

# KAZAKHSTAN

## *Reaching for the Stars*

Kazakhstan's booming economy has enabled Central Asia's largest country to improve the daily lives of its people while reaching for the stars. Kazakhstan's stable government, religious and ethnic peace, growing democracy, and a diversifying and expanding economy has turned it into a beacon for the rest of the region. Today, Kazakhstan has already attracted more foreign direct investment (FDI), \$45 billion, than the countries of the region combined, and the figure continues to grow. Much of the investment has been in the oil and gas sector, yielding revenues which are being used for purposes as diverse as improving the quality of life, launching the country's first satellite from the Baikonur Cosmodrome and implementing an ambitious strategy for Kazakhstan's joining the ranks of the world's 50 most competitive countries. As current trends persist, Kazakhstan's choice to join the space age, further diversifying its economic base, will make the country even more attractive to foreign investment and propel it into a stronger leadership role.



President Nursultan Nazarbayev, reelected last year in a landslide victory, launches a new era for Kazakhstan.

### **Booming Kazakhstan, Central Asia's Leader**

As KazSat-1, Kazakhstan's first satellite, lifted off from the Baikonur cosmodrome on June 18, 2006, it gave a major lift to Kazakhstan's ambitions of becoming a space nation along with the United States, China, the European Union, and Russia. The launch also became a major spur to Kazakhstan's economic diversification and development in an economy which has already seen a 10 percent annual growth over the past seven years. Today, Kazakhstan is capable of offering space-based telecommunications services and planning for the business of commercial satellites and space flights in the future.

The \$100 million satellite, built by Kazakh and Russian engineers, was funded by the Government of Kazakhstan using profits from the oil boom. Major international companies have invested heavily in Kazakhstan's economy since its independence in 1991 with 80 percent of the \$45 billion

in FDI going to the oil and gas industry. Experts estimate Kazakhstan's extractable reserves to be 100 billion barrels of oil and 200 trillion cubic feet of natural gas. Today, Kazakhstan exports one million barrels of oil per day, and within a decade this should increase threefold, making Kazakhstan one of the world's top ten suppliers.

Through wide-ranging economic reforms and good financial governance, Kazakhstan has managed to harness its rich resources to make the country a driving force for economic growth in the Central Asian region. The former Soviet state's drive to become a transportation hub between East and West, especially enhancing the trade routes between China and the European Union, have had positive effects for both Kazakhstan and its surrounding neighbors. New airports at the capital Astana and the largest city of Almaty serve as connecting links and logistical stopovers for air cargo, while Kazakhstan's efficient railway network functions as a modern-day Silk Route for Chinese

merchandise headed for Russia and Europe, as well as fuel and resources going the other way.

Prime Minister Daniyal Akhmetov attributes Kazakhstan's success to its sound policies of economic and social development based on a firm foundation of ethnic and religious tolerance. "The basis of all this prosperity lies in the fact that there is political stability in Kazakhstan, a country of more than 120 nationalities and 40 religions. The interethnic accord and peace allows for democratic reforms and structural changes in the economy," acknowledges the Prime Minister. Or, as Kazakhstan's President Nursultan Nazarbayev put it after his landslide reelection victory in 2005, Kazakhstan "moves forward through evolution, not revolution".

In fact, it was President Nazarbayev's vision of fundamental economic reforms followed by the democratic change that made Kazakhstan the most stable and, at the same time, the most dynamically developing country in the critical region of Central Asia. President Nazarbayev's goal of doubling the year 2000 GDP of \$21 billion by 2010 will now most likely be reached two years ahead of schedule. Such high levels of growth should have important positive side effects on Kazakhstan. It will certainly assist the country in its fight against drugs trafficking, international terrorism, religious extremism, and separatism, all potential threats for this Central Asian nation.

The fact that the country is avidly pursuing excellence in technological innovation will bring new impetus in the region's markets, as cooperation with information technology leaders will train young Central Asian professionals to

participate in their country's vision. "During the next two years," says Prime Minister Akhmetov, "Kazakhstan will launch two more satellites which will allow us to offer our own space technologies to the countries of Central and South East Asia, and not just be the owner of Baikonur which we currently lease to Russia."

The vision driving Kazakhstan's policies of development and growth invariably incorporates its regional neighbors simply because, as Foreign Minister Kassymzhomart Tokaev points out, it cannot reach its ambitious goals in an unstable environment. "Our country is destined to lead the sustainable development of Central Asia and the country's success is crucial for the prosperity of the entire region," says Tokaev. "We see our role as promoting regional economic integration, facilitating trade and investment, thus making the region more attractive to foreign capital and prepared for full-fledged integration into the global economy. Central Asia is a promising market of more than 50 million consumers and once consolidated would boost the economies of all countries involved." Kazakhstan intends to use its profits to promote the development of the Central Asian region by investing in and sharing its experience with nations like Afghanistan and Kyrgyzstan.

Prime Minister Akhmetov believes this will ultimately lead the region onto the forefront of world trade, especially following Kazakhstan's accession to the World Trade Organization (WTO). "We want to become integrated in and be an active participant of world economic relations. It will open new markets to us and bring about a new level of competition which will make our economy even more dynamic."

## New Growth Areas Mean Greater Business Opportunities

Since 2000, Kazakhstan's economy has grown an amazing 75 percent. The country has become synonymous with success, most often mentioned in one breath with 'oil'. Experts predict Kazakhstan will produce 150 million tons of oil and 30 billion cubic meters of gas by 2015. Kazakhstan already exports oil and gas to Europe, the United States, China and other world markets. Kazakhstan's accession to the westward Baku-Tbilisi-Ceyhan pipeline this past summer has opened the Caspian's enormous reserves for the West and means Kazakhstan is going to play an even larger role for the West's energy security.

Now that its vast oil fields have been identified and the world's largest petroleum companies have flocked to share the opportunities in the sector, Kazakhstan's own strong businesses have started to implement diversification projects. The huge industrial boom in China has raised the Asian giant's demand for raw and refined materials, and Kazakhstan's relative proximity to the Chinese market offers profitable investments in petrochemical enterprises. Construction of the first petrochemical complex for state oil and gas company KazMunayGaz will start in 2007. The plant will produce 400,000 tons of polypropylene, used in food packaging, and polyethylene per year. The North Caspian town of Atyrau, where the complex will be built at a cost of \$4 billion by the Dutch company Basell, part of Access Industries, is described as "the oil capital of Kazakhstan."

"Raw materials have the most attractive investment potential, including the petrochemical industry and uranium enrichment," says Prime Minister Akhmetov. Kazakhstan

possesses 25 percent of the world's uranium resources. "In five years we will be the leader in uranium extraction and in my opinion this sector will become the prime focus for investors. Not only do we mine and concentrate uranium, but we also produce fuel for nuclear stations in Russia and Japan." According to the Minister of Energy and Mineral Resources, Baktykozha Izmukhambetov, "all the chemicals from Mendeleev's Periodic Table can be found in Kazakhstan." The Minister, who oversees the nation's production and exploration of oil and gas at the Tengiz, Karachaganak, and Kashagan fields, said uranium is the next big thing in the state's natural resources. "We are third in the world in uranium deposits. We produce 4.5 tons per year."

However, Foreign Minister Tokaev would rather see a wholesale boom in non-oil and gas related investments for the country to fulfill its economic modernization strategy. "We clearly understand the risk of 'the oil curse' and will not repeat the mistakes of other nations," asserts Minister Tokaev. "The government of Kazakhstan will soon shift to a non-oil budget with all revenues from extractive industries to be accumulated in the National Fund. The idea is to efficiently run the state, independent of the volatilities of the commodities markets, and do away with the pernicious influence of oil money."

When Kazakhstan gained its independence from the Soviet Union 15 years ago, the transition to a market economy did not fare smoothly. Within the first few years, an inflation rate of 2000 percent led President Nazarbayev to delve deeper into economic reforms, but due to the Asian and Russian crises of the mid nineties, Kazakhstan's real growth did not take

place until 1999. Within a period of only 7 years, the country has benefited from free market economic reforms and rising global commodity prices.

These successes allowed President Nazarbayev to introduce an ambitious and wide ranging strategy of bringing Kazakhstan into the community of the world's 50 most competitive nations through the creation of a new economy based on "breakthrough technologies" and know-how as well as on respect and protection of private property rights and contractual relations, as well as increase initiative and entrepreneurship of all members of society. Addressing his nation, President Nazarbayev said: "We want to see Kazakhstan as a country developing along the global economic trends, as a country which is embracing all that is new and progressive, as a country which holds a small but specific niche in the world economy, and as a country which is quickly adaptable to new economic conditions."

Focusing on the oil and gas sector in the early years of independence helped Kazakhstan to avert an economic breakdown, but now, with its eyes set on raising competitiveness, the second and most difficult phase of achieving sustainable diversification has begun. This phase forms one of the primary conditions of joining the World Trade Organization, which Kazakhstan hopes to achieve in 2007. "We want to be part of the global community," says Karim Massimov, Deputy Prime Minister and Minister of Economy and Budget Planning. In order to elevate all facets of the economy to world standards, Massimov explains Kazakhstan needs to balance systematic long term reforms with tangible results in the short term. "We can build a factory, we can buy technology, and we can invite experts from abroad, but this is not an aim for us. We should be able to do it ourselves. Building a factory will yield products in one or two years. Investments in education, healthcare, and the standard of living may not produce immediate results, but they are necessary because without them there is no future."

This development at grassroots level is the point of departure of the Industrial and Innovation Strategy for the 2003-2015 period. It stipulates the training and retraining of Kazakhstan's workforce towards innovational progress and the integration of science and production. It also includes advancing the development of added value industries directly connected to the extractive sector. The state seeks to create new cooperation mechanisms with the private sector in order to develop a competitive business environment which will ultimately raise national standards and bring down consumer costs. Handing over greater freedom to the private sector is essential in executing these reforms effectively, because as Deputy Prime Minister Massimov points out, the state's paradoxical handicaps are its high revenues. "We have a little bit of euphoria about the money which is pumping in to the economy, but we have discovered that the budget, fiscal, and monetary disciplines are very important issues. We cannot pump more money into the economy than we can use. The growth of the budget spending should be linked to the growth of the GDP." As an example, Massimov says a target of 9-10 percent of GDP growth would be a sound limit for a similar level of growth in budget spending.

## ■ Steppes Ahead

Kazakhstan is a country of vast expansive plains with views that stretch for miles out into distant horizons. Wide steppes

of grassy and arid plains cover most of the country's 1 million square miles, which makes it the 9th largest in the world. Yet, in spite of being such a large country, Kazakhstan has a relatively small population of 15 million. This means Kazakhstan does not have the large labor clout of economies like China or India, and so President Nazarbayev wants to educate his people to compete on a higher level of services and industry, particularly in emerging technologies. The large part of this knowledge base will initially come from across its borders, with Kazakh students studying abroad in the thousands under the Bolashak (Future) presidential scholarships, and with new opportunities for international firms to become part of Kazakhstan's broadening economy. Within this framework, more than 1,000 Kazakh students have already studied in the United States, and agreements have been made with market leaders such as Microsoft, Oracle, and Cisco Systems.

Kazakhstan's Minister of Trade and Industry Vladimir Shkolnik says the realization of the President's goal to become one of the world's 50 most competitive countries is accompanied by the inflow of foreign capital and leading international corporations engaged in non-raw material production sectors. Attracting such influential players is becoming Kazakhstan's tour de force. "The Government of Kazakhstan is taking all the necessary steps to improve the business environment," Shkolnik assures, "in particular by improving investment legislation and creating institutional and financial infrastructure to make investment capital more competitive."

According to the competitiveness index published by the World Economic Forum in 2005, Kazakhstan ranked 61st with its first appearance, ahead of all other CIS countries. Financial analysts Standard & Poor's and Moody's have both awarded Kazakhstan with an investment rating of 'BBB' and 'Baa3' respectively, and Fitch, which recently upgraded the nation's long-term obligation in foreign currency rating to 'BBB', noted that the economy and state finances are in a strong position to overcome the pressure of the oil sector's price instabilities.

All of this bodes well for Kazakhstan's efforts to join the WTO. Minister Shkolnik believes accession will positively influence Kazakhstan's diversification strategy. "The entry into the WTO means further liberalization of key sectors such as finance, media, energy, and transport. Bringing the foreign trade regime to conformity with WTO norms will intensify procedural transparency and decrease corruption." In particular, the simplification of licensing and customs procedures will have a favorable effect on entrepreneurship. Once all required norms and standards have been met, the lifting of trade barriers after accession will not only allow the import of WTO goods, but also benefit the export of Kazakh products in industrial and agricultural fields. Kazakhstan's exports in 2005 amounted to \$27.8 billion, while imports reached \$17.3 billion. Currently, the country's major trading partners are the European Union, the Russian Federation, China, and the United States.

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# New Horizons in Kazakh-US Strategic Partnership

By Kanat Saudabayev, Kazakhstan's Ambassador to the USA

The United States is looking for solutions to problems of security and nuclear proliferation, sustainable and long-term energy supplies and the promotion of democracy and freedom across the world.

Kazakhstan shares those concerns and contributes to solving these problems. On the eve of a very important visit of President Nursultan Nazarbayev to Washington, we again say that we are committed to further enlargement of our joint efforts with the US. We believe using Kazakhstan's experience in nonproliferation, our rich energy resources and, finally, our know-how of building democracy and market in a predominantly Muslim secular country can all help make our world safer and better.

Kazakhstan-United States cooperation in nonproliferation is the top priority of our strategic partnership. Since Kazakhstan's independence in 1991, we have done a lot together, freeing our country from the world's fourth largest nuclear arsenal and eliminating the infrastructure of the former Soviet nuclear test site.

Our cooperation continues. Earlier this year, the Ulba plant in Kazakhstan completed blending down 6,600 pounds of highly enriched uranium, enough to produce more than 20 atomic bombs, converting it into low-enriched uranium for use in commercial reactors. This was a joint project of Kazakhstan's nuclear company and the Washington-based Nuclear Threat Initiative, supported by both governments. It proved Kazakhstan's continued commitment to nonproliferation and showed the way forward on nuclear issues. We believe our experience of voluntary nuclear disarmament and the success story of an independent Kazakhstan should be convincing arguments for countries with nuclear ambitions to drop them.

With estimated reserves of 100 billion barrels of oil, 200 trillion cubic feet of gas, and daily exports of one million barrels of oil, Kazakhstan is already a key player in global energy. That role will grow. As Vice President Cheney put it on a recent visit to Astana, "Kazakhstan is important given its considerable resources. It's one of the few places where we're going to see an increase in oil production from a non-OPEC state over the next few years."

Kazakhstan will continue an open and independent policy of production and sale of oil, expanding our oil exports to 3 million barrels per day and becoming one of the world's top ten exporters by 2015. The fact that we recently joined the westward oil pipeline Baku-Tbilisi-Ceyhan is strong evidence of Kazakhstan's commitment.

Our cooperation in this area is measured by \$15 billion of direct investment by U.S. companies such as Chevron, ExxonMobil, and ConocoPhillips, and their work at all of our major oil fields. In the future, we look forward to these and other companies investing tens of billions of dollars more in exploring and developing our reserves, and transporting them to the world markets.

Since Kazakhstan has 25 percent of the world's uranium reserves, we are also developing a peaceful nuclear energy program. Because nuclear power is one of the major priorities in U.S. energy policy, we see great oppor-

tunities for cooperation, both through supplying Kazakh uranium and in jointly building atomic power stations.

In general, Kazakhstan-US trade and economic cooperation should get a major boost with Kazakhstan's accession to the WTO, and we are hopeful for US support in this process.

Finally, Kazakhstan's successful experience of building democracy through evolution, not revolution, in a country with 60 percent Muslim population and no past traditions of democracy, can be useful for U.S. efforts to promote democracy.

It was no coincidence that the new Silk Road Strategy Act of 2006, introduced by Senator Sam Brownback, noted that the evolutionary path to democracy, supported by economic growth, is the most effective and sustainable way to true development and prosperity. In other words, it is the path Kazakhstan has followed since its independence, instituting major market reforms, achieving high levels of economic growth and developing the middle class as the pillar of democracy.

We still have a lot to do on the path to evolutionary democratization, but the achievements to date, such as the increasingly assertive Parliament, more than a dozen active political parties, thousands of nongovernmental organizations and independent news media outlets, make us confident we will achieve our goal of building an economically strong and democratically developed Kazakhstan.

The evidence of Kazakhstan's commitment to continued movement toward democracy is our bid to chair the Organization for Security and Cooperation in Europe (OSCE), and we are hopeful the United States will support this bid. Such a support will promote democratic reforms not only in Kazakhstan, but beyond its borders. Our success in this sphere will be a powerful motivation for democracy and reform in Central Asia, a goal both Kazakhstan and the United States share.

Kazakhstan's overall success depends greatly on the support of the United States. We have always enjoyed it throughout our independence and hope it will continue in the future. Today, Kazakhstan is doing all it can to help the United States in the war on terrorism and the fight against proliferation of weapons of mass destruction, as well as assisting U.S.-led efforts in Afghanistan and Iraq. Kazakhstan, in particular, is the only country in Central Asia and one of the very few Muslim countries to send troops to Iraq, and we remain committed to our obligations there.

People in America need to know that faced with serious challenges in nonproliferation, energy security, and promoting democracy, the United States has a strong partner and friend in Kazakhstan who shares common values. Kazakhstan treasures this friendship and believes the United States is also interested in strengthening this friendship for a prosperous and safe future.

What our countries can do together will be the main subject of the upcoming meeting between Presidents George W. Bush and Nursultan Nazarbayev at the White House. We are confident this meeting of our leaders will see new horizons for the strategic partnership between Kazakhstan and the United States.