the central government, which reveals just how dependent the region is on the central authorities and how in theory Beijing could overpopulate Xinjiang with Han Chinese at any moment.[18]

China still expects Xinjiang to remain relatively unstable due to its poor standards of living and growing population among ethnic minorities, as well as its "ethnic separatism and religiously motivated terrorism."[19] Around 40% of Xinjiang territories are desert or semi-desert areas.[20] And the most indispensable resource for an increasing population, not to mention agricultural development and high levels of industrialization, is water. China has already built a 300km Black Irtysh-Karamay Canal to re-direct some of the water originating in the Black Irtysh towards its site of emergence in the booming oil town of Karamay.

According to Kazakhstan Hydrometeorological Service, Kazhydromet, until 2005 China took as much as 1.1-1.8 km^3 annually.[21] But in 2006-2008 the amount grew to between 2.5 and 3.5 km^3 and in 2009 reached 5.0-5.5 km^3.[22] Such high figures can also be explained by the fact that, in 2009, China completed the "Project 635" it began in 1997.[23] Data from the few functioning gauging stations, notably those at Buran, Zaysan, Bukhtarma, but also others, demonstrate that China is increasing its intake of water.[24] However, the reduction in the general flow can also be explained by changes to climatic conditions, i.e., the general warming that in turn entails increased evaporation and a shift in the planet's water regime.[25]

The Ili Issue

The Ili originates at the glaciers of the Muzart in Central Tanirtau, then curls and flows into China (34%) and then back to Kazakhstan (60%). Its overall length is 1,439 km, including 815 km through the territory of Kazakhstan with the catchment area constituting 77,400 km^2. In 2008 there were 3.5 million people residing on the territory of the basin, which includes Almaty, and partly also the *oblasts* of Zhambyl, Karaganda, and Eastern Kazakhstan.

12 This is the name by which the Irtysh is known in China.
13 Dyusebaeva, "Mnogoletnee izmenenie vodnogo stoka r. Chernyy Irtysh i usloviy ego formirovaniya."
14 Interview with anonymous SME.
15 Ibid.
16 Ibid.
17 Ibid.
18 Ibid.
19 Ibid.
20 Ibid.
21 Since 1999 Kazhydromet's was given the status of Republican State Enterprise (*Respublikanskoe gosudarstvennoe predpriyatie*, RGP) and has been subject to the Ministry of Environment and Water Resources. It is responsible for maintaining and monitoring all 298 gauging stations in Kazakhstan, and analyzing their chemical and biological content.
22 Interview with anonymous SME.
23 Interview with anonymous SME. "Project 635" cost 14.4 billion yuan and included constructing several canals with an overall length of 890 km, five water reservoirs, and three hydropower stations along with other 90 different facilities.
24 Interview with anonymous SME.
25 Dyusebaeva, "Mnogoletnee izmenenie vodnogo stoka r. Chernyy Irtysh i usloviy ego formirovaniya."

The Ili is the main tributary of Lake Balkhash, which in 2004 became an object of special national importance.[26] Being one of the largest lakes in Central Asia, its area exceeds 18,000 km^2.[27] The Balkhash is simply vital for Kazakhstan's economy, providing unique fisheries as well as water both for industry and agriculture. The Balkhash water balance heavily depends on Chinese withdrawals from the Ili.[28] The Ili also hosts the Kapchagay water reservoir, with a volume of 21.8km^3, and 90% of the Ili's water is used for irrigation purposes. [29]

Over 400 gauging stations were constructed on the Ili River under the direction of Kazhydromet, but only 28 of them still operate today. Their primary task of assessing annual water runoff was severely neglected at the end of 1990s through to the mid-2000s.[30] The lack of adequately functioning gauging stations on the Ili River renders it impossible to assess and monitor correctly the volume of incoming water from the point of its crossing into Kazakhstani territory.[31] Indeed, 90% of the rivers making up the Ili river basin feed into Lake Balkhash, while the remainder flows into the Alakol basin. Average annual runoff of the Ili from China can be measured at 15.09 km^3. Whereas, prior to the 1970s, China took about 1.2-1.5 km^3, today the amount of water withdrawn has increased to as much as 3.5 km^3.[32] In the mid-2000s, China used water from the Ili to irrigate 400,000 hectares and had plans to extend it to 600,000 hectares.[33]

The Legislative Situation

In its current state, Kazakh-Chinese legislation is sufficiently comprehensive to allow both parties to resolve almost the entire complex of issues concerning the quality of the water and of the environment of the river basins.[34]

There exists a set of comprehensive treaties and agreements between Kazakhstan and China on transboundary rivers, the two most important being the 2001 China-Kazakhstan Agreement Concerning Cooperation in the Use and Protection of Transboundary Rivers and the 2011 China-Kazakhstan Agreement on Water Quality Protection of Transboundary Waters. Other agreements include the use and allocation of water resources of the Khorgos River (inter-ministerial), Emergency Notification of the Parties of Natural Disasters (2005, inter-ministerial), Exchange of Hydrological and Hydro Chemical Information (data) of Border Gauging Stations (2006, inter-ministerial), Development of Scientific-Research Cooperation (2006, inter-ministerial), Cooperation in the Construction of Joint Waterworks "Dostyk" (River Khorgos, intergovernmental).[35]

In December 2009 in Beijing, Kazakhstani officials submitted to their Chinese counterparts a draft Concept for Water Distribution along the Irtysh and Ili Rivers as well as a draft Agreement on the Control over quality of transboundary waters and prevention of their pollution.[36] There has been very little reporting about the Chinese reaction. The plan to sign the new agreement on water sharing in 2014 was unclear as no official statement has been made.[37]

The Joint Kazakh-Chinese Commission on the use and protection of Transboundary Rivers was established following the 2001 Agreement. From 2001 to 2013 there were 10 meetings of the Joint Commission. The above-mentioned agreements all result from the Joint Commission and their working groups' activities. The Commission's goals include: the implementation of a 2001 Agreement; the co-

26 "Sodeystvie integrirovannomu upravleniyu vodnymi resursami i podderzhka transgranichnogo dialoga v Tsentral'noy Azii," Project "YES-PROON".
27 "Water Resources of Kazakhstan in the new millennium," UNDP Kazakhstan publication, Almaty, 2004.
28 The Ili's basin contributes 80% to water to the Balkhash catchment area, see "Water Resources of Kazakhstan in the new millennium."
29 "Sodeystvie Respublike Kazakhstan v podgotovke Tret'ego Natsional'nogo soobshcheniya v sootvetstvii s Ramochnoy Konventsiey OON ob izmenenii klimata."
30 "Sodeystvie integrirovannomu upravleniyu vodnymi resursami i podderzhka transgranichnogo dialoga v Tsentral'noy Azii."
31 "Sodeystvie Respublike Kazakhstan v podgotovke Tret'ego Natsional'nogo soobshcheniya v sootvetstvii s Ramochnoy Konventsiey OON ob izmenenii klimata."
32 Ibid.
33 Interview with anonymous SME.
34 Ibid.
35 Ryabtsev, "Threats to water security in the Republic of Kazakhstan in the transboundary context and possible ways to eliminate them."
36 Ibid.
37 Interview with anonymous SME.

ordination, monitoring, and measuring of the content and quality of water; joint research, and so on.[38] The major achievement of the Joint Commission's work is the 2010 Agreement to build the Dostyk hydro-engineering complex on the Khorgos river for joint use and management.[39] Construction started in 2011 and was completed in 2013. The complex provides for the fair and equal division of the Khorgos' waters. This was the first agreement on water sharing, and Kazakhstan plans to conclude similar agreements on the Irtysh and the Ili in the future.[40]

In governing its transboundary water resources China operates according to a principle of territorial sovereignty, according to which it is entitled to use and possibly re-use as much water as needed if its source is located on its territory.[41] Even though China is not obligated by the UN Convention on the Protection and Use of Transboundary Watercourses and International Lakes (1992) and Convention on the Law of the Non-Navigational Uses of International Watercourses (1997), the country is party to the Convention on Biological Diversity and to the Convention on Wetlands (RAMSAR), both of which provide protection for ecosystems, including transboundary rivers.[42] Kazakhstan is party to both of the latter conventions and can use these platforms for collaboration in a number of areas that relate directly to the management of transboundary water resources.[43]

None of the two parties can be prevented from applying the principle of "rational and equitable use" laid out in Article 4 of the 2001 Agreement.[44] However, one of the major problems stems from the fact that no Kazakh-China legal document provides for the requisite institutional mechanisms to implement this "equitable and reasonable use" provision. Discussion of the issue is supposed to occur in the framework of the Joint Sino-Kazakh Commission. Another weakness of the legislation resides in what Sergey Vinokurov defined as "the indeterminacy and vagueness of basin treaty provisions, the lack of monitoring and compliance mechanisms, and the lack or ineffectiveness of institutional and dispute settlement mechanisms."[45]

Prof. Patricia Wouters suggests that existing legislation on the Irtysh River Basin is constituted from two separate sets of agreements between Kazakhstan-China and Kazakhstan-Russia, and that it cannot be considered sufficient and "fit for all purposes."[46] One of the leading Kazakhstani experts on China, interviewed anonymously, believes that it is highly unlikely that Beijing would agree to discuss the issue of the Irtysh within trilateral (China, Kazakhstan, Russia) or multilateral formats, such as the Shanghai Cooperation Organization.[47]

China prefers to talk bilaterally. A process was launched in the mid-90s when China, Russia, and Central Asia started discussing border issues.[48] Despite its bad publicity as an environmental partner, China has clearly defined its interests and priorities in the area. Today, Beijing has more initiatives to reduce carbon dioxide emissions than it receives credit for. It tends to work according to its own agenda, as it cannot be expected to curb industrialization. China is quite keen and open to cooperate internationally as long as its national interests are catered for.[49] Even if China ever joins an international convention on transboundary watercourses, it appears unlikely that the environmental degradation unfolding today both in the Irtysh and the Ili river basins could be stopped and resolved.[50]

38 "Review of water relations and main problems in transboundary management of water resources in Ile-Balkhash basin," UNDP, http://centralasia.iwlearn.org/publications/projectdocuments/national-component-in-kazakhstan/ intergovernmental-water-relations-in-the-ili-balkhash-basin.

39 The cost of the construction is roughly 9.5 million USD and is to be shared between China and Kazakhstan.

40 See: http://www.inform.kz/eng/article/2571963.

41 Patricia Wouters and Huiping Chen, "China's 'Soft-Path' to Transboundary Water Cooperation Examined in the Light of Two UN Global Water Conventions: Exploring the 'Chinese Way," *Journal of Water Law* 22, no. 6 (2011): 229-47.

42 Ibid.

43 Interview with anonymous SME.

44 Interview with anonymous SME.

45 Sergey Vinogradov, "International Legal & Institutional Frameworks for Transboundary Watercourses of Kazakhstan" (paper presented at the Roundtable "Transboundary Water in Central Asia: Addressing the Crisis" at the Royal Geographical Society, June 29, 2011).

46 Vinogradov and Wouters, "Sino-Russian Transboundary Waters: A Legal Perspective on Cooperation."

47 Interview with anonymous SME.

48 Ibid.

49 Ibid.

50 Ibid.

Kazakhstan's Grievances

Many experts are of the view that current levels of cooperation between Kazakhstan and China are insufficient given the magnitude and complexity of the water issues they face.[51] China has many challenges ahead. Demographics and water are probably the two most pressingly important ones.[52] For China the issue of transboundary rivers does not present a problem in the way it is viewed in Kazakhstan. Being an upstream country, China is convinced that it is completely entitled to the full-scale exploitation and use of waters originating on its territory.[53] And Beijing believes that in so doing it breaks none of its international commitments or obligations. [54]

So far there have been no indications of any strong or serious anti-Chinese feelings among the population of Kazakhstan, whether in the Eastern Kazakhstan Oblast (EKO) or Pavlodar. But people do strongly feel that Kazakhstani officials must learn to defend the country's national interests more vigorously and even aggressively, as the Irtysh River is the key factor in the development of the entire east of Kazakhstan. Kazakhstan should exploit all the possible ways it can to deliver the message to the Chinese, step up the work rate, and involve Members of Parliament. However, it appears instead that the government of Kazakhstan is unwilling to start resolving the issue of the Irtysh and the Ili on a more serious and comprehensive scale by involving all the parties required.[55] In 2007 Kazakhstan offered China a 10-year contract on discounted food provision in return for fewer water withdrawals from the Ili, but Beijing rejected it outright.[56]

On the other hand, the EKO oblast, which includes the population of Semey (the region's second biggest city), understands how changeable Chinese ambitions are. Though China today takes around 25% of Irtysh waters, should it increase its share to 40%, the Irtysh River will cease to be a *river* and revert in status to being a simple *stream*. Additionally at least seven of the villages nearest to Semey are all actively trying to develop agriculture, but might be left with no water at all to do so.[57] Since the collapse of the Soviet Union, irrigated areas in EKO have reduced by 60%.[58]

None of the international or regional organizations that Kazakhstan is part of are somehow engaged in an attempt to solve the transboundary issues between Kazakhstan and China. It has been suggested to take the issue within the auspices of the Shanghai Cooperation Organization (SCO), so that Russia can also participate, but China has never taken the idea seriously.

Among many policy recommendations by Kazakh experts and environmentalists, some include concluding more elaborate and inclusive treaties with China. Another suggestion includes "posting" the issue at a much higher and multilateral level involving Russia and the SCO. However, China abides by its own rules: it deals only bilaterally and prefers to work within the framework of certain joint working bodies. In other words, the Chinese approach differs greatly from Astana's.[59] The negotiations with China expose the high stakes for Kazakhstan and how complicated the whole process is.[60] International experts deem Kazakhstan's diplomatic efforts to protect its water interests against Chinese as insufficient. Issues are discussed at presidential level, but there is a lack of capacity at lower levels.

A lot of effort is placed on developing renewable energy initiatives, but the focus should be on energy efficiency and water resource conservation.[61] A State Program for water resources protection for the oblasts of Western Kazakhstan and Pavlodar has been announced for 2003-2020, with a budget of 330 billion tenge. However, not only is it not being implemented, but the *oblasts*' officials are not aware of its existence.[62] Anatoliy Belosludov, an independent hydraulic engineer is aware of this Program on

51 Ibid.
52 Ibid.
53 Ibid.
54 Ibid.
55 Ibid.
56 See: http://lenta.ru/articles/2013/01/23/irtysh/.
57 Interview with anonymous SME.
58 Ibid.
59 Ibid.
60 Ibid.
61 Ibid.
62 See: http://www.pavlodar-inform.kz/action.php?go=news&set=shownews&news_id=2259.

Protection of Water Resources of the Irtysh and that a certain amount of funding was allocated, but for some unknown reasons the program has never been implemented.[63]

Understandably Kazakhstan's national media pours oil on the topic of China's water withdrawals and shifts all the responsibility onto the Chinese and their grand plans of economic development. However, in this media frenzy very little is said on the subject of Kazakhstan's irrational use of water, about which Kazakh experts also prefer to say nothing and instead give apocalyptic forecasts concerning China's water allocation.[64]

One of Kazakhstan's main environmental problems is the irrational usage of water, a direct legacy of the Soviet Union. The entire Central Asian region, including Kazakhstan, used to rely on Moscow and its central planning to distribute vital resources such as energy and water without any questioning. And that is precisely where most of the water scarcity issues stem from. None of the Central Asian republics have proven capable of basic planning or of maintaining the existing structures left behind after Moscow withdrew. Dams, hydropower stations, canals, and other irrigational facilities have been left unmaintained and without upgrades for many years, to the point where virtually everything requires either complete change or major repairs.

Kazakhstan has used its abundant water arteries inefficiently, allowing huge amounts of water to go to waste through evaporation, drainage, and leakage. Today, as China has started to claim bigger shares of transboundary water, Kazakhstan should learn how to preserve its existing water reservoirs and better manage its water. Anara Tleulesova, the Head of the Balkhash-Alakol Water Management Department of the Committee of Water Resources (then under the Ministry of Agriculture) acknowledges that, "The reason that the Ili lost almost half of its water and that some of the tributaries can only be found on hydrological maps is the fault of the Kazakhs."[65]

According to data on natural resources from eastern Kazakhstan, all three reservoirs (Bukhtarma, Ust-Kamenogorsk and Shulba) waste around 6.5 km^3 per annum thanks to simple drainage and evaporation issues.[66]

Irrational water usage and increasing water deficiencies combine and lead directly to health deterioration, soil degradation, and other social and interregional tensions.[67] Kazakhstan operates more than 50 factories and plants that dispose 260 million cubic meters of their wastewater directly into the Irtysh.[68] In addition, its three existing water reservoirs operate in order to generate hydropower and not to reserve and contain water. None of the hydropower facilities on the Irtysh are meant to function as water storage reservoirs. It is absolutely indispensable to build one on the Irtysh, bearing in mind that the Black Irtysh flow is drastically decreasing.[69]

Another drawback in dealing efficiently with these water-related issues is that several ministries have conflicting interests and agendas. The Water Resources Committee works directly under the Ministry of Environment and Water Resources of the Republic of Kazakhstan, and is in charge of all river basins including those of the Irtysh and the Ili.[70] However, the Committee has significantly lower status, which works to restrict its ability to perform as an independent organization in conducting international negotiations, providing inter-governmental communication, and integrating the interests of water consumers throughout the country.[71]

Whereas Chinese delegations are equipped with highly trained and qualified teams of water experts, lawyers, diplomats, and other specialists, the Kazakhstani side lacks adequate numbers of skilled specialists to be able to conduct proper negotiations. The same can be said about the work of the Joint Commission.[72] As a result, in most cases the Kazakhstani side delays the implementation of arrangements and agreements made by the Joint Commission, to the extent that some projects as old

63 Interview with anonymous SME.
64 "Sodeystvie Respublike Kazakhstan v podgotovke Tret'ego Natsional'nogo soobshcheniya v sootvetstvii s Ramochnoy Konventsiey OON ob izmenenii klimata".
65 Interview with anonymous SME.
66 G. Vologodskaya, "Kto vypil vodu v Chernom Irtyshe?," *Karavan*, October 7, 2011.
67 "Okruzhayushchaya sreda, voda i bezopasnost' v Tsentral'noy Azii," Regional'nyy ekologicheskiy tsentr Tsentral'noy Azii (CAREC).
68 Ibid.
69 Interview with anonymous SME.
70 Ibid.
71 "Sodeystvie integrirovannomu upravleniyu vodnymi resursami i podderzhka transgranichnogo dialoga v Tsentral'noy Azii."
72 Mustafina, "Transboundary water issues between Kazakhstan and China."

as 20 years remain unfulfilled and lay forgotten in the drawers of Kazakh officials.[73]

Today no official body is responsible for maintaining and improving irrigation infrastructure. Additionally, neither is there any official organization with the technical capability to accumulate, store, and coordinate the entire database on water-related issues.[74] As a result there is a lack of access to information, insufficient population involvement in decision-making, and very low transparency and accountability. The local populations of both the Pavlodar and Eastern Kazakhstan *oblasts* are overwhelmingly excluded from decision-making processes on the use and protection of transboundary rivers. No regular mechanisms exist to provide adequate and sufficient information for local communities and regional environmental groups about the state of pollution and or contamination of both rivers.

Environmental NGOs, water consumers, and other interested bodies cannot have sufficient access to reliable data on the scale and extent of environmental damage to the rivers that has been caused both by China and by Kazakhstan itself. Without access to reliable data they cannot initiate any serious public campaigns or start lobbying in favor of river protection. Journalists and experts are also restrained from contacting the international community of water experts to deliver the relevant messages.

According to the 2011 list of Kazakhstan's NGOs, there is only one NGO engaged in trying to defend the interests and rights of Irtysh basin water users. The NGO, located in Pavlodar, is called *Uly Ertis* (Great Irtysh), and its head is the 79 year-old Zhanaidar Ramazanov. There are two organizations on Balkhash, both called the Balkhash Ecological Center, and both located in Balkhash city. There are no groups or organizations that work on the Ili or on Lake Zaisan.[75] No NGO currently works in the EKO on issues to do with the Irtysh River.[76] The Kazakh Government is generally disinclined to engage in any form of contact with public bodies, NGOs, the media, or other parties concerned by transboundary rivers with China, whether the matter concerns areas of sensitivity such as the negotiation process or merely technical information and data. Official organizations, including Kazhydromet, are prevented from answering inquiries from the mass media or the press into negotiations with China or from issuing any sort of technical information.[77]

Civil servants in charge of water-related and health issues are banned from giving interviews or answering questions without an official request from an organization. Such requests have to come in the form of an official letter with a stamp and signature, and need to be registered with the main body, e.g., the Committee for Water Resources. However, the Committee is obliged to reply within 15 working days. In practice replies may take a little longer, as different questions require replies from different specialists. However, it is highly unlikely that officials will share any objective information were it to shed a negative light, i.e., were it to imply that someone was not doing his/her job properly. Thus, civil servants will think twice before sharing any objective information regarding "sensitive" issues, if it is liable to have implications for their professional careers.[78]

Environmental Damage

Today as a result of China's uncontrolled water withdrawals, Kazakhstan faces grave environmental issues, since it is suffering water deficits across all water-related sectors, including the energy industries, agriculture, and metallurgy. Some even predict a drought in east Kazakhstan.[79] Other imminent threats could possibly follow: harm to fisheries; contamination of both surface and ground water; disruption of the water balance and natural equilibrium—as the Irtysh feeds Lake Zaisan and the Ili feeds Lake Balkhash both lakes will likely decline; increasing land salinity and degradation of pastures; environmental degradation; deterioration of the epidemiological situation; and last but not least, water shortage.[80]

None of the Kazakhstan-China bilateral agreements address the issue of environmental damage or

73 Interview with anonymous SME.
74 "Sodeystvie integrirovannomu upravleniyu vodnymi resursami i podderzhka transgranichnogo dialoga v Tsentral'noy Azii."
75 Spisok nepravitel'stvennykh organizatsiy, 2011.
76 Interview with anonymous SME.
77 Ibid.
78 Ibid.
79 Mustafina, "Transboundary water issues between Kazakhstan and China."
80 Ibid.

provide any institutional mechanisms to address it, whereas such mechanisms are clearly provided for in the Kazakh-Russian transboundary Agreement of 2010.[81] Article 3 of the 2001 Agreement obligates the Parties "to undertake appropriate measures and to make efforts to prevent or mitigate serious harm caused to a Party as a result of flooding and man-made accidents." Wouters states that it is "clearly a duty of conduct and not of result."[82] The same agreement contains a provision stipulating that one of the Parties must provide "important emergency information" upon agreeing the terms and conditions.[83] In other words, China has provided a general resolution, but has not institutionalized any clear-cut mechanisms for acting in the case that it triggers a serious environmental disaster.

The risk appears very high that without any sustainable bilateral policy to protect transboundary water resources, industrial development upstream will have detrimental impact on societies, communities, and eco-systems downstream. Indeed, there is already significant evidence that this is happening. These risks have been documented and debated at the highest political levels in both countries. Now, there is an urgent need for a workable policy framework that penalizes water resource abuse and incentivizes its stewardship whilst allowing for essential economic development.[84]

Presently the situation can be said to be stable and under control; however, it is rapidly deteriorating and it is possible that Kazakhstan might attempt to present the issue to the international community. For example, HSBC has a significant initiative underway on water and the World Bank is also investing in data gathering.[85] Kazakh specialists forecast that the Irtysh river basin might decrease by up to 8 km^3 per annum up until 2030 and by 10 km^3 per annum up until 2040.[86]

Black Irtysh waters also infrequently suffer contamination from Chinese enterprises (mostly from rice or fish production), as inhabitants of Buran village have noted. According to information from the local Office of Natural Resources, the Irtysh River has become clearer over the last few years.[87] Even so, if there is any contamination of cattle from Irtysh waters, it is almost impossible to identify, since the effects of contamination show up only 3-4 years after the cattle have drunk the water and by this time most of the cattle in question have already been disposed of.[88]

In 2012, a dry winter resulted in fewer discharges and resources for irrigation. The water level of the Irtysh thus depends a lot on natural variations. When winters are heavy, it guarantees sufficient amount of water flows for the spring and an abundance of water for irrigation, when they are not, the opposite is the case. This winter has seen lower levels of snowfall meaning that there will not be sufficient water flows later.[89]

Some Policy Recommendations

Iain Watt notes that "Kazakhstan is a rapidly developing economy that depends upon its water resources for sustainable growth. To reach its goal of being one of the top 30 most competitive nations in the world by 2050, it must urgently provide a workable framework to protect and manage its water resources. This not only requires wide-reaching national policy focused on water stewardship, but also clear-cut and binding agreements with its neighbors regarding transboundary river basins. There is no choice in this matter."[90]

More macro and micro data is needed on development plans and possible impact on transboundary water resources. There are several important case studies in other water-stressed zones that can be used to demonstrate the impact of failed policy on transboundary river basins. Again, local engagement is important at a time when local communities may favor short-term gain from industrial development.

81 Vinogradov and Wouters, "Sino-Russian Transboundary Waters: A Legal Perspective on Cooperation."
82 Wouters and Chen, "China's 'Soft-Path' to Transboundary Water Cooperation Examined in the Light of Two UN Global Water Conventions."
83 Text of 2001 Agreement: http://adilet.zan.kz/rus/docs/P020000989.
84 Interview with anonymous SME.
85 Ibid.
86 "Sodeystvie integrirovannomu upravleniyu vodnymi resursami i podderzhka transgranichnogo dialoga v Tsentral'noy Azii."
87 Interview with anonymous SME.
88 Ibid.
89 Ibid.
90 Ibid.

China's gain stands to ruin communities downstream in Kazakhstan and specific messages must be developed for different audiences.[91]

Kazakhstan needs to have a policy that can be measured. It needs to invest in gathering data that can support arguments and maybe to appoint a senior official who would be responsible for such matters. It also needs to set aside a budget so that work can be carried out to a high standard. Also the 2017 EXPO in Astana could be a great opportunity to showcase the topic of water security.[92]

As a matter of fact, the 22 year-old Helsinki Convention on the Protection and Use of Transboundary Watercourses and International Lakes is only a framework of cooperation between Member Countries of the United Nations Economic Commission for Europe. So far the International Law Association has worked tirelessly to develop a framework that would apply more widely; its Convention is currently the best formulated to date. But these guidelines need to be embedded into local legislation covering not only transboundary rivers, but also aquifers. China and Kazakhstan need to work out their specific issues around transboundary water security and to develop a framework that uses the best international rules and adapts them to their own situation. A high-level policy is not the full solution.[93]

Among the many relevant recommendations, a key one is that of urgently providing "laboratories and gauging stations with modern equipment and measurement facilities to improve the precision of measured parameters and the coverage of all exchanged ingredients in chemical composition of water in transboundary rivers."[94]

91 Ibid.
92 Ibid.
93 Ibid.
94 Ryabtsev, "Threats to water security in the Republic of Kazakhstan in the transboundary context and possible ways to eliminate them."

In Search for a Long-Term Partnership: Kazakhstan's Afghan Policy

Svetlana Kozhirova[1] **(2013)**

The Republic of Kazakhstan established diplomatic relations with the Islamic Republic of Afghanistan (IRA) in 1992. For some time, however, the difficult situation in Afghanistan and continued warfare hindered the development of closer ties. Relations were confined to a diplomatic mission until 2003, when the mission was upgraded to the status of the embassy of the Republic of Kazakhstan and Mukhamedkali Bakbergenov appointed temporary chargé d'affaires. In August 2005, Agybai Smagulov was appointed ambassador.

Growing Bilateral Economic and Cultural Relations

In 2004 active economic relations were initiated and business from Kazakhstan gained a foothold in Afghanistan. A representative office of the construction company Kazkhimmontazh Holdings opened in Kabul. Relations approached the level of intergovernmental dialogue and a new program for economic cooperation was worked out. Foundations for long-term relations were laid in December 2005, when President Nursultan Nazarbayev signed the law "On Ratification of the Treaty Concerning the Foundations of Mutual Relations and Cooperation Between the Republic of Kazakhstan and the Transitional Islamic State of Afghanistan." The groundwork for this agreement began after a visit to Kazakhstan by President Hamid Karzai in 2004. Furthermore, in the course of an earlier visit to Kazakhstan on February 11–13, 2004, Karzai had signed two documents presented by the Kazakh side—an agreement on trade-economic cooperation and a treaty on the foundations of mutual relations and cooperation between the two countries. In 2006 the new conditions created by the agreement gave rise to a rapid expansion in state, political, and economic ties.

In November 2006, the government of Kazakhstan approved a special program of assistance to Afghanistan, which made provision for the teaching of Afghan students and for participation in the building of schools and hospitals. For its part, Kabul expressed willingness to involve Kazakhstan in projects in the fields of energy, agriculture, construction, transportation, and mining.

An interdepartmental commission for aid to Afghanistan was set up in 2002 to develop proposals for the rendering of assistance to Afghanistan. It has since played a major role in the development of bilateral political and trade-economic relations between Kazakhstan and Afghanistan. At a session of the commission, mechanisms were devised for the sending of humanitarian aid, sources of finance were discussed, as well as the legal basis for the provision of economic aid to Afghanistan. Also considered were the questions of establishing an optimal tax and customs regime and sending to Afghanistan Kazakhstani specialists in various fields.

Participants in the discussion noted that it was generally agreed that the territory of Kazakhstan—in particular, the seaport of Aktau—is particularly well suited, from a geopolitical point of view, for the transportation of humanitarian aid to Afghanistan. Special attention was devoted in this context to the means of transportation and to places where freight could be stored. The decision was subsequently taken to transfer surplus stores of the Kazakhstan armed forces as humanitarian aid. A list of such stores was compiled and trucks were readied to transport the freight to the Manas transit center (Ganci Air Base)1 of the international anti-terrorist coalition in Kyrgyzstan.

Other forms of aid have included wheat, of which Kazakhstan in 2002 supplied 3,000 tons to Afghanistan free of charge and another 85,000 tons on a commercial basis within the framework of the UN World Food Program. The grain was delivered within the framework of a commercial contract between the government of Kazakhstan and Afghan entrepreneurs at the height of the food crisis, which had

1 Eurasian National University, Astana.

caused an unprecedented rise in flour prices. Most of the grain was dispatched to the south of Afghanistan.

In 2003 trade turnover between the two countries was about $50 million—a 57 percent increase on 2002. Foreign trade turnover between Kazakhstan and Afghanistan has since expanded steadily. In 2005 it stood at $164.07 million. Kazakhstani exports to Afghanistan ($163.9 million in 2005) consist mainly of grain, flour, fuel and lubricating materials, timber, and metal. Afghan exports to Kazakhstan are on a very small scale ($158,100) and are confined to certain varieties of fresh and dried fruit. Additionally, this year an important step was taken when the Afghan airline Kam Air started weekly direct air flights between Kabul and Almaty.

During a visit to Afghanistan by a delegation of the *Majlis* (Kazakhstan's parliament) from May 12 to May 14, 2007, an agreement was reached on establishing a Committee for Afghan-Kazakhstan Friendship under the aegis of the parliaments of the two countries. The delegation met with the vice-president of Afghanistan, Ahmad Zia Massoud, the speaker of the lower chamber of parliament, Yunus Qanuni, presidential national security adviser Zalmay Rassoul, the minister of mines, Mohammad Ibrahim Adel, and the minister of public works, Sohrab Ali Safari, among others. In the course of these meetings, the Afghan side expressed appreciation of President Nursultan Nazarbayev for his contribution to the development of bilateral relations, and also for his support of Afghan government policy, aimed at consolidating Afghan society and stabilizing the socioeconomic situation in the country.

In particular, Ahmad Zia Massoud remarked that "We have very good relations with Kazakhstan. The closeness of our states and our shared culture, customs, and traditions are crucial aspects in the development of our relations." He expressed the hope that the visit of the parliamentary delegation would make a weighty contribution to the development and expansion of interparliamentary ties and to the strengthening of economic and trade relations between the two countries. Welcoming the first visit of a Majlis delegation to Afghanistan, Yunus Qanuni also emphasized the importance of expanding interparliamentary ties and studying the legislative experience of the Kazakhstani parliament. He declared that under the leadership of President Nazarbayev, Kazakhstan was undergoing dynamic development and had won a leading position among CIS countries as well as in the region. Both sides also made a positive appraisal of the trend in bilateral relations and exchanged opinions concerning expanding cooperation in other spheres such as oil and gas, energy, the construction industry, mining, agriculture, combating drug trafficking, and the training of Afghan national cadres.

In April 2008, President Nazarbayev announced plans to build hospitals and schools in a number of provinces in Afghanistan. He also stated that business structures in Kazakhstan were interested in the Afghan market. Afghanistan was subsequently visited by a high-ranking government delegation from Kazakhstan, and a preliminary agreement was reached during the meeting regarding the building of a railway line from Termez to the Afghan city of Torkham on the border with Pakistan. Kazakhstan has given Afghanistan over $2 million in financial aid, earmarked for three projects—restoring the Kunduz–Talukan road, building a school in Samangan Province, and building a hospital in Bamyan Province.

As Nursultan Nazarbayev has declared, "we are all interested and worried by the problem of Afghanistan. There is no doubt that a new strategy toward this country is needed on the part of the Organization for Security and Cooperation in Europe (OSCE), inasmuch as forty OSCE member states are already involved there." He added that "the attempt by Kabul to halt bloodshed in Afghanistan by reintegrating the whole spectrum of political forces, including the Taliban, into peaceful life is worthy of support ... However we may feel about it, they [the Taliban] are native Afghans and constitute an integral part of the population. They must continue living in their country and build a peaceful life."

The Kazakh president also announced in 2009 that Astana was allocating $50 million within the framework of a program for Afghan students to study in Kazakhstan in the fields of law, agriculture, journalism, economics, and trade: "A special need of Afghanistan, in our view, is to create a stock of highly qualified personnel for various sectors of the economy. Kazakhstan has therefore begun to implement a $50-million educational program for Afghan citizens to study in the higher education institutions of our country." This program will extend over the period 2010–2018 with more than a thousand Afghans taking part in it.

In 2010, in relation with its chairmanship of the OSCE, the government of Kazakhstan declared that Afghanistan would be a priority in its foreign poli-

cy. Thus, at the end of May 2010 an Agreement on Cooperation between the Chambers of Commerce and Industry of Afghanistan and Kazakhstan was signed in Kabul by president of the Kazakhstan CCI Erlan Kozhasbai and chairman of the Afghanistan CCI Mohammad Qurban Haqjo.

The restoration of Afghan statehood and the beginning of the socioeconomic revival of Afghanistan open up important prospects for regional cooperation. The new national development strategy of the Afghan government, which at a recent conference in London was dubbed "the Afghan contract," has met with an enthusiastic reception in Kazakhstan. Implementation of this strategy will connect Afghanistan with the outside world, restore infrastructural links between Central and South Asia, and give the growing economies of an extensive region access to energy goods. In June 2010 in Vienna, Kazakhstan presented the contents of a multifaceted plan for the economic revival of Afghanistan, noting that reconstruction would begin in the north and east of the country; 20 projects that might be carried out by OSCE member states were suggested, including:

- Restoration of the Jalalabad Irrigation Canal;
- Restoration and construction of a complete cascade of electric power plants on the River Kabul; construction of reservoirs along the river;
- Repair of the dams of a hydroelectric power plant built 60 years ago by German engineers in Baghlan Province;
- Restoration of olive plantations and construction of a factory to produce olive oil in Nangarhar Province;
- Creation of rose plantations and a factory to produce perfumery goods from roses in Nangarhar Province;
- Construction of factories to can vegetables; construction of mills to process Afghan and imported wheat;
- Restoration of a farm to grow citrus fruit (lemons, oranges, tangerines, grapefruit) in Nangarhar Province;
- Establishment of pomegranate farms and factories to produce pomegranate juice; creation of sunflower plantations and factories to produce sunflower seed oil;
- Cultivation of plantations to grow saffron and soybeans;
- Construction of industrial refrigerators to store livestock products;
- Creation of stations with specialized agricultural equipment to assist farmers in tilling the soil and reaping the harvest;
- Construction of automobile repair workshops, furniture factories, factories to produce dried fruit, and other economic enterprises in Kabul;
- Assistance in more rapidly preparing tender documentation and conducting calls for tenders to attract foreign investment for the exploitation of mineral deposits on the territory of Afghanistan;
- Creation of state companies to purchase, process, and export saffron, mint, grain, and fruits, with storage and transportation facilities (subsequently they might be privatized);
- Construction of a factory to smelt scrap metal and produce fittings (there are estimated to be about a million tons of scrap metal in Afghanistan);
- Construction of a glassworks in Balkh Province;
- Industrial parks in Bagram, Kandahar, Mazar-i-Sharif, Kamach, and Nangarhar;
- Restoration of the Milli Bus (National Bus) city transportation system in Kabul;
- Assistance in establishing and developing a state firm for the selection of improved seeds;
- Assistance in creating complete-cycle processing of gas deposits in Afghanistan.

It should be noted that Kazakhstan already has experience in carrying out projects in the sphere of manufacturing industry in Afghanistan. Indeed, as early as 2008 a Kazakh company built and started up a factory to produce juices in Kunduz Province. Modern equipment was installed in the factory and is serviced by trained Afghan workers. The firm's products are already well known in Afghanistan and are in demand.

Kazakhstan's Strategy Regarding Afghanistan

Afghanistan continues to number among the key threats to the stability of Central Asia. In recent years, the situation in the country has continued to deteriorate at a fairly rapid rate in light of the failure to resolve fundamental problems in the socioeconomic,

ideological, and military spheres. Added to this is the dilemma connected with the withdrawal—already underway—of American and NATO troops from Afghanistan. In view of the complexity and ambiguity of the Afghan question, Kazakhstan's strategy regarding Afghanistan must rest upon a firm political-conceptual foundation, a clear vision of its mission, and a clear-cut definition of its interests in Afghanistan.

A difficult situation, for instance, arose in regard to the intention of the Kazakhstan government to send a group of military representatives to join the staff of the international security forces in Afghanistan. An attempt to send four officers to the staff of the international forces in Kabul elicited an extremely negative reaction in public opinion in Kazakhstan, also being viewed unfavorably by Russia and member states of the Collective Security Treaty Organization (CSTO). It is necessary therefore to clearly designate specific limits on the participation of Kazakhstan in an Afghan settlement so as to neutralize any negative consequences and avoid its excessive involvement in measures deemed too risky for the country.

Kazakhstan needs to work out a program for its policy in Afghanistan over the medium term and determine optimal mechanisms for its engagement, including in cooperation with the United States and Russia. On account of the topicality of the Afghan problem, and also the involvement of the majority of the countries of Eurasia, South Asia, and the Islamic world in the settlement process, Afghanistan was the central unifying point on the agenda of the summit of the Shanghai Cooperation Organization (SCO) in Astana on June 15, 2011.

The "Afghan question," especially in the context of the economic reconstruction of this long-suffering country through the assistance of Islamic states, may become the most important theme of Kazakhstan's foreign policy in connection with its tenure of the presidency of the Organization of the Islamic Conference (OIC). Any steps by Kazakhstan with regard to Afghanistan must be considered not only from the point of view of national security but also in the context of their possible impact upon Kazakhstan's relations with global players and with its partners in the CSTO, SCO, the Conference on Interaction and Confidence-Building Measures in Asia (CICA), and OSCE. In the event that there is no definitive normalization of the situation in Afghanistan, the negative impact upon the situation in Central Asia will be felt in a number of areas.

First, if the current situation and configuration of forces remains unchanged, with no single force capable of achieving definitive victory, then the countries of Central Asia will continue to face the problem of the impossibility of establishing transportation and energy corridors through Afghanistan in the direction of Pakistani ports. As a result, these countries will continue to be unable to realize their full potential in terms of the maximum diversification of their transportation, export, and economic options. Undoubtedly, this will also affect the geopolitical options of the region. Second, if there is a further deterioration in the situation in Afghanistan, then the projected costs borne by Central Asia, as summarized below, will be considerably greater:

- Financial outlays on security will rise.
- The investment climate in the region will be negatively affected.
- The danger will arise of Afghanistan turning into a zone for the training of radical fighters recruited for international terrorism.
- The smuggling of drugs, weapons, radical literature, and other contraband may expand.
- There will probably be intensified geopolitical competition in the region among leading international military-political forces and organizations to draw Central Asia into the orbit of their influence, thus turning the region into a sort of buffer zone.

PART IV. KAZAKH ISLAM, URBAN AND RURAL

Asyl Arna's Social Media, Visual Culture, and Islam in Kazakhstan

Wendell Schwab[1] **(2015)**

Asyl Arna, founded in 2007 by Mukhammedzhan Tazabek, is the most popular Islamic television channel in Kazakhstan and the dominant Islamic media company in Kazakhstan.[2] Asyl Arna maintains nearly identical social media pages on vKontakte (hereafter, vK), with over 155,000 followers, on Facebook, with over 18,000 likes, and on a Twitter feed, with over 9,000 followers.[3] These numbers have grown considerably in the last year. In early 2014, Asyl Arna had approximately 30,000 followers on vK. Its influence in social media far exceeds that of the Kazakhstani Muftiyat (~12,000 followers on vK) and individual mosques, such as the Khazret Sultan mosque in Astana (~12,000 followers on vK).[4]

Asyl Arna's social media pages, and the television network in general, are associated with what I have called "the piety movement" in Kazakhstan, which focuses on spreading a scripturalist form of Islam in Kazakhstan.[5] This movement is a loose confederation of: imams and bureaucrats associated with the Kazakhstani Muftiyat and its mosques throughout Kazakhstan; media companies such as Asyl Arna and Islamic publishers; and individual Muslims who do not make a living through explicitly Islamic work. These different people and organizations have a particular division of labor. The Kazakhstani Muftiyat administers mosques, sends out topics for Friday sermons, certifies imams, and issues fatwas. Media companies produce television programs, websites, magazines, and books on Islam. Individual Muslims use the products produced by media companies and the spaces administered by the Muftiyat to participate in an Islamic community and develop their own piety.

Asyl Arna and the Kazakhstani Muftiyat work with the Kazakhstani government, as made explicit on July 2, 2015, when the Ministry of Culture and Sports, Asyl Arna, and the Kazakhstani Muftiyat signed an agreement of cooperation. This agreement was not surprising, as it has long been clear that the Kazakhstani Muftiyat and Asyl Arna are connected to the Kazakhstani government. However, it gives three powerful organizations a common mission: to "protect inter-ethnic peace" and "strengthen stability and unity."[6]

This brief examines the visual culture of Asyl Arna's social media pages. The first section describes how the repeated genre of the list creates a "you can do it" sensibility for Kazakhstani Muslims. The second section analyzes how Asyl Arna creates an expectation of a middle-class lifestyle and a gendered division of labor while disdaining consumerist lifestyles. Finally, the conclusion sketches some broader cultural and political implications of Asyl Arna's success in creating a particular type of Islamic sensibility.

An Achievable Piety

Lists are ubiquitous on the internet. There are lists of the hottest celebrities over 50 and lists of the best

1 Wendell Schwab received his PhD in anthropology from Indiana University. He studies Islamic print and digital media in Kazakhstan. His work has appeared in *Central Asian Affairs, Central Asia Survey,* and *Contemporary Islam.*

2 http://www.asylarna.kz/about/.

3 These sites can be found at: http://vk.com/asyl_arna; http://www.facebook.com/asylarna; and http://twitter.com/asylarna.

4 These sites can be found at: https://vk.com/muftyatkz and https://vk.com/muslimkz1.

5 For my previous work on the piety movement see Wendell Schwab, "Establishing an Islamic Niche in Kazakhstan: Musylman Publishing House and Its Publications," *Central Asian Survey* 30, no. 2 (2011): 227–42; Wendell Schwab, "Traditions and Texts: How Two Young Women Learned to Interpret the Qur'an and Hadiths in Kazakhstan," *Contemporary Islam* 6, no. 2 (2012): 173–97; Wendell Schwab, "How to Pray in Kazakhstan: The Fortress of the Muslim and Its Readers," *Anthropology of East Europe Review* 32, no. 1 (2014): 22-42; and Wendell Schwab, "Islam, Fun, and Social Capital in Kazakhstan," *Central Asian Affairs* 2, no. 1 (2015): 51-70. For Geertz's work on scripturalist Islam, see Clifford Geertz, *Islam Observed: Religious Development in Morocco and Indonesia* (Chicago: University of Chicago Press, 1971).

6 http://asylarna.kz/informaciya/novosti/kelsm_mraty_asyl_dnd_lytau/.

trees to plant in New Mexico. There are even lists summarizing academic work about why the human species likes lists. However, the meaning of the genre of the list depends on context. Just as an eye closing could be a twitch or a wink or a mocking imitation of a wink depending on context, lists mean different things in different contexts, and the genre of the list means different things in different places.[8]

Lists feature prominently in the visual culture of Asyl Arna's social media. Two aspects of the post-Soviet Kazakhstani context produce a particular reading of the genre of the Islamic list. The first part of this context is the perceived loss of Islamic knowledge due to Soviet repression of Islam. Bruce Privratsky has argued that Kazakhs generally profess ignorance of many Islamic concepts.[9] I have argued that leaders of the piety movement in Kazakhstan, such as Kazakhstani Islamic publishers, see their audience as uninformed due to the anti-religious policies of the Soviet Union.[10] Tazabek, the director of Asyl Arna, related similar thoughts in a 2014 interview: "The Kazakh nation's ancient traditions and beliefs and way of life collapsed completely during the 70-80 year period of atheism."[11] Tazabek and Asyl Arna publish lists to simplify information for Kazakh Muslims perceived to be unfamiliar with Islamic practices and beliefs due to the repression of the Soviet era.

Simplifying moral injunctions or ritual practice, of course, is not new or unique to the post-Soviet context. Take, for example, the simplified Islamic instructions found in early 20th century Islamic literature in Afghanistan described by Shahrani.[12] The "Four Books" first present short poems on opposed virtues such as arrogance and humility, and then present short, formulaic instructions on prayer and ritual ablutions. To name another example: the hadith on women's comportment and Heaven in Figure 1 was a list of behaviors long before Asyl Arna published it. Lists are pedagogical tools with a long history, both inside and outside of Islamic cultures. What is distinct about lists in Asyl Arna's social media is, in part, their connection with the perception of recent loss due to the historical Soviet experience. The emotions that Asyl Arna hopes to stir in visitors to its social media pages are joy in the simplicity of Islam and pride in their reclamation of Islam. A list is a simple start to recovering from the "collapse" of Kazakhs' beliefs and way of life.

The second part of the post-Soviet context that produces a particular reading of Islamic lists is the understanding that there are simply too many media distractions in 21st century Kazakhstani life. Asyl Arna hopes to help their social media audience understand Islam, even while they are struggling with information overload. In an article on Asyl Arna on the role of media in Islam in Central Asia, Tazabek argues that there is too much media for contemporary Muslims to digest.

Today's readers, listeners, and viewers are too free, too rich in terms of media, and too demanding. For example, today a common person tries to keep up with and take in the same amount of media in one month that a person living in the 17th century did in their whole life.[13]

Tazabek and Asyl Arna see their users in much the same way that Ben Highmore, following Walter Benjamin's much earlier work, sees 21st century media practices, which he describes in terms of "distraction."[14] This term is meant to cut two ways. First, consumers of media are often distracted by other media: viewers blog or read comments while watching a favorite television show; listeners do chores while the radio plays in the background; people have multiple browser tabs open while listening to music on their tablet. Followers of Asyl Arna's social media pages may be listening to ethno-pop on their computer while browsing vK, and see an Asyl Arna post on the characteristics of religious hypocrites below a friend's photo at Qapshaghai beach. A list is something that can be quickly scanned before commenting about a friend's sunglasses. Second, media is absorbing, distracting us from the rest of the world. A man interested in curtailing his drinking may see a quick list of alcohol's evils in his vK newsfeed, click on it, and then

7 http://www.bbc.com/future/story/20150410-9-reasons-we-love-lists.

8 Clifford Geertz, *The Interpretation of Cultures: Selected Essays* (New York: Basic Books, 1973), chapter 1.

9 Bruce Privratsky, *Muslim Turkistan: Kazak Religion and Collective Memory* (London: Routledge, 2001), 7, 91.

10 Schwab, "Establishing an Islamic Niche in Kazakhstan," 227–42.

11 Ali Bitore, 2014, http://jaqsy.kz/article/view?id=383.

12 Nazif M. Shahrani, "Local knowledge of Islam and social discourse in Afghanistan and Turkistan in the modern period," in *Turko-Persia in historical perspective*, ed. Robert L. Canfield (Cambridge: Cambridge University Press, 1991), 132-60.

13 Mukhamedzhan Tazabek, 2014, http://asylarna.kz/informaciya/stati_i_publikacii/orta_aziyaday_islamdy_nasihattauda_baty_rl_andaj/.

14 Walter Benjamin, *Selected Writings, 1935-1938*, vol. 3 (Cambridge, MA: Harvard University Press, 1936), 358-64; Ben Highmore, *Ordinary Lives: Studies in the Everyday* (London: Routledge, 2010).

peruse Asyl Arna's other posts for a lengthy period of time, becoming distracted from the world, entranced by images of piety and texts relating these images to Islamic scripture.[15]

Asyl Arna's employees act on their belief that visitors to their social media pages are distracted and disconnected from Islam, and want visitors to have simple actions that can make a difference in their lives. One post argues that if you want to pray, you only need to remember that "Daily prayers are made up of *only* four movements" (Figure 1, emphasis added).[16] A reader does not need to understand the history of daily prayers, variations of them, or their scriptural support; a reader can simply memorize four movements. The message of repeated lists is this: if a Muslim can, for example, remember the four steps of daily prayers, the four promises that God has made to women (Figure 2),[17] and the six evils that drinking brings (Figure 3),[18] then they will be able to function as a Muslim. More generally, lists as repeated icons suggest that there are simple Islamic steps to take for any problem, even if a particular list does not apply to a particular Muslim. The genius of Islam represented in these lists is not in long philosophical arguments or the touch of the divine, but in its simple instructions for everyday piety and thus its message of the simplicity of piety.

The popularity of Asyl Arna on social media such as vK and Facebook, and of Tazabek on Twitter,[19] where he reposts much of Asyl Arna's social media content, has led lists to become noticeable features of the visual culture of the piety movement in Kazakhstan. Repeated images of lists of pious practices and beliefs address a general sense of loss of Islamic culture and knowledge, but also create a paradoxical sense of confidence and doubt: confidence in one's ability to act on a simple list and perform piety adequately; doubt in one's knowledge outside of lists and other simplified instructions. I experienced this paradoxical sensibility when discussing Islam with young Kazakh Muslims, who felt perfectly ready to instruct me on Islamic practices and beliefs that they had learned from social media and short pamphlets, but who felt that they were inadequately knowledgeable

Figure 1. "Daily prayers are made up of only four movements:
1. standing straight; 2. bending; 3. touching the head to the floor; and 4. kneeling. These four actions – that a four-year-old could do – are difficult only if you don't have motivation"

Source: www.ASYLARNA.kz

Figure 2. "God's Messenger has said, 'if any woman: 1. recites the five daily prayers; 2. fasts for a month (during Ramadan); 3. protects her honor; and 4. obeys her husband; then she will be told 'enter the door of Heaven.'"

Source: www.ASYLARNA.kz

15 For an empirical discussion of this type of distracted and distracting reading, see Terje Hillesund, "Digital reading spaces: How expert readers handle books, the Web and electronic paper," *First Monday* 15, no. 4 (2010), http://uncommonculture.org/ojs/index.php/fm/article/view/2762/2504.
16 http://vk.com/asyl_arna?z=photo-51948252_369802318%2Falbum-51948252_00%2Frev.
17 http://vk.com/wall-51948252?day=21042014&z=photo-51948252_329804490%2Falbum-51948252_00%2Frev.
18 http://vk.com/wall-51948252?day=02052014&z=photo-51948252_330733099%2Falbum-51948252_00%2Frev.
19 Tazabek has the 8th most influential Twitter feed in Kazakhstan, and is the second most influential personal user of Twitter in Kazakhstan, accessed August 27, 2015, http://kaznet.me/rating/.

Figure 3. "Alcohol. 1. deprives one of humanity; 2. weakens your faith; 3. makes one a slave to base desires; 4. impoverishes a person; 5. destroys your family; 6. makes one rootless [i.e., tears one away from ethnic tradition]"

Source: www.ASYLARNA.kz

about Islam in general. One young man spoke to me about the benefits of ritual prayer (*namaz*) – one becomes closer to God, more relaxed, more physically fit – for hours in a cafe in Almaty. He continued to repeat these points with increasing passion, as he hoped to help me see the benefits and genius of Islam. When I asked about something other than prayer, he then argued that he knew nothing about Islam because he had only read lists and short articles on internet sites. He felt he knew enough to get by, so to speak, but would never have "deep knowledge" because of Kazakhs' Soviet experience. Reading lists informed him and gave him great joy and pride in reclaiming "lost" knowledge, but also reminded him of his perceived ignorance.

Images of Middle-Class Islamic Lifestyles

The images on Asyl Arna's social media pages present contradictory understandings of a proper Islamic economic life. On the one hand, Asyl Arna downplays the importance of worldly wealth by posting pictures of impoverished children meant to symbolize childlike innocence and images of money with text reminding viewers that peace is more important than money. On the other hand, many images of Muslim families and domestic life portray middle-class or wealthy lifestyles, and Asyl Arna explicitly states that piety and particular Islamic gender norms are the path to the middle class.

Asyl Arna encourages readers to be happy with the material goods that God has provided for them.[20] For example, Figure 4 is part of a two-paragraph post titled: "Be pleased with what God Almighty has given, and you will be the wealthiest person!" The smiling child holding a mobile phone made from clay models what true happiness looks like: a person who makes the best of what God has provided. This emphasis on spiritual well-being intensified after the tenge devaluation in late August 2015. Asyl Arna put out graphics reminding followers that "peace is more precious than money."[21] (Figure 5) Asyl Arna also printed a short fairy tale in which "One man went to complain about sky-high prices to a man recognized by the people as wise. [The wise man] said, 'even if one grain of barley was one dinar, this would not worry me. Because I have made a habit of serving God as He commanded. And He has made a promise to provide."[22] Comments following this fairy tale praised its wisdom and chided Kazakhstanis who had become "too attached to this world."

Figure 4. Untitled

20 http://vk.com/photo206952853_314887347.
21 http://vk.com/asyl_arna?z=photo-51948252_380253243%2Falbum-51948252_00%2Frev.
22 http://vk.com/asyl_arna?w=wall-51948252_54253.

Figure 5. "Peace is more precious than money, brother!"

Source: www.ASYLARNA.kz

However, Asyl Arna also depicts a middle-class lifestyle as a result of proper Islamic behavior. One simple text image states: "marriage is the road from poverty" and links to an article arguing that God has made marriage an Islamic duty, and will enrich those who follow His commands.[23] (Figure 6) Other images of pious husbands and wives show well-dressed people in identifiably middle or upper-class settings. For example, the husband in Figure 7 wears a suit on a date in the park; Figure 8 shows a less formally dressed middle-class couple in a forested park.[24] In both images, skyscrapers and tall Soviet apartment buildings are absent. The air is clean. Buses and minibuses are not idling nearby. Garbage is not visible. In other words, these couples are not finding love in the *microraion*.

Figure 6. "Marriage is the path out of poverty"

Source: http://vk.com/asyl_arna?z=photo-51948252_376872076%2Falbum-51948252_00%2Frev

Figure 7. "Living a blessed life – it is not merely happy moments. It is loving, trusting, protecting, and respecting one another for God"

Source: www.ASYLARNA.kz

Figure 8. Untitled

Source: http://vk.com/asyl_arna?z=photo-51948252_358144815%2Falbum-51948252_00%2Frev

Asyl Arna's depiction of gender roles furthers this class-based depiction of Islamic piety. The ideal role for a woman is made explicit in Figure 8.[25] A mother is seated next to her daughter at a table. One assumes they are in conversation, although their faces are not depicted, which is in keeping with Asyl Arna's

23 http://vk.com/asyl_arna?z=photo-51948252_376872076%2Falbum-51948252_00%2Frev; and http://vk.com/wall-51948252?day=24042013&z=photo-51948252_302848423%2Fwall-51948252_66.
24 http://vk.com/asyl_arna?z=photo-51948252_360667990%2Falbum-51948252_00%2Frev.
25 http://vk.com/asyl_arna?z=photo-51948252_358144815%2Falbum-51948252_00%2Frev.

construction of female modesty. The caption reads: "There is not a rule for women that says 'do not work, do not make money.' But, we would not lose anything if we taught our daughters, before anything else, "you are the mother of the future." The sensibility here is not thought to be a restrictive one. Women should have the option of working. But in an ideal world, husbands would make enough money that their wives could stay at home, raise children, and devote time to making their husbands happy by cooking and beautifying themselves. Asyl Arna's construction of a woman's ideal role and her relationship to her husband assumes privacy, leisure time, access to uncrowded parks, vacations, and other middle-class consumerist and public goods.

Figure 9. "There is not a rule for women that says 'do not work, do not make money.' But, we would not lose anything if we taught our daughters, before anything else, 'you are the mother of the future'"

Source: www.ASYLARNA.kz

The paradoxical argument that Islam as the path to the middle class and that wealth and consumerism are less important than piety creates a hope for a "normal" life, as one interlocutor put it to me in a Skype conversation, one in which being a pious Muslim and middle-class come naturally and are not such hard work. Or, put differently, a life in which doing the right thing pays off in economic security and a happy domestic life run in accordance with scripturalist Islamic norms. But with this hope comes different anxieties: what if a Kazakhstani Muslim cannot find a middle-class job or the Kazakhstani economy falls into a recession? Asyl Arna's images of happy but impoverished children and statements that money is less important than piety create a fallback position if a Muslim does not find economic success. The same interlocutor told me, in a separate Skype conversation, that he did not worry about the tenge devaluation, because Kazakhs will do what they have always done: make do with what God has given.[26] When times are good, Asyl Arna's readers can model their dreams on depictions of a middle-class Islamic lifestyle; when times are bad, they can take comfort in the fact that real wealth is found in piety.

Conclusion

Larger transformations of Kazakhstani society influence the images and messages of Asyl Arna's social media. Asyl Arna addresses the concerns of busy middle-class Kazakhs, such as their hopes for material wealth and desire for a piety that fits in their busy, media-saturated lives. As Kazakhstani society becomes more well-to-do, Asyl Arna will shape the sensibility of Kazakhstani Muslims, creating a paradox of confidence and doubt regarding their Islamic practice and knowledge, and reinforcing a political and societal drive towards middle-class livelihoods while emphasizing what it sees as the empty nature of consumerism. This last paradox in particular could help the Kazakhstani government maintain its popularity. Asyl Arna's images model middle-class ideals that the Kazakhstani government promotes while giving a safety valve, so to speak, by emphasizing the ultimate importance of piety over material wealth.

26 My interlocutor's specific quote was, "Eh, I lived through the 1990s. God gives and He takes away. Everything will be fine."

Religion and the Nation-State in Kazakhstan: Some Insights from Field Work in Aqkol

Ulan Bigozhin[1] (2015)

Religion and the nation-state in post-Soviet Central Asia are going through deep and interrelated processes. Recently, several anthropological works have appeared about state, religion, and identity in Central Asia. However, my focus is on the "ground level," where religion, state, and post-Soviet identity building ideology are interwoven in multiple types of relations. In Kazakhstan, several complex processes of nation-building and religious revival are embedded. In *Negotiated Dictatorship,* Christian Krohn-Hansen points out that modern anthropology of state-building is focused on the analysis of the cultural forms and practices that constitute states.[2] Two examples taken from recent field work illustrate these processes of nation-building and religious revival: a jubilee celebrating a saint and the use of images of saints and shrines in a local political campaign. This data is based on field work research done in 2012-2014 near the Aqkol *aul* (village) shrine complex. Aqkol is located around 400 kilometers from the Kazkahstani capital, Astana, and 90 kilometers from the nearest coal mining town, Ekibastuz. Aqkol is prominent because of its association with the sacred lineage of a Qozha family (*qozha* or *khodja* is the generic term for the sacred lineage family in Islam) and the nearby shrine complex named after its legendary founder, Isabek Ishan.

A Religious Jubilee, a Theatrical Play, and Religious Nationalism

The shrine complex of Aqkol was completely rebuilt in the fall of 2011 thanks to both state efforts and private business donations. In July 2012, a large, state-organized event took place near the shrine—the jubilee or commemoration of Isabek Ishan, who lived in Aqkol in the nineteenth century. It was held on July 6, a national holiday, that of the capital city of Astana, and it attracted at least 5,000 people, who mostly came from the cities of Ekibastuz and Pavlodar, as well as from Aqkol area villages. This event is a good illustration of relations between religion and the state, and also shows how the modern Kazakhstani nation-state ideology and its relationship to religion is built on the "ground level."

Picture 1. Pilgrims Going to the Shrine

Peter van der Veer, in his book *Religious Nationalism,* touches on this phenomena using India as an example. He writes that "religious nationalism articulates discourse of the religious community and discourse of the nation."[3] The Jubilee of Isabek Ishan is an example of a type of religious nationalism in Kazakhstan, where the religious figure of a saint became mixed with modern nationalism. Jubilees of prominent historical figures such as famous

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2 Christian Krohn-Hansen, "Negotiated Dictatorship: The Building of the Trujillo State in the Southwestern Dominican Republic," in *State Formation: Anthropological Perspectives,* ed. Christian Krohn-Hansen and Knut G. Nustad (London; Ann Arbor, MI: Pluto Press, 2005), 96-97.

3 Peter van der Veer, *Religious nationalism: Hindus and Muslims in India* (Berkley and Los Angeles: University of California Press, 1994), x.

Picture 2. Rituals of Pilgrimage inside the Shrine

Picture 3. Shrine Keeper and Pilgrims in Front of the Shrine

rulers (*khans*) or heroes are not uncommon events in Kazakhstan. Isabek Ishan was a religious figure, a Sufi leader for local Kazakhs.[4] However, the administration of the Pavlodar region decided to articulate Isabek as a national, regional hero and savior of Kazakh spirituality, rather than just as Kazakh Sufi Ishan (the term *Ishan* is a third person plural of the Persian personal pronoun, which designates an honorific status and is close to Sufi term of spiritual guide, *shaykh* or *murshid*). The event was devoted to the memory of Isabek as way to show respect to his spirit or *aruaq*, a part of a local ancestor cult. As Bruce Privratsky writes in his *Muslim Turkestan*, "The ancestor cult is a contextualization of Islamic belief and ritual that substantially defines the Kazakhs and their acculturation to Islam."[5]

The event consisted of different performances: the official part comprised of speeches given by regional head, Erlan Aryn, other state officials, and respected elders, and, for the more informal part, musical performances, a wrestling competition, and a theatrical play. Here I focus on the theatrical play made by Aqkol high school students, which demonstrates what religious nationalism is in Van Der Veer's sense, i.e. how nation-state ideology and religion both communicate and interact. This theatrical play was performed on the same scene where the musical concert was held, for the same public. No names were given at the beginning of play, just an announcement that this play was about a tragic moment of Aqkol Qozha history, on repressions against Isabek's descendants during the Stalinist purge of the 1930s.

At the beginning of play a husband and wife, with their child in a traditional Kazakh cradle, are spending a peaceful evening in Aqkol. The wife is busy rockingthe cradle and singing a lullaby to her infant, and the husband is sitting and praying on the rug, reciting short Suras from Quran and making/asking for blessings after them. The actors are wearing modern, long-sleeved, almost Middle-Eastern style white color robes, which were probably delivered to Aqkol by some villagers returning from a recent *hajj* (pilgrimage to Mekka). The husband is wearing a modern style white Muslim cap, and his wife's head is covered by a white scarf.

Suddenly, the peaceful night is broken by heavy door slams, and two armed males enter the scene. They represent the NKVD (the People's Commissariat for Internal Affairs), one of the central Stalinist repressive state branches. Actors who played NKVD soldiers used pieces of old Soviet Army uniforms—high boots, Soviet military caps and jackets, and hunting rifles—but it was visible that the Aqkol school did not have enough resources to imitate an authentic NKVD uniform. The NKVD soldiers interrupt Isabek's descant praying and mocked him: "To whom you are praying? Do you really believe in God's existence?" Finally, they put handcuffs of him and arrest his wife as well. The descendant of Isabek,

4 Allen J. Frank, "Sufis, Scholars, and Divanas of the Qazaq Middle Horde in the Works of Mäshhür Zhüsip Köpeyulï," in *Islam, Society and States cross the Qazaq Steppe (18th–early 20th centuries),* ed. Nicccolò Pianciola and Paolo Sartori (Wien: Verlag der Österreichischen Akademie der Wissenschaften, 2013), 223-27.

5 Bruce G. Privratsky, *Muslim Turkistan: Kazak Religion and Collective Memory* (Richmond, Surrey: Curzon Press, 2001), 114.

with handcuffed hands, give a short but passionate and prophetic speech stating that one day, religion and freedom will be returned to the Kazakh people, to the Kazakh steppe, that Kazakhstan would get independence, and that Isabek's heritage would be reinstituted. At the end of the play, the whole family is arrested and, alongside NKVD soldiers, leaves the scene.

This play has a deep background based on a legendary prophecy which is still widespread in the Aqkol area. This prophecy, called "Isabek and the swans," predicts that, one day, Isabek's descendants would be caught like white swans. According to the legend, one day, Isabek Ishan, under threat of some bandits, performed a miracle to save his own life by catching two flying white swans and asking for a blessing from God. The bandits were quite surprised and released the saint, but Isabek made a prophecy that one day his descendants would be arrested and caught like these white swans.

Aqkol students decided to depict this prophecy as a play. In *Modernity, Postcolonialism, and Theatrical Form in Uzbekistan,* Laura Adams makes an important point that theatrical plays in Central Asia (in her case Uzbekistan) "…are continuing a legacy of Soviet internationalism by blending national cultural content with international cultural forms."[6] And indeed, this play performed by high school students is a legacy of the Soviet culture, with a post-Soviet, post-colonial religious nationalism message in it.

Image of Shrine and Saint in Local Politics

Another ethnographic sample that demonstrates the merging of post-colonial state-building and religious nationalism in cultural forms are local election campaign materials. During my last season of field work near the Aqkol shrine in 2014, I had the opportunity to meet with Zhumabek Kamzin, the current vice-president of Pavlodar's aluminum factory and also deputy of the Pavlodar region Council (*maslikhat*). I conducted several interviews with Zhumabek, who actively took part in the Aqkol shrine rebuilding and gave me samples—a brochure and a calendar—of his own election campaign, which both draw from the religious and national symbolism of the shrine.

Zhumabek's brochure is written in Russian, but it is possible that a Kazakh version exists as well. On the first page is a photo of Zhumabek himself with the emblem of the presidential party, Nur Otan, above his head. Right under the photo we can read that "Zhumabek Kamzin is a candidate for the position of *maslikhat* deputy from number seventeen Moildy region." On the second page we find a picture of the mosque named after the last Aqkol saint, Zhandarbek (1907-1996), which was built in the nearby village of Aqtogay, and of another mosque named after Bekbau Ata, in the village of Qozhamzhar.

The brochure praises Zhumabek for having built these mosques and showing a dedicated love and respect to Zhandarbek—Zhumabek is said to have written a book on it, entitled *Aulie Ata Shapagaty*. Zhuma-bek is also celebrated for having built monuments to the memory of fallen Kazakhstani soldiers during WWII. His team, made up of Pavlodar's locals, made a special trip to Russia to locate and rebuild these monuments thanks to two programs, "Vakhta Pamiati" (Memory Watch) and "Batyrlar Zholy" (The Road of Heroes), which, according to the brochure, were initiated by Zhumabek himself. The back side of the brochure is fully devoted to Zhumabek's recent activities, i.e. the rebuilding of the Aqkol shrine, with four photos of the main shrine complex.

The brochure outlines his personal involvement: "In summer 2011 Kazakhstan chaired the Organization of the Islamic Conference (OIC) and Zhumabek Kamzin returned to the idea of spirituality. He was one of the people who for a long time had thought about building a shrine complex named after Isabek Ishan. Under Kamzin's supervision, finding sponsorship for a large regional, spiritual project was done in only ninety days." The brochure's last page displays a praising poem of Zhumabek written by local Pavlodar poet Mikhail Serbin, stating that "And with rising names of saints, You [Zhumabek] are continuing on your difficult path."

The calendar—which is also a bookmark—consists of two pictures. One is of Zhumabek Kamzin holding flowers (red carnations, which from Soviet times are still considered flowers of commemoration] behind a stela devoted to the memory of fallen WWII soldiers. The second is a miniature picture of the Aqkol shrine complex, with "Isabek Ishan Hazret kesene keshyny" (Shrine complex of Isabek Ishan) written at the top in Kazakh. Under the picture one can read the slogan, in Kazakh: "On January 15, vote for Zh. Kamzin!" The backside of Kamzin's book-

6 Laura L. Adams, "Modernity, Postcolonialism, and Theatrical Form in Uzbekistan," *Slavic Review* 64, no. 2 (2005): 333-54.

Picture 4. Zhumabek Kamzin's Brochure

Picture 5. Slagan Calendar "Zhandarbek Atanyn Batasy" (The Blessing of Elder Zhandarbek)"

mark consists of two parts. The first one is a calendar for the year 2012. The second part is a photo taken in the 1990s of Kamzin receiving blessing from the last Aqkol Saint, Zhandarbek. Kamzin holds his hands in traditional manner of giving or receiving blessings, and wears a *taqia (*Kazakh traditional hat). The saint is wearing a *taqia* and a *chapan* (Kazakh traditional male jacket). Under this picture we can read, in Kazakh*:* "Zhandarbek Atanyn batasy" (The blessing of elder Zhandarbek).

In Lieu of Conclusion: State and Religion in Modern Kazakhstan

These two ethnographic pieces shed light on relations between the state and religion in modern Kazakhstan. The state-sponsored jubilee of a Sufi saint, Isabek Ishan, supports Van der Veer's idea that modern nationalism is partly based on transformed religious legitimacy and identities. Many other, secular aspects are obviously critical in Kazakhstani nation-building, but it is important for our analysis to acknowledge that religious symbolism is often brandished at the local level. The theatrical play where "descendants" of the saint display the modern language of patriotic rhetoric confirms that religious forms of saint veneration are somehow integrated into the secular national ideology, without the participants and the public seeing any contradiction.

Zhumabek's election materials also confirm the ties between state structures at the local level, and religious legitimacy. To be elected, Zhumabek appeals to both sacred figures, Aqkol saints, and to WWII Kazakhstani heroes, thus combining local, religious-based memory with post-Soviet, 'all-Kazakhstani' and secular memory. Aqkol shrines are one of the largest sacred areas in the Pavlodar region and as a shrine builder and a devoted Muslim, Zhumabek is sure to garner support from rural voters who respect *aruahs* (ancestral spirits). Adding a picture of the saint Zhandarbek, still considered a moral authority for many Aqkol area people, and receiving blessing from him, increases Zhumabek's posture as a politician. However, Zhumabek does not go so far as to remain silent on what constitutes the main consensual historical event in Kazakhstan, WWII, and follow the more classic post-Soviet pattern of referring to fallen soldiers and veterans to consolidate his political legitimacy.

Nation-building is often studied at the national level, in the capital city, while attention brought to the local level, and even more so in rural regions, sheds a different, more nuanced light on current political processes. What motivated local state officials to get involved in shrine rebuilding is a complicated question for researchers. Money and materials for the shrine rebuilding (totaling around 40 million tenge or around 270,000 US dollars), came mostly from a private donation given by a rich Qozha family from Ekibastuz, from private businesses, and from a "one-day salary donation" from factory and university workers of the Pavlodar oblast—a Soviet tradition. Donations were accumulated in the public fund named after Isabek Ishan, chaired by the then regional head, Erlan Aryn. Without local state officials' support, both the jubilee and the Aqkol shrine reconstruction would not have been possible, confirming the need to establish a new research agenda concentrated on a deeper study, at the local level, of state and religion interaction.

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