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REP Roundtable Summary

Kazakhstan's Economic Outlook

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Kazakhstan has come through two crises in the last two years. The first was the credit crunch, the second, the global fall in commodity prices. The outlook for Kazakhstan's economy is reasonably positive. The statistics for the first quarter of 2010 look good, showing a year-on-year growth in GDP of 6.5 per cent. This is promising, though might, in part, be due to a low base in 2009. Industry and mining have performed particularly well and the oil price is much more favourable. The budget is still in deficit but in better shape than last year. However, the stock market has responded badly to the crisis in the Euro-Zone, plunging 13.5 per cent as a result of the crisis in Greece.

However, the banking sector went through a calamitous year in 2009. No one fully understands why three major banks were nationalized. It is unclear when the restructuring of these banks will be completed, BTA (whose reform is questionable) especially. Perhaps by August or September.

The National Bank is in a strong position, with total reserves (the Bank plus the national fund) standing at \$58 billion. The \$10 billion spent by the government to stimulate the economy after the credit crisis has now been recovered. Projections suggest that Kazakhstan's economy will grow by 5 per cent in 2010. The trade surplus has grown by four times and the balance of payments looks positive too. There is no reason for another devaluation. Kazakhstan has a growing middle class; the population is more educated, assets and technological know-how are increasing. From an economic point of view, the country is richer and more successful.

The creation of a new Ministry of Oil and Gas is a welcome development. There was a clear conflict of interest in KazMunaiGaz regulating the industry and playing an active role in extraction. Sauat Mynbayev has survived and is now Minister of Oil and Gas and is responsible for the realisation of Kazakhstan's EITI commitments.

There are also negative trends, in particular a growing *dirigisme* and tendency toward greater state intervention in the economy. Before 2005 there was a near free market in Kazakhstan. The government then expanded its role in the oil and gas sector, and developed interests in aviation. In 2009, the panic surrounding the credit crunch led the government to move into the banking sector. The government should have allowed BTA, Alliance Bank and Temirbank to fail, if they were bankrupt, and secured investors' deposits. This would have cleansed the market, and allowed outsiders to invest and rebuild the sector. The Kazakhstani government argues that it is following the example of Western governments. There is a difference, however. The Kazakhstanis pumped \$10 billion into the banking sector last year. It now has

\$13 billion of liquidity but doesn't know how to use it. The banks did not need *such* strong state support. The government wants to increase its involvement in oil and gas projects such as Karachaganak. At the same time, it emphasizes the need for stability in long-term contracts. This indicates that the government does not have a clear strategy regarding foreign investors.

The EITI project is a welcome undertaking, although it lacks a clear legal basis, relying instead on a voluntary desire to participate. It offers a forum in which multinational oil companies, civil society and governments can meet to discuss sensitive questions. The EITI gave Kazakhstan six months to implement its requirements. The general sense was that Kazakhstan was close to meeting the conditions. There are now sceptical voices in the Kazakhstani media and expert community, raising questions about whether it is even necessary for Kazakhstan to comply with EITI. This is a worrying development.

On the OSCE Chairmanship, it was encouraging to see that Kazakhstan's agenda for the second basket includes strengthening East-West transit across Central Asia, which will have tangible economic benefits. This could be supported by money from the World Bank and investment from Japan, providing a corridor for goods between Western China and Europe. It seems unlikely that there will be much progress on the first basket issues, chief of which is Afghanistan although Kazakhstani business is active in Afghanistan, buying up assets in the hope that there will be an improvement in the security and social situation in the next five years. One cannot be satisfied with the progress on the third basket – human rights and press freedom. Kazakhstan has not fulfilled the commitments made by then Foreign Minister Marat Tazhin in Madrid in 2007. The website of the newspaper *Respublika* is now blocked in Kazakhstan. It can be read in London, but not Almaty. The newspaper has to make copies on photocopiers to distribute, because it does not have access to printing presses. Opposition voices are being silenced by judicial rulings. The K-Plus television station was shut on a technicality. Most of all, however, the imprisonment of Evgeny Zhovtis was a shock for Kazakhstan's civil society. Overall, the indications are that the government feels confident enough vis-à-vis the West not to fear criticism on humanitarian issues.

The situation in Kyrgyzstan has an impact on the Kazakhstani economy. The south of the country depends a great deal on trade with Kyrgyzstan, and this has been negatively affected by the closure of the border. The general view was that the border should be kept closed until the government had acquired legitimacy. People in Almaty and Astana are afraid of revolutionaries from Bishkek. The Kazakhstani government took an unexpected decision to adopt

the Russian approach and allow Kyrgyzstani citizens to only stay five days without registration. Previously it had been 90, and for Tajikistanis it was 60. This is an ill-advised policy, and will only lead to more Chinese immigrants at the expense of Kyrgyz and Tajiks, which will cause even greater concern. But the government says it wants more Chinese working in the Kazakhstani tobacco fields.

Political risk in Kazakhstan is high. There is no system of power transfer in place. It is not clear what will happen to the economy when the president departs office. The economy has been built around single-person rule. There have been no clear statements regarding the elections in 2012. Nazarbaev says he will stay "if the people trust him", but it is unclear how such trust would be measured.

Another area of uncertainty regards what will happen in January 2011, when the OSCE Chairmanship comes to an end. It was a dream for Kazakhstan and has also been a mobilising point for civil society. What will follow? Greater repression? Or simply a loss of focus on human rights issues?

Questions and Discussion

What has been the political impact of the revolution in Kyrgyzstan on Kazakhstan? Have attitudes changed?

Recent events have been a test of public opinion towards revolution. In 2004/5 everyone was optimistic about coloured revolutions. The government invested money in counter-propaganda emphasising the importance of stability. We can see the fruits of this in 2010. No one is saying let's help our brothers in Kyrgyzstan. Big business and opposition parties are silent. The success of economic reforms and propaganda campaigns have made people afraid of losing out from revolution. People understand that Kazakhstan today is a different country from five years ago, and they do not want to compromise that. It seemed a reasonable policy to most people.

Could we see a successor to the President who is not part of the presidential group?

There is talk in Baku about successors which would not be possible in Astana. Even son-in-law, Daniyar Khassenov has no political interests. A possible way out of a dynastic power hand-over would be for an intermediate

figure such as former foreign minister Kassymzhomart Tokaev to take over. Liberal democracy is the least likely option.

Are we likely to see an OSCE Summit in Kazakhstan? What will its agenda be?

It is likely. It will probably be informal with no official agenda. The meeting of Foreign Ministers in July will be more formal. The summit will be good for the country's image. It does not matter if Obama and Cameron do not attend.

What are the prospects of Kazakhstan's accession into the WTO, given that it has joined a Customs Union with Russia and Belarus?

Kazakhstan struggled in its WTO negotiations over the terms of trade for agricultural products. The US, Australia and New Zealand demanded that Kazakhstan open up its market but the leadership felt that Kazakhstani agriculture could not survive if it played by WTO rules. The Customs Union (which has been attempted before, in the 1990s) has given Kazakhstan time and leverage in its WTO negotiations. It was a politically rather than economically motivated decision. No one knows what the influence of the customs union may be. One can already see inflationary pressure coming from Russia. There has been rapid growth in the cost of food products and prices are also rising in the car market. The nationalist movement demands that the president renounce the Union and enter the WTO independently. Experts and journalists are more cautious – they do not understand why the opposition is protesting. In July, things will become clearer. The indications are that Russia, as the major power and with its 7,000km border, will gain more from it than Kazakhstan. The majority of tariffs will follow the Russian baseline.

Does the population endorse government policy on the economy? What is the strategy for the oil fund after the crisis?

In the 1990s Nazarbaev adopted an economically liberal approach. This was a positive move. The view that the economy should be open became dominant. Under Tokaev, arguments began to emerge that Kazakhstan should follow the Chinese approach, implying a more *dirigiste* style of economic management, and there was a battle for the sympathies of the President, which is still continuing. There should be limits to government

intervention. One only has to look at the pharmaceutical industry, where Sovereign Wealth Fund Samruk decided that it should take over distribution of medicines, promising that it could bring cheaper products to market. However, it found that it could not manage the logistics network – an area where the private sector is far more adept. Thus, Samruk was able to acquire the medicines, but unable to distribute them effectively. Likewise, the government is unable to manage banks effectively. It has six or seven under its effective control. Now that the crisis has passed, it should retreat from the sector.

The current management of the sovereign wealth fund and government investments is not transparent. The government is talking about limiting transfers from the oil fund to \$8 billion a year. It has also done deals in the oil sector which it doesn't want to publicise. When people ask Grigory Marchenko, he says that he manages the fund but does not own it and cannot provide information. The same goes for Finance Minister Bolat Zhamishev.

Could we see the development of nuclear power stations in Kazakhstan?

It is on the agenda. Kazakhstan needs to develop new power plants. Most of them are currently based in the East of the country, where we are able to export power to Russia. However, there are power shortages in the south.

How do you see the role of China in Kazakhstan?

China has a significant share of the Kazakhstani economy but it is also a natural market for Kazakhstan. China follows clear rules – if it requires a product, it offers the money and labour to deliver it. Nationalist protests against Chinese involvement have come too late and are misjudged. There are 500,000 Chinese in Kazakhstan but there is a shortage of *skilled* labour even though they are active and dynamic. China has a share in the telecoms industry in Kazakhstan. One should not forget that South Korea and Japan are also important in the supply of sophisticated technology and qualified labour.

What role do Western investors play in the economy?

Kazakhstan's infrastructure is outdated – a great deal has to be refitted or replaced. There are a lot of opportunities for investment in high-tech sectors. China could provide some of this, but the quality is lower. Kazakhstan can't avoid cooperating with Western countries. Investors need to identify new branches of the economy to develop. For example, through the Nazarbayev University, Kazakhstan is seeking to dominate the market in higher education in Central Asia. This attracts money and skills from across the region, but Kazakhstan will also require outside partners to make this successful. There are good examples of cooperation with Western firms in the communications industries. There are many opportunities, but a lot depends on Western companies – they need to look beyond gas and oil.

What are your views on the long-term stability of contracts?

Kazakhstan wants to move away from Product-Sharing Agreements (PSAs). The new legislation does not regulate PSAs, even though some still exist. Official statements are contradictory. Sometimes President Nazarbayev says contracts need to be re-examined, then Secretary of State Saudabayev claims that the President was misunderstood and the government will honour agreements on Kashagan, Karachaganak and Tengiz. The experience of Karachaganak indicates that if the government wants something they will get it.