

Elliott School of International Affairs

THE GEORGE WASHINGTON UNIVERSITY



Kazakhstan's National Development Strategies. An Assessment

Richard Weitz

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 2050.¹

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 entreprene-

Key Points

Kazakhstan-2050 strategy affirms the goal of making Kazakhstan, ranked as the world's 51st most competitive country in 2012, among the 30 most advanced countries by 2050.

Kazakhstan's long-range planning reflects a conscious sense of political transition to a post-independence successor generation.

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.

Kazakhstan's membership in an enlarging Eurasian Economic Union largely under Moscow's control may affect its economic wellbeing and autonomy.

Richard Weitz, Senior Fellow and Director of the Center for Political-Military Analysis at Hudson Institute. His research includes regional security developments relating to Europe, Eurasia, and East Asia as well as U.S. foreign, defense, and homeland security policies.

The opinions expressed here are those of the author only and do not represent the Central Asia Program.

urship; 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 2050.² 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.³ 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.

To modernize its agricultural sector and become a global leader in agricultural exports, the strate-

gy 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.⁴ 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.⁵ 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.⁶ 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.

The government wants alternative and renewable energy sources to account for at least half of the country's total energy consumption by 2050. 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.

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.⁷ 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 2018.⁸ Despite occasional clashes with the government, foreign investors support policies that promote a more rapid repayment of investments.⁹

Although Nazarbayev and his team have strived to use a large part of Kazakhstan’s energy revenue windfall to develop other economic sectors and promote 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.

Kazakhstan 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.¹⁰

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.¹¹ The government plans future privatization sales for the rail monopoly Temir Zholy and eventually the national oil and gas company KazMunayGas.¹²

Innovation is important for raising Kazakhstan's national competitiveness. Nonetheless, these projects will need to overcome obstacles, including 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.

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.¹³

Widespread corruption continues to undermine Kazakhstan's investment reputation.¹⁴ 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.¹⁵ 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 enforcement of existing laws, as demonstrated by prominent arrests of junior and senior civil servants.¹⁶ Kazakhstan's SMEs also face an unwieldy and arbitrary bureaucracy, manifested in unexplained delays in issuing permits, unofficial business inspections, and other difficulties.¹⁷ 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 ten-fold by 2050.¹⁸

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.¹⁹ 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.²⁰

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.

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.

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.²¹ 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 in the new country's history and superior to that found in the other Central Asian countries.²² 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.²³ 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 ensnared 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."²⁴

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.²⁵ 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.²⁶

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 neighboring 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).²⁷ 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.

¹ 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," Official Site of the President of the Republic of Kazakhstan [hereafter "akorda.kz"], 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.

² "Russia Warns Kazakhstan in Baikonur Cosmodrome Dispute," *Space Daily*. N.p., January 24, 2013, http://www.spacedaily.com/reports/Russia_warns_Kazakhstan_in_Baikonur_cosmodrome_dispute_999.html.

³ Andrew E. Kramer, "Russian Space Center in Kazakhstan Counts Down Its Days of Glory," *Asia Pacific. The New York Times*, June 18, 2013.

⁴ "Mission, Goals, Development Strategy." *KazAgro National Management Holding JSC*. N.p., n.d. Web. September 03, 2013. <http://www.kazagro.kz/en/about/mission>.

⁵ "Kazakhstan Begins Transition to 'Green' Economy." *Embassy of the Republic of Kazakhstan*. N.p., June 12, 2013. <http://www.kazakhembus.com/article/kazakhstan-begins-transition-to-green-economy>.

⁶ Altay Abibullayev. "Can Kazakhstan Green Its Economy?" *Renewable Energy World*. N.p., January 11, 2013.

<http://www.renewableenergyworld.com/rea/news/article/2013/01/can-kazakhstan-green-its-economy>.

⁷ Isakova, Gulmira. "Kazakhstan To Go Green." *Central Asia Online*. N.p., June 27, 2013. Web. September 03, 2013.

http://centralasiaonline.com/en_GB/articles/caii/features/main/2013/06/27/feature-01.

⁸ "Oil Production Output in Kazakhstan to Reach 110 Million Tons in 2018." *TengriNews*, August 28, 2013. Web. September 03, 2013.

<http://en.tengrinews.kz/markets/Oil-production-output-in-Kazakhstan-to-reach-110-million-tons-in-2018-22198/>.

⁹ Lillis, Joanna. "Kazakhstan: Kashagan Oil Soon to Flow." *EurasiaNet.org*. N.p., October 16, 2012. Web. September 03, 2013. <http://www.eurasianet.org/node/66055>.

¹⁰ "Invest In Kazakhstan." *Invest In Kazakhstan*. N.p., n.d. Web. September 03, 2013. <http://www.invest.gov.kz/?option=content>.

¹¹ Nurshayeva, Raushan. "Kazakhstan to Start People's IPO in Q2 or Q3 2012." *Reuters*. Thomson Reuters, August 23, 2011. <http://www.reuters.com/article/2011/08/23/us-kazakhstan-ipo-idUSTRE77M16020110823>.

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

¹³ National Research Council. *Science and Technology in Kazakhstan: Current Status and Future Prospects*. Washington, DC: The National Academies Press, 2007.

¹⁴ Heritage Foundation. 2013 Index of Economic Freedom.

<http://www.heritage.org/index/country/kazakhstan>. Accessed on 07/14/2013.

¹⁵ "Corruption Perceptions Index 2011 View Country Results." *2011 Corruption Perceptions Index*. N.p., 2013. Web. September 03, 2013. <http://www.transparency.org/cpi2011/results>.

¹⁶ "Kazakhstan Country Profile." *Business Anti-Corruption Portal*. Global Advice Networks, 2013. [\[profiles/europe-central-asia/kazakhstan/snapshot.aspx\]\(http://www.business-anti-corruption.com/country-profiles/europe-central-asia/kazakhstan/snapshot.aspx\).](http://www.business-anti-corruption.com/country-</p>
</div>
<div data-bbox=)

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 "2050 Strategy: Kazakhstan Revives New Silk Road." *Www.bnews.kz*. N.p., December 19, 2012. Web. September 03, 2013. <http://bnews.kz/en/news/post/115996/>.

¹⁹ "Reducing Barriers to Trade in Kazakhstan." International Trade Centre, May 28, 2013. Web. September 03, 2013. <http://www.intracen.org/news/reducing-barriers-to-trade-in-kazakhstan/>; and Christopher Pala, "Record Kazakh Wheat Crop Stymied by Bottlenecks." *Market Watch*. The Wall Street Journal, December 14, 2011. <http://www.marketwatch.com/story/record-kazakh-wheat-crop-stymied-by-bottlenecks-2011-12-14>.

²⁰ OECD. "Kazakhstan can boost farm sector with investment in infrastructure and innovation." <http://www.oecd.org/countries/kazakhstan/kazakhstan-can-boost-farm-sector-with-investment-in-infrastructure-and-innovation.htm>

²¹ "Kazakhstan Boosts Development of Its Regions." *Weekly Review: Kazakhstan Boosts Development of Its Regions*. N.p., May 25, 2012. Web. September 03, 2013. <http://kazinform.kz/eng/article/2466982>.

²² Colin Berlyne, "Blue Print for Success: Kazakhstan's Next 20 Years," *Kazakhstan's Edge*, 2011. <http://www.edgekz.com/national/blue-print-for-success-kazakhstan-next-20-years.html>.

²³ Russian International Affairs Council (RIAC). "Central Asia in One Hundred Years: Following the Great Transformation."

http://russiancouncil.ru/en/inner/?id_4=2227#top

²⁴ Central Intelligence Agency. The World Fact Book. <https://www.cia.gov/library/publications/the-world-factbook/geos/kz.html>. Accessed on 07/14/2013.

²⁵ The World Bank. Kazakhstan overview. <http://www.worldbank.org/en/country/kazakhstan/overview>

²⁶ "Kazakhstan Foreign Minister Comments on Strategy-2050" http://en.tengrinews.kz/politics_sub/Kazakhstan-Foreign-Minister-comments-Strategy-2050-15322.

²⁷ United Nations Development Programme, Human Development Report 2011, p. 126, http://hdr.undp.org/en/media/HDR_2011_EN_Table_s.pdf.

The Central Asia Program at the George Washington University aims to promote high-quality academic research on contemporary Central Asia, and to become an interface for the policy, academic, diplomatic, and business communities. It calls for a multidisciplinary approach and provides a platform for different, and even sometimes contradictory, points of view on contemporary Central Asia. The CAP strives to bring together counterparts from the United States, Europe, Russia, Asia, and Central Asia by promoting various forms of interaction and initiating joint projects.

More on www.centralasiaprogram.org

© Central Asia Program 2013