



KAZAKHSTAN: AN ISLAND OF STABILITY IN A TURBULENT REGION

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Kazakhstan's stability and predictability has been central to the newly upgraded status of relations with the European Union. Key to this is Astana's model of orderly and centralized reforms as well as pursuit of a constructive, multi-vector foreign policy. Looking ahead, however, Kazakhstan faces a number of significant external challenges including declining oil prices and not least the economic and political risks of membership in the Russia-dominated Eurasian Economic Union.

The year now ending marked a milestone in Kazakhstan's rapprochement with the European Union. On December 21, 2015, in Astana, the EU's High Representative for Foreign and Security Policy, Federica Mogherini, and Kazakhstan's Minister of Foreign Affairs, Yerlan Idrissov, signed the EU-Kazakhstan Enhanced Partnership and Cooperation Agreement. This new-generation Agreement replaces and upgrades an earlier, less ambitious document. Kazakhstan is the first Central Asian country to achieve this status vis-a-vis the European Union. This status puts Kazakhstan ahead of Russia in terms of official relations with the EU; moreover, the Kazakhstan-EU relationship is trouble-free.

The Enhanced Partnership is designed to strengthen political dialogue between the EU and Kazakhstan, advance mutual trade and investments, and reinforce cooperation in such policy areas as energy, environment, agriculture and rural development, finance and banking, rule of law and trans-border law enforcement, higher education and research. The agreement reflects the shared economic interests and prioritizes their further advancement. The European Union collectively holds the first place among Kazakhstan's foreign trade partners and is also the largest foreign direct investor in Kazakhstan.

Prefacing the enhanced agreement's signing, the chief of the EU's mission in Astana, Ambassador Traian Hristea, remarked that "Kazakhstan's stability and predictability was an all-important prerequisite" to this achievement. Key to that stability and predictability is Kazakhstan's executive power centered in the presidential institution. This has provided a durable basis for planning and implementing Kazakhstan's modernizing reforms. Those efforts can

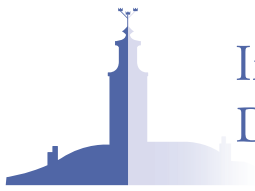
only be assessed properly in relation to Kazakhstan's historical legacies, current level of societal development, and the low base and late start of modernization processes in this country.

Kazakhstan's Model of Centralized Reforms

The concepts of evolution, organic development, deference to the constituted authority of the state, and the politics of national consensus define the context of Kazakhstan's modernization, its scope and its pace. Those features of Kazakhstan's political culture not only cannot be ignored or circumvented, but can be capitalized on, in the process of modernization. Those features are major assets to stability and orderly development.

Kazakhstan's reforms (as in other successfully modernizing non-Western countries) are necessarily elite-driven from above, under a recognized national leader. The development of representative political institutions follows an evolutionary process, correlated with the gradual spread of education and civic responsibility among voters and political parties. Kazakhstan's elective institutions are developing organically with the state itself, rather than as a counterweight to executive power, at this stage. Decentralization of political power, if introduced prematurely, can incapacitate the state and paralyze reform efforts.

The national consensus, as personified by President Nursultan Nazarbayev, has developed based on the president's performance in office, steady economic growth under his tenure, and the confidence he generates in the continuing stability and modernization of Kazakhstan,



against an international backdrop of mounting disorders. Ultimately, however, that national consensus is premised on expectations of growing prosperity; thus, the consensus is not unconditional.

In April 2015, Kazakhstan held its fifth presidential election in a quarter-century of independent statehood, reelecting Nazarbayev to another five-year term of office, which is generally assumed to be his final one. The reelection has bolstered Nazarbayev's mandate to deal with the consequences of global and regional economic instability now affecting Kazakhstan. Nazarbayev went on to announce some policy initiatives with potentially transformative socio-economic impact, discussed below, while retaining the cabinet of ministers in its existing composition to implement those initiatives. This approach reflects the leadership's pursuit of modern transformation of the country in conditions of political stability.

Observers commonly tend to focus on the political transition to a post-Nazarbayev era. As the president and governing circles see it, however, this final presidential term should also usher in a second stage of Kazakhstan's structural economic changes and political reforms. Moreover, those carefully paced reforms will have to be combined with emergency anti-crisis programs.

Voters' expectations of President Nazarbayev and the government are high in the current circumstances. The president is expected to ensure, as before, the country's sovereignty and territorial integrity, its protection from transnational terrorism and other forms of political violence, resumption of economic growth powered by international investment, equitable allocation of the national income, an accelerated development of infrastructure across the vast country, and the transition to younger generations of the administrative, managerial, and political elites in the state and private sectors. Those expectations are likely to be transferred in due course to the next leadership, be it personalized (something difficult to emulate after Nazarbayev) or be it a more collegial one.

Managing an Unstable Region and World

Kazakhstan's leadership discusses such issues candidly with its population and its international partners. It is a measure of Kazakhstan's openness to the world that this country's leadership must constantly evaluate the impact of global and regional processes on Kazakhstan, and how to adjust policies for a more effective participation in those process-

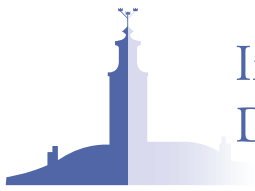
es. For it is an increasingly unstable world to which Kazakhstan is open and exposed.

The most serious challenges in that world are of recent date and unaccustomed, singly and in combination, to Kazakhstan. They include the economic slowdown or downturn in Kazakhstan's main trading partners (the EU, Russia, China), declining global prices for oil and other export commodities of Kazakhstan, unpredictable turns in Russia's foreign policies under President Vladimir Putin, economic and political risks of membership in the Russia-dominated Eurasian Economic Union, and relative disinterest of the United States toward Central Asia in strategic terms.

Kazakhstan's "multi-vector" policy is designed to promote stability in the international environment on issues directly affecting Kazakhstan. The basic goal is to multiply the sources of international support for Kazakhstan's sovereignty and its secure development. This policy represents, to some extent, a creative adaptation of the age-old practice of small and medium powers to balance between great powers and power blocs. In Kazakhstan's case, however, multi-vectorism is not limited to reactive maneuvering between Russia (the main, if undeclared, source of concerns), China, and the West (as undeclared balancers). Rather, Kazakhstan's multi-vectorism involves pro-active initiatives to influence big players' policies in the Central Asian region and the relevant decisions of international organizations.

The policy operates by diversifying Kazakhstan's affiliations to international organizations and maximizing its diplomatic initiatives relevant to Central Asia there. It aims for stability and predictability in the region and beyond through the adjustment and balancing of the multiple interests involved. The multi-vector policy expresses Kazakhstan's sense of its own identity as a bridge between Asia and Europe, a cultural crossroads, and almost pre-destined in these ways as an international diplomatic platform, its reaching out cross-continental in scope.

Kazakhstan's stability rests on harmonizing the country's multiple internal and external identities. Multi-vectorism is both a considered strategy and an outgrowth of those multiple identities, which Kazakhstan is bringing to bear in its balanced foreign policy. This is a Muslim-majority, multi-confessional country, and a firmly secular state; a nation of the Turkic-speaking family, albeit with Russian still a lingua franca, though slowly receding as such; a part of the Muslim World and of the Turkic World, but not of the "Russian World;" a post-Soviet country, though more open to globalization than any in that category; an Asian country



that views itself as bridging Asia with Europe, increasingly becoming an extension of the European economy, albeit in the mineral-extractive sector mainly.

The Russia Factor

Russia regards Kazakhstan, by definition, as part of a Russia-led Eurasian economic and security system through the Collective Security Treaty Organization and the Eurasian Economic Union (CSTO, EAEU). In that sense, Moscow's view of Kazakhstan's independence and sovereignty is a restrictive view, contingent on Kazakhstan's remaining a member in good standing of those organizations.

Within the Eurasian Economic Union (officially launched on January 1, 2015), Kazakhstan aims to capitalize on that single market which promises free movement of goods, capital, services, and labor and common transport tariffs. However, Moscow's suggestions to create EAEU supranational bodies and delegate sovereign powers to them, introduce a single currency, or institutionalize the EAEU politically are all viewed by Kazakhstan (along with other member states) as contrary to its interests. Kazakhstan (again, along with others) has refused to join Russia's counter-sanctions on the EU in connection with the war in Ukraine. Meanwhile, the World Trade Organization and Kazakhstan completed their long-running negotiations and Kazakhstan became a full WTO member in November 2015.

As a post-Soviet country with a sizeable ethnic Russian minority population (currently some 23 percent of Kazakhstan's total population, but concentrated in the country's north and north-east), Kazakhstan proactively cultivates an atmosphere of harmony in inter-ethnic relations. It is to the advantage of Kazakhstan's stability that the political culture of deference to state authority is shared across ethnic lines in the country. Recently, however, Kazakhstan has seen Russia's unprovoked assault on Ukraine, and must consider the potential wider implications of the expansionist "Russian World" doctrine.

In an oft-quoted remark, Russian President Vladimir Putin has credited Nazarbayev with having "created a state on a territory where no state had existed previously." Some observers have interpreted Putin's remark as an insinuation that Kazakhstan is an artificial state susceptible to partition, by analogy with Putin's earlier comments about Ukraine. This reading is almost certainly mistaken or unduly alarmist, however. Overall the Kremlin's message is that CSTO and

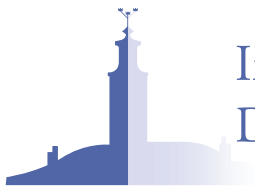
EAEU member states can count on preserving their territorial integrity with Russia's support, while those choosing a Western orientation (as "single vector") risk losing their territorial integrity at Russia's hands or with its connivance (Moldova, Georgia, Azerbaijan, Ukraine). In Kazakhstan's case, the state leadership has successfully avoided a split in society along ethnic and regional lines over the country's strategic orientation. President Nazarbayev's personal rapport with Putin can be viewed as a guarantee of stability in inter-state relations for the duration of Nazarbayev's lifetime.

China's massive economic interests in and with Kazakhstan constitute, in effect, a factor of geopolitical stability in the region. These have turned Kazakhstan into China's top investment destination in Eurasia, with \$ 26 billion as of 2014, and more planned at similar levels of magnitude. These interests make China a stakeholder in Kazakhstan's sovereignty and security, providing Kazakhstan with wider political and economic leeway vis-a-vis Russia.

Chinese interests in Kazakhstan advance in two stages, planned for the decades ahead. The first stage focuses on oil and gas pipelines connecting Kazakhstan (as well as Turkmenistan and Uzbekistan via Kazakhstan) with China. These have been built during the last 10 years as Chinese-led projects, partly reversing the direction of Central Asian energy export flows from Russia toward China, with Kazakhstan providing the main transit route for deliveries from third countries to China. The second stage in Chinese planning focuses on land transportation connecting China to Europe via Central Asia, with Kazakhstan again to provide the main transit routes. In this context the two countries intend to align China's Silk Road Economic Belt Initiative with Kazakhstan's Bright Path stimulus program. The common intention is to build and/or upgrade rail and road cargo routes between China and the European Union via Kazakhstan.

Kazakhstan and the West

While Russia and China pursue coherent strategies toward Kazakhstan and the wider region, the United States currently seems bent on disengagement or, occasionally, groping to define some elements of a strategy. Viewing the region through the prism of Afghanistan or Islamist terrorist threats from outside the region are narrow, ad hoc approaches that cannot substitute for a U.S. strategy and fall short of expectations in the region. Those expectations are



still focused, basically, on maintaining a stable triangular balance between Russian, Chinese, and U.S. (seconded by the EU) power, influence and engagement.

The European Union collectively holds the first place among Kazakhstan's foreign trade partners, with a turnover of some \$ 54 billion in 2014, or slightly more than 50 percent of Kazakhstan's total foreign trade turnover. The EU is the final destination of nearly 70 percent of Kazakhstan's oil-sector exports (which represent some 90 percent of the total value of Kazakhstan's exports to the EU). The bulk of Kazakhstan's oil and petrochemicals deliveries, however, reach Europe via Russia, which is a sub-optimal situation for both Kazakhstan and the EU in terms of security of transit and supply. The EU is also the largest foreign direct investor in Kazakhstan, representing over 50 percent of FDI in Kazakhstan as of 2014.

Conclusions

While external challenges accumulate, Nazarbayev – who turns 76 this year – is expected to steer the domestic transition of power during his current term of office. When embarking on this term, Nazarbayev listed the main sources of international instability surrounding Kazakhstan that subsequent events continually bear out: a) Disorders of the international state system, with new types of conflicts conducted by states and non-state actors motivated by radical ideologies; b) Global economic turbulence, economic sanctions and counter-sanctions, and divisions among trade blocs; and c) Growing dysfunctions in the established international security institutions and economic institutions. Such an external context generates new types of potential vulnerabilities for Kazakhstan.

To forestall a spillover of these negative trends into the country, Kazakhstan's leadership seeks new means to consolidate the basis of domestic stability. This includes state-encouraged development of a middle class. Stimulating the formation of a property-owning middle class has long been on the country's economic agenda, but is now acquiring additional significance as a source of social and political stability. Kazakhstan's government is developing privatization programs to auction state-owned small- and medium-sized enterprises, shares in large state enterprises, and agricultural land. Assets of the national holdings Samruk Kazyna, Baiterек, and KazAgro could be included in the privatization program. In his recent state-of-the-nation address, ruling out tax hikes on private business, Nazarbayev also hinted

at fiscal amnesty, encouraging “wealthy Kazakhs and all Kazakh businessmen, with capital in the country or abroad ... to legalize your capital and participate in privatization bids.”

Nazarbayev went on to suggest: “Enrich yourselves, create jobs, pay taxes ... The state provides unprecedented measures for privatization and economic liberalization. We want to create a state where prosperous citizens live well and do well, for themselves and for the country.” Nazarbayev, however, coupled such encouragements with a strong warning against conspicuous consumption that excites social envy.

The “enrich yourselves” remark brings an echo from the long evolution of modern Europe. Some 180 years ago, French Prime Minister Francois Guizot famously urged the bourgeois, “enrichissez-vous” through productive investments of their capital. Kazakhstan may now be approaching an “enrichissez-vous” moment in its own social development. Not coincidentally, Guizot's financial liberalization overlapped with the country's move from royal absolutism to a constitutional monarchy. And it took France another half-century before it became a parliamentary republic, unstable even then.

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