

Kazakhstan 2041: the Next Twenty-Five Years

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Summary and Recommendations

Kazakhstan has come a long way in the twenty five years since it gained sovereignty. The leadership can point to impressive economic development, stability, strengthened sovereignty, and respect for “brand Kazakhstan” on the international arena. Looking to the next twenty-five years and beyond, Kazakh authorities have set forth an ambitious vision for turning the country into one of the most developed in the world. On the road ahead, old challenges will remain and new ones will doubtless emerge. As it embarks on its further development Kazakhstan will be confronted by several crucial social, economic, political, and international realities:

- Kazakhstan’s population will grow by 20% in the coming twenty-five years, but the ratio of dependents to working population is likely to double. As a result, further economic development will require improving the productivity of the economy, which in turn requires the application of new technologies, development of new fields, improved administration, and further improvements to the business climate.
- Sustained economic growth will further accelerate urbanization, and by 2041 70% of the population could be living in urban areas. Meanwhile, Kazakhstan will continue to be a target for migrants from countries to its south. Government policies will need to prevent the emergence of unplanned, random settlements with potentially negative impact on environment, labor markets, urban governance, and social stability.

- For a religiously diverse society like Kazakhstan, aspiring to be among the top 30 developed countries, there is no alternative to protecting the principle of a secular state, secular system of laws, secular courts, and secular education. The challenge is to combine the secularism of the state with tolerance and respect for all religions, while ensuring continued popular support for secular governance.
- Western powers have failed adequately to recognize the importance of the commitment to secular government by Kazakhstan and other regional states such as Uzbekistan and Azerbaijan. While western powers and organizations have criticized government intervention in the sphere of religion, they have not acknowledged the challenges faced by these governments, and have erroneously predicted that many such actions would result in radicalization. Against the backdrop of events in the Middle East, Western powers should be much more cognizant of the value of this secular model and be more prepared to work collaboratively with Kazakhstan and other regional states to correct flaws in its application, most of which were inherited from Soviet times.
- Kazakhstan's information sphere, unlike its foreign relations, remains relatively isolated, with Russia the predominant external source of information for the average citizen. For Kazakhstan's citizens to have the span of information commensurate with the country's emerging global role, the multi-vector approach must be applied also to the sphere of information. This is an area that western powers have largely ignored, but where much could be done to link Kazakhstan and its region to the broader world in all its complexity.
- Long-term economic development will require a transformation of Kazakhstan's economic structure and management. Kazakhstan has exhibited vulnerabilities to negative developments in the world economy, and the near future is likely to be challenging. While Kazakhstan has chosen an economic model of state-led capitalism in strategic sectors complemented by market-driven practices in non-strategic sectors, a key challenge going forward will be for the state to avoid stifling private

sector growth, especially in sectors that are key to the diversification of the economy. The role of the government should be to provide guidance, support and a stable economic framework, not to interfere or engage in activities best handled by market forces.

- Rather than scatter its resources across too many areas, the government needs to prioritize carefully. All desirable ends are not compatible.
- The ability to react proactively to a shift in world demand away from oil could determine the country's economic future. Agriculture is a key area in this regard. Indeed, Kazakhstan has the potential to become a bread basket of Eurasia. Yet in spite of recent improvements, the agricultural sector needs a radical overhaul. First, the incomplete reforms in land tenure must be brought to fruition. Then, in order to formulate the further reforms that are needed, the government should designate a single agricultural research and training center as the nation's lead institution and charge it with facilitating the transformation of Kazakhstan's agriculture. Such a body should maintain agricultural extension services in every district of the country to serve the public. Western governments and firms can play a key supportive role in this process.
- New opportunities for the development of a modern production and service economy will arise from Kazakhstan's location at the hub of an enormous continental economic space. In the short term, this will mean continuing to supplement existing ties with former Soviet economies and building stronger links to East Asia, Europe and the Middle East. In the longer term, however, the Indian subcontinent – with a population much larger and younger than China's by 2041 – is likely to be just as important a trade partner to Kazakhstan. Plans for this eventuality should be formulated today.
- To realize the emergence of Kazakhstan and the rest of Central Asia as a land bridge connecting both China and India with Europe, Kazakhstan should strengthen intra-regional contacts and interaction at all levels. Building on the Strategic Partnership Agreement signed by the presidents of Kazakhstan and Uzbekistan in 2013, Astana should upgrade

contacts and interaction in the economic, social, and security spheres. By bringing closer the two most powerful states in the region, such partnership would discourage foreign powers from deciding matters over the heads of Central Asian states or by promoting their interests by exploiting differences among them. Western powers, and particularly the United States, should actively support such understanding between Central Asian states, as they would do more than anything to foster sovereignty, cooperation, and security on a regional basis.

- Too much of Kazakhstan's thinking and planning about the new trade routes is confined to the government. Governmental policy in Astana must encourage private initiatives in all the areas of "soft" infrastructure that makes trade possible, including logistics, warehousing, equipment maintenance, and insurance along the corridor that crosses its territory.
- Western critics have wrongly assumed that open and effective governance and transparent electoral processes can be achieved easily and quickly. Rather than focus on the one-dimensional juxtaposition of authoritarianism and democracy, we recommend a shift of attention to "good governance." This should be seen as a goal in itself and also as a key prerequisite to the development of governmental openness and election-based democracy. In light of the benchmark goals set in the Kazakhstan-2050 strategy, Kazakhstan should redouble its efforts to overcome its "governance deficit" and focus on establishing responsive and effective governmental agencies in all areas directly affecting the lives of citizens – particularly the improved delivery of services to the public and more transparent and accountable political processes.
- Kazakhstan's leaders have embraced the need for institutional reform. Along with improving the quality of governance, the reduction of corruption must stand at the top of the agenda. In order to reach its goals by 2041, Kazakhstan must transform fundamentally what it means to be a civil servant and the way services and goods are exchanged between public officials and citizens. This means continuing more rigorously the process of applying e-government technologies to cut back the number

of useless face-to-face interactions between officials and citizens, encounters that invite the giving and receiving of bribes.

- Western governments and organizations can cooperate fruitfully with Kazakhstan to improve governance and fight corruption, provided that they work *with* Kazakhstan's government rather than *on* it, as has too often been the case in the past. Indeed, this is the only way that the cause of democratic development can be effectively advanced between now and 2041.
- In the years between now and 2041 it is inevitable that Kazakhstan and its region will be deeply affected by globalization, and also by counter-currents to it. Two important variables will be the fate of radical trends in the Muslim world and the global posture of the United States. Adverse trends are possible in each area, but sound planning must also include the prospect that both will evolve in a positive direction before 2041 and in ways that will reinforce rather than further undermine Kazakhstan's balanced, or "multi-vectored," foreign policy.
- On the regional level, Kazakhstan must expect important, even momentous, changes in both China and Russia, countries whose evolution in the past has been characterized by abrupt and dramatic tectonic shifts. Whether or not such change takes place in the next quarter century, Russia is a country in demographic and economic decline, whose population will be much less Russian and much more Turkic and Muslim by 2041. This is bound to have a significant impact on Russia's foreign policy, and suggests that if Kazakhstan can manage its relations with Russia so as to preserve its sovereignty and independence in the short term, the likelihood of finding a positive *modus vivendi* in the longer term is strong.
- Long before 2041, China will have become a post-boom middle/upper middle income state focused on maintaining central control over a vast and diverse territory and serving the needs of a rapidly aging population. While Kazakhstan is correct in prioritizing relations with China in the short term and medium term, it must also over time focus increas-

ingly on the Indian subcontinent, which is bound to play a critical a role in its balanced foreign policy long before 2041. Western powers could play a positive role by helping to open transport and trade through Afghanistan to Central and South Asia.

- Europe is unlikely to become a leading security actor in Central Asia between now and 2041. Yet because of its economic role, Europe will continue to play an important role in Kazakhstan's balanced foreign policy. Indeed, if Kazakhstan chooses to further deepen its integration with European institutions, it might pursue a relationship similar to those offered to former Soviet states in Eastern Europe under the EU's Eastern Partnership.

Introduction

Since regaining its independence, Kazakhstan has established itself as a booming Eurasian economy that has laid the foundations of a market-based economy and managed its growth in a volatile global and regional context. Its model of orderly and centralized reforms in combination with the pursuit of a pragmatic, multi-vector foreign policy have earned the country a reputation as a stable presence in the often turbulent Central Asian region. However, at twenty-five, Kazakhstan is entering a new era. The oil boom has ended and the favorable conditions for multiple economic and security partnership that contributed to asserting the country's statehood and elevating its importance on the international arena can no longer be taken for granted as guarantors of long term security and success.

Kazakhstan's government has recognized the need for pursuing a new long term strategy of national development. Already in late 2012 President Nursultan Nazarbayev presented Kazakhstan-2050 – a strategic vision designed to pursue the goal of joining the 30 most advanced countries in the world in terms of a wide range of economic, social, environmental and institutional measurements by 2050. Slightly less than a decade before 2050, in 2041, Kazakhstan will reach its half-century anniversary as a sovereign state. Thus, taking the first 25 years of independence as a point-of departure, this paper will focus on the analysis of the major factors that are likely to influence the position of the country and the region in 2041.

Historical experience proves that projecting this far into the future is an imprecise and risky task. The long term global and regional outlook is uncertain, and there are doubtless many unknown factors that will likely come to the fore. Therefore the present assessment does not aspire to chart the future development trajectory of Kazakhstan. Rather, it focuses on the major dynamics likely

to affect the country – socially, economically, politically and externally – all of which will require the attention of policy makers in Astana, as well as in the capitals of Kazakhstan’s main partners in the west and east. To the furthest extent possible, the following study focuses on those matters that are in Kazakhstan’s own hands.

In assessing future prospects, we should also be careful not simply to project present trends forward. For example, just because Kazakhstan has enjoyed an average economic growth rate of 7.25% between 2000 and 2015, this does not mean that the same economic policy will produce the same result in the future. Reality further confirms that discontinuity, as much or more than continuity, is likely to shape the long-term developments to which Kazakhstan will have to adjust. Thus, assumptions about the continuation of current developmental trends in Kazakhstan’s two most important neighbors – Russia and China – must embrace the possibility of discontinuous development in both of those countries, a possibility that is all the more likely when one takes into account the sharp divergences in the development of both societies over the past century.

This report seeks to identify the driving factors likely to affect the country’s development over the next 25 years in the social and economic spheres as well as in foreign policy. To this end, the first section presents an overview of Kazakhstan’s performance since independence, focusing on major accomplishments as well as lingering challenges. This sets the stage for the second section, which makes up the heart of the paper. Here the authors will seek to look at Kazakhstan’s development a quarter century from now. It starts out by analyzing major social factors, such as demography, class, urbanization, education, and the opposing forces of modernization and secularism, on the one hand, and relevant domestic traditions, including religion, on the other. We then turn to a discussion of Kazakhstan’s economic development, including prospects for energy and extractive industries, the important non-oil sector including agriculture, and in particular the implications of the emergence of Kazakhstan as a trade hub between Europe and Asia. In addition, the study will take into account the likely development of environmental and technological

forces on the global and regional level. Moving to the political realm, the study will take stock of Kazakhstan's experience of strengthening institutions of governance and the rule of law since independence, and discuss the factors likely to affect the country's form of government at the local, regional, and national levels. The study will then situate Kazakhstan in its regional context. Utilizing existing projections of the likely evolution of Kazakhstan's major regional and global partners (Russia, China, India, Europe, the U.S. and Central Asian neighbors), we will analyze implications for Kazakhstan, as well as Kazakhstan's own ability to affect the broader regional situation through its long-term partnerships and initiatives on the regional and international level. Overall, the analysis and projections will be based upon the most stable structural factors and only occasionally extend to the more unpredictable ones.

The concluding section summarizes the main driving forces identified in the preceding analyses. These include both domestically generated forces and those global variables whose general impact can be predicted with some certainty. How the government responds to these key drivers in terms of economic and political reforms as well as international partnerships will be of crucial importance in shaping Kazakhstan's fate over the next 25 years. On this foundation, we will offer recommendations for the Government of Kazakhstan as well as for western governments and multilateral organizations on possible steps to promote prosperous long-term development in Kazakhstan and in the region in which it is so central and significant a presence.

Kazakhstan at Twenty-Five

The collapse of communism in Central and Eastern Europe and the subsequent disappearance of the Soviet Union from the world map set in motion what was among the greatest social, political and economic transformation of the twentieth century. Kazakhstan's President Nursultan Nazarbayev offered the following analogy: "The newly created post-Soviet reality at the start of the 1990s can best be compared to the domestic scene after the death of a parent. With no time to prepare, the children must begin newly emancipated lives."¹

For the independent republic of Kazakhstan the challenges posed by emancipation were more profound than in most other post-Soviet countries. To be sure, Kazakh statehood dates back centuries, but in forms very different from today's. And while there existed a strong and active sense of national identity, which burst out in the Almaty uprising of 1986, Kazakhstan differed from the Baltics or the South Caucasus. There, independence movements emerged in the late 1970s, but no such organized movements emerged in Kazakhstan. In the centrally-planned Soviet economy, Gosplan designated resource-rich Kazakhstan as a supplier of raw materials and goods for the defense and nuclear industries, and of wheat. At the time of independence, Moscow's military security stakes in Kazakhstan were particularly important since the country harbored an enormous Soviet military arsenal, including nuclear weapons, and shutting down the world's largest nuclear test site.

Twenty-five years later, the country has formed a national identity, created a functioning market economy, strengthened governance institutions, and emerged as an active and respected member of the international community. Kazakhstan has established itself as an upper-middle income country and is ranked as the 53rd most competitive economy by the World Economic Forum

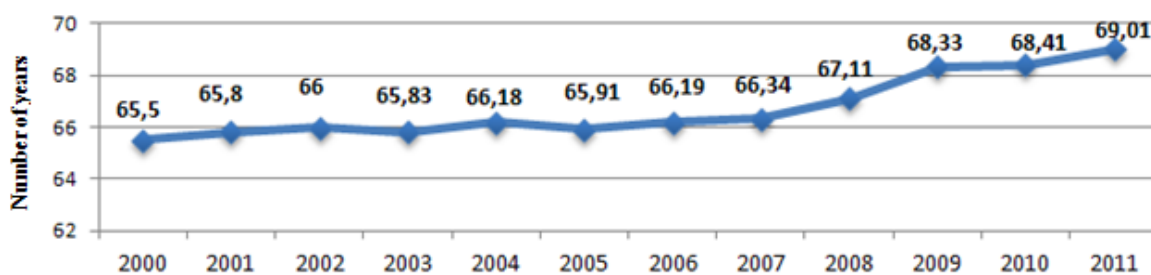
¹ Nursultan Nazarbayev, *Epicenter of Peace*, Hollis, NH: Puritan Press, 2001, p. 9.

and 35th in the World Bank Doing Business Report 2017. Sustained diplomatic efforts enabled the country to win a non-permanent seat at the United Nations Security Council for 2017-18. The significant achievements in asserting its statehood have been strongly guided by the persistent adoption of a pragmatic, outcome-oriented, and non-ideological set of policies.

Managing Diversity

Kazakhstan's territory is as large as the entirety of Western Europe, but with a population of just over 17 million. The population, however, is diverse and multiethnic. Historically, the territory of Kazakhstan has been a meeting place of different religions and cultures, and today includes more than 130 ethnic groups and 17 officially acknowledged religious denominations. At the time of independence ethnic Kazakhs constituted only 40% of the total population, with ethnic Russians making up 38%. However, in the years after 1989 Kazakhstan lost over three million people due to migration, fully 20% of the population.

Figure 1: Life Expectancy at Birth²



Emigrants were predominantly ethnic Russians, but Germans and Ukrainians also left the country immediately after independence.³ In addition, the early years witnessed economic decline, poverty, and social hardship. Basic health

² Source: Statistics Agency of the Republic of Kazakhstan. (<http://www.nac.gov.kz/en/news/analytics/252/>)

³ Twenty-five years later, the ethnic make-up has thus changed considerably. Kazakhs now represent 63% of the population while Russians have declined to 23%.

indicators deteriorated: life expectancy decreased from 68.3 years in 1990 to 64.1 in 1996. Male life expectancy sharply declined. However, since those difficult years, the population has steadily rebounded and is now above pre-independence levels, while life expectancy is above 70 years.

In this complex and fragile multiethnic context, the task of building a national Kazakhstani identity had to proceed carefully in order to maintain interethnic harmony and good relations with Russia. An important step in this process was the relocation of the national capital in 1997 from the southeastern city of Almaty to north-centrally located Aqmola. Establishing the capital in Astana (which literally means “capital” in Kazakh) helped strengthen the territorial integrity of the state and prevent possible separatist sentiments among the ethnic Russian population of the northern regions from gaining momentum.⁴ Language policy has also required a delicate hand on the part of the authorities. The government adopted a gradual approach to reviving the dominant role of the Kazakh language. The state language is Kazakh, but the 1995 Constitution of Kazakhstan also granted Russian official status as the language of inter-ethnic communication. To strengthen the role of the Kazakh language and encourage the non-Kazakh population to learn the state language, the government has adopted a careful policy designed to discourage further migration of the educated Russian population.

In the face of the prevailing diversity, the promotion of tolerance both domestically and on the international arena became a governmental priority. Kazakhstan is proud of its ability to maintain inter-religious harmony and advance the strictly secular nature of state institutions. Part of this policy has included restrictive measures against alien and radical religious forces. In the aftermath of the 9/11 terrorist attacks in New York, President Nazarbayev launched a “dialogue of civilizations” (officially called the Congress of Leaders of World and Traditional Religions) as a platform for creating a common ground against radical extremists claiming religious authority for themselves. Following the introduction of new legislation that led to the banning of several

⁴ Ariel Cohen, *Kazakhstan: The Road to Independence*, Washington, DC: Central Asia-Caucasus Institute – Silk Road Studies Program, 2008, p. 28.

confessional groups in 2011, the government has taken a more prohibitive approach towards potentially disruptive religious groups. Maintaining the balance between secular statehood and the diverse religious and ethnic identities of its citizens will continue to be crucial to the maintenance of social harmony.

Overall, Kazakhstan has remained remarkably stable in the years since independence. This stability could not have been predicted at the time the Soviet Union broke up. Several experts warned that conflict could erupt along ethnic lines, and that this could lead to the possibility of Russia claiming parts of northern Kazakhstan.⁵ As time passed others foresaw possible uprisings along the lines of the so-called 'color revolutions' in Georgia, Ukraine and Kyrgyzstan (2003-05). However, none of the anticipated events occurred, and Kazakhstan has been spared the disruptive social and political conflicts that have hit several other post-Soviet countries.

The socio-economic situation is also better in Kazakhstan than in several of its Central Asian neighbors. Kazakhstan carried out the most radical social welfare reform, which included the introduction of a liberal pension system and labor market reform. The World Bank has even referred to the pension reform as "state-of-the-art."⁶ In comparison to countries that retained the old Soviet social model or introduced conservative piecemeal reforms, Kazakhstan's liberal model scaled back the state, lowered social transfers and introduced a larger role for the private sector and the market. Nonetheless, inequality remains a real problem and recent years have seen some seeds of social protest and instability. A few social protests followed in the wake of the 2008 economic crisis, and a crisis unfolded in December 2011 when oil sector workers rioted in Zhanaozen, provoking a heavy-handed response by the police that left more than a dozen people dead. In the spring and early summer of 2016 another wave of unrest culminated in protests across the country against the government's plan to privatize unused land. In June 2016, violent clashes took place between armed attackers and security services in the city of Aktobe, leaving 19

⁵ Donald Horowitz, "How to Begin Thinking Comparatively about Soviet Ethnic Problems", in Alexander J. Motyl, ed., *Thinking Theoretically about Soviet Nationalities*, New York, NY: Columbia University Press, 1992, pp. 16-17.

⁶ World Bank, "Kazakhstan Country Brief 2003". (<http://www.worldbank.org>.)

dead. These events have dented Kazakhstan's unparalleled image of stability in the region, and provoked rather heavy-handed responses by the government. Future priorities will call for actions to bridge the growing gap between the rich and poor and to expand the middle class as a buffer against extremism and agrarian unrest.⁷

Economic Success

Over the first 25 years of sovereign development, Kazakhstan has undertaken an impressive transformation from a centrally planned Soviet republic to a predominantly market economy. Overall, Kazakhstan has adopted the East Asian economic model with high growth based on private ownership, deregulation and a smaller but still powerful state. Indeed, the need for a strong state to guide the country's economic development is accepted as a major axiom.

Following an economic recession in the early 1990s, Kazakhstan's economy took off spectacularly in the 2000s. Annual economic growth between 2000 and 2006 ranged from 9 to 13 percent, making the country's economy one of the fastest growing in the world. Thereafter, the annual GDP growth averaged 7.25%. It was somewhat slowed down by the global financial crisis and global recession that affected the country in 2008-09 and by the fall in global oil prices in more recent years. Today, Kazakhstan has increasingly set itself apart from other countries in the region, with its GDP now exceeding that of the other four Central Asian states combined. By 2015 GDP per capita exceeded \$10,500, placing the country ahead of Russia and Turkey. This means that in less than two decades, Kazakhstan moved from a lower-middle-income to an upper-middle-income status. The percentage of the population below the poverty line has fallen sharply from 35% in 1999 to less than 3% in 2016.⁸

This economic success cannot obscure the very significant economic challenges facing the sovereign state of Kazakhstan from the time of independence. A

⁷ John C. K. Daly, *Kazakhstan's Emerging Middle Class*, Silk Road Paper, March 2008. (<http://www.silkroadstudies.org/publications/silkroad-papers-and-monographs/item/13136>)

⁸ World Bank Data, "Kazakhstan." (<http://data.worldbank.org/country/kazakhstan>)

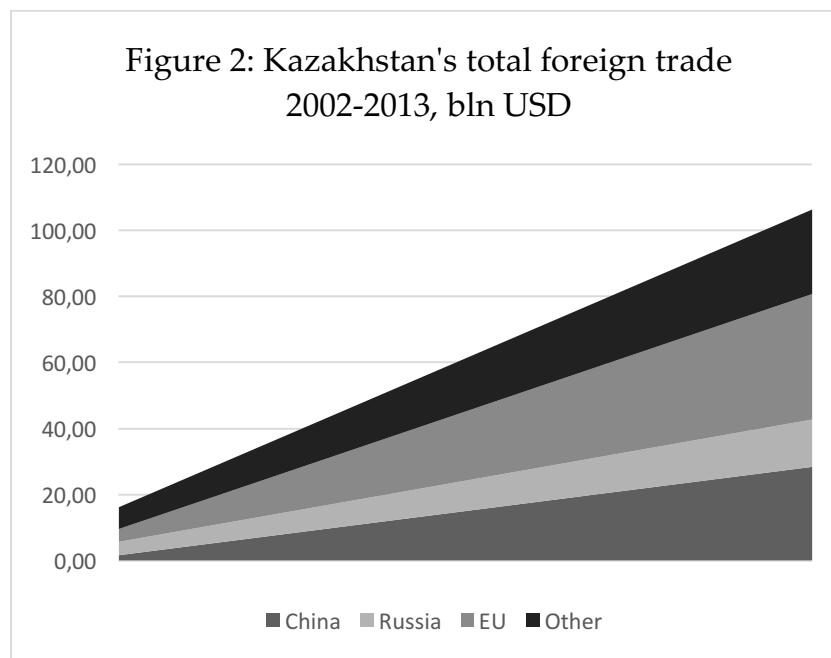
lack of infrastructure and resulting difficulties of access to export markets has made the service sector uncompetitive. Much of the manufacturing industry was rendered obsolete following the breakdown of a command economy that did not take market demands into consideration. To fill the income gap, Kazakhstan developed a vast untapped fossil-fuel reserves and substantial metal and mineral wealth.⁹ American and European companies have played a leading role in the Kazakh oil industry since the 1990s. They have helped to develop the giant oil fields of Tengiz and Kashagan, where Chevron and Exxon, respectively, are major stakeholders in the production sharing agreements with the Kazakhstani state. All in all, the country ranks 11th in the world in terms of proven oil reserves.¹⁰ Oil resources have been soundly managed in cooperation with international companies, and capital held by the National Fund, established in 2000 on the pattern of the Norwegian Petroleum Fund, rapidly grew to a peak of \$77 billion in 2014.

Even though all of the government's major strategy documents have consistently supported the goal of economic diversification, in practice this has proven to be a formidable challenge, especially when oil prices were high. Consequently, the economy remains highly dependent on exporting a limited number of primary commodities, such as energy, metals and minerals. Since 2000, high levels of economic growth have been driven by such exports. Commodity exports make up more than 60% of Kazakhstan's total exports, and fiscal revenues from these exports correspond to over 40% of its total revenues. This means that the economy is vulnerable to the volatile prices of a few key commodities and that fiscal revenues still depend heavily on developments in the energy sector. The fall in global oil prices has presented Kazakhstan, along with other major oil producers in the region significant economic challenges. Subsequently, growth projections have been significantly revised downward and, in 2016, the economy is estimated to be stagnant for the first time since the contraction in 1998, a year when the country was badly affected by the external shock generated by the Russian financial crisis.

⁹ Timur M. Aliev, "Kazakhstan", *Problems of Economic Transition* 57, no. 10 (2015): 4.

¹⁰ Richard Weitz, "Kazakhstan Oil and Gas Output Rises Slightly in 2012." *Eurasia Daily Monitor*, February 1, 2013. (http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=40410).

Kazakhstan's trade pattern has changed markedly since the early 1990s. In 1996, trade with Russia accounted for 47% of Kazakhstan's foreign trade; trade with China, by comparison, stood at barely 5% of the country's total trade. Since then, Kazakhstan has increasingly reoriented its trade towards China and the EU, while trade with Russia has diminished in importance compared to other trading partners. In 2002, the EU's share stood at 24.5%, China's at 10% and Russia's at 24.7%. In 2013, the EU accounted for more than a third of Kazakhstan's total foreign trade, while the equivalent figures for China were 26.6% and 13.5% for Russia.



Sovereignty, Stability, and State Building

Since independence, Kazakhstan has been preoccupied with protecting its sovereign statehood and ensuring political stability. The government has preferred a gradualist model of reform, in which sound economic development has been touted as an essential precondition for democratic reforms. The key to the stability and predictability of Kazakhstan's political system as it has evolved since independence has been strong presidential rule. President Nursultan Nazarbayev has determined the main directions of domestic and foreign policy. The President in turn names the Prime Minister, whose ap-

pointment is ratified by the parliament. Working closely with the President, that official then determines the structure of the government and forms, abolishes, and reorganizes central executive bodies as needed. The President also appoints the Chairperson of the National Bank, the Prosecutor General, and governors of provinces and two major cities; he is also the Commander-in-Chief of the Armed Forces.¹¹ In comparison to these overwhelming formal powers, the independent powers of the Prime Minister and his cabinet, as well as the authority of the bicameral parliament, are limited. Incidentally, this differs from the tendency in Kyrgyzstan, which moved to a parliamentary system. Uzbekistan, notwithstanding current reforms to increase the separation of powers at the top of the government, adheres to a more centralized political model.

In the context of the vast powers vested in the presidency at the expense of the cabinet of ministers and the parliament, the unique position of Kazakhstan's first and only president since 1990 must be noted. In Kazakhstani politics, if not in a comparative post-Soviet perspective, Nazarbayev belongs in a category of his own: widely perceived by the citizenry as the father of the nation and the guarantor of its stability and development, Nazarbayev towers over the country's political scene.¹² That said, everyone understands that a transfer of power will take place in the foreseeable future. Constitutional guidelines for succession have been developed and all evidence suggests that when the time comes, these procedures will be followed.

In Kazakhstan's model of strong central state power, there has been a general resistance to the idea of decentralizing power to provincial and district levels of government. As we have noted, the political reform process in Kazakhstan has followed the mantra of "economy first, then politics." Many political scientists have argued that economic development and democratization go hand in hand, but they also note that so-called "petro-states" tend to be an exception to

¹¹ Constitution of the Republic of Kazakhstan. (<http://www.parlam.kz/en/constitution/>)

¹² Svante E. Cornell, "Kazakhstan's Snap Election", *Diplomatic Courier*, March 25, 2015. (<http://www.diplomaticcourier.com/2015/03/25/kazakhstan-s-snap-election/>)

this rule.¹³ Still, Kazakhstan's strong economic growth has put it on target to create the economic preconditions for the kind of democratic governance envisioned by the government. Nonetheless, it is by no means clear that the past decade of reforms have brought advances towards decentralization or democratization. Some observers argue that parliamentary elections held a decade ago were more pluralistic than the latest round of elections, that the press was less constrained, and that more genuine opposition parties existed then.¹⁴ Indeed, following the court-ordered closure of the Communist Party of Kazakhstan in August 2015, no fully-fledged opposition parties remain operational in the country.¹⁵ Others argue that the concentration of power in the presidential office is inevitable when the incumbent is as deeply popular as Mr. Nazarbayev. But, even if the judicial system has been carefully monitored by the executive, over the past two decades' noteworthy judicial reforms have been instituted, particularly following the announcement of the so-called "Plan of the Nation" in 2015. This program focused on the formation of a professional state apparatus; the strengthening of the rule of law; industrialization and economic growth; and the development of accountable government. It was subsequently translated into a set of 100 concrete steps, that, if implemented, would have significant impact.

Kazakhstan's highly centralized presidential system has brought undeniable benefits for the country. During the signing of the EU-Kazakhstan Enhanced Partnership and Cooperation Agreement in late 2015, the EU Ambassador in Astana remarked that a key requisite for its success was the stability and predictability of Kazakhstan's polity. In a similar manner, Kazakhstan's foreign investors, pointing to the 2014 Attractiveness Survey carried out by the international professional services firm Ernst and Young, uniformly cite Kazakhstan's political stability as one of the country's important comparative ad-

¹³ Michael L. Ross, *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*, Princeton University Press, 2012.

¹⁴ OSCE/ODIHR, "OSCE Final Report of the 2004 Kazakh Parliamentary Elections" (www.osce.org/odihr/elections/kazakhstan/38915?download=true); "OSCE, Final Report of the 2012 Kazakh Parliamentary Elections." (www.osce.org/odihr/elections/89401)

¹⁵ "Kazakhstan Court Squeezes Life Out of Communists," *Eurasianet*, August 17, 2015. (<http://www.eurasianet.org/node/74711>)

vantages.¹⁶ This type of politically centralized top-down model of development resembles the development paths of South Korea and the “Asian Tiger” economies, as well as China. The success of these cases suggests that this model is viable, conducive to prosperity, and generally favorable to foreign investors. No less important, this model has on numerous occasions ushered in democratic reforms that have proven more lasting than similar reforms instituted in the absence of strong institutions and economic development.¹⁷

At the core of Kazakhstan’s approach to national development are the concepts of evolution, organic development and a political process based on national consensus. On this basis, political decisions are uniformly state-led, applied top-down and born out of intra-elite deliberations. This is opposed to Western countries where political decisions tend to emerge out of a more competitive and conflictual process that pits different ideologies, groups and interests against one another and leads to bargaining and compromises. Paralleling thinking in the majority of post-Soviet Eurasian states, most of Kazakhstan’s political and economic leaders perceive the premature decentralization of political power as risky and imbued with the potential to incapacitate the state.

This said, it is important to note that the Kazakhstan-2050 strategy stresses that in the long run, “the only way to modernize our country and make it competitive is to progressively follow the path of political liberalization.”¹⁸ Some steps in this direction have indeed been taken, particularly with regard to local governance and public administration reform.

Never Going Alone

Since the late 1990s Kazakhstan’s foreign policy has been based consciously on the principle of achieving positive relations with all the relevant major powers

¹⁶ Ernst & Young, *Kazakhstan 2014: The Brand Paves the Way*, 2014. (<http://www.ey.com/gl/en/issues/business-environment/ey-attractiveness-surveys>)

¹⁷ Fareed Zakaria, *The Future of Freedom*, New York: W. W. Norton, 2007.

¹⁸ Nursultan Nazarbayev, *Strategy Kazakhstan 2050*, Astana 2012. (www.consulatokazakhstan.venezia.it/wp-content/uploads/2012/12/Poslanie-English.pdf)

and to balance them in such a way that no one of them, or grouping of them, can pose a threat to Kazakhstan's own sovereignty and self-determination. Kazakhstan has developed this concept of a balanced or "multi-vectored" foreign policy in such a way as to build strong economic and political relations with all the relevant powers, notably Russia, China, the U.S. and Europe, without allowing any one of them to dominate it and without creating adversaries in the process. Both through their own initiative and in emulation of Kazakhstan's model, other Central Asian states have adopted a similar approach.

Thanks to a number of enabling factors during the period from 2002 to 2012 this strategy worked well. These included the U.S.'s keen interest in Central Asia as a northern bulwark against the Afghan Taliban and other extremist groups, and as a supply base and staging area for its campaign in Afghanistan. Another enabling factor was China's rapid economic expansion into the region, which both challenged and balanced Russia's continued economic and security presence there.¹⁹ After 2012, however, this fortunate correlation of forces rapidly began to change in ways that made the pursuit of a "balanced" foreign policy far more difficult. Following the drawdown of U.S. forces in Afghanistan, President Obama shifted his attention to the Arab world and especially to East Asia, leaving America less deeply engaged with Kazakhstan and with Central Asia as a whole. Europe's engagement remained steady and even increased somewhat, but stood at such a low a level as to render the EU a less effective counterweight to China and/or Russia. NATO, meanwhile, followed the U.S. in cutting back the scale of its Partnership for Peace programs in the region. China launched its Silk Road Economic Belt program and, to defend that initiative, began to extend its influence beyond investments into the spheres of security and politics. At the same time, Russia began working energetically to enroll all the new states of Central Asia into the Eurasian Economic Union, and to strengthen the Collective Security Treaty Organization (CSTO).

These changing geopolitical dynamics made it increasingly difficult for Kazakhstan to maintain the former balances between its relations with the vari-

¹⁹ Alexander Cooley, *Great Games, Local Rulers: The New Great Power Contest in Central Asia*, New York: Oxford University Press, 2012.

ous major powers. The fact that this new challenge arose from the actions of Kazakhstan's partners rather than from anything Astana itself had done, made it all the more difficult for the country to address them. Taken together, the decline of the West's presence and the intensified (if very different) activities of both China and Russia posed the question of whether multi-vectorism as it had heretofore been practiced could still be considered a workable strategy in the face of only two vectors, Moscow and Beijing, both of which were ramping up their involvement and asserting their power.²⁰

Faced with this dilemma, Kazakhstan greatly intensified its involvement with international organizations, including several in Asia and those that had come into being under the West's tutelage. The idea was to embed all of its external relations into a larger framework that affirmed Kazakhstan's sovereignty and independence. Kazakhstan's surge of involvement with diverse multilateral international organizations rapidly attained such a magnitude that it could truly be termed the "fourth vector" of Kazakhstan's foreign policy, one that aims not only to put Kazakhstan on the geopolitical map, but, to anchor its sovereignty in a multitude of international settings.²¹

Kazakhstan's many new international engagements fall into three categories.²² First, are those that Kazakhstan itself has initiated unilaterally. Its involvement with nuclear non-proliferation began immediately after independence, when President Nazarbayev decided to forgo the status of nuclear power. More recently, Kazakhstan's efforts to play a prominent role in the field of nuclear non-proliferation and peaceful nuclear technology led to adoption of a UN Universal Declaration on the Achievement of Nuclear Weapons Free World and the decision in 2015 to build and host the world's first international low-enriched (LEU) bank in Kazakhstan under the auspices of the IAEA. Kazakh-

²⁰ Michael E. Clarke, "Kazakhstan's Multi-vector Foreign Policy: Diminishing Returns in an Era of Great Power 'Pivots'", The Asan Institute, April 9, 2015. (<http://www.theasanforum.org/kazakhstans-multi-vector-foreign-policy-diminishing-returns-in-an-era-of-great-power-pivots/>)

²¹ Johan Engvall and Svante E. Cornell, "Fourth Vector: Making Sense of Kazakhstan's Activism in International Organizations", ISDP Policy Brief, no. 189, December 17, 2015. (<http://www.silkroadstudies.org/publications/joint-center-publications/item/13184>)

²² Johan Engvall and Svante E. Cornell, *Asserting Statehood: Kazakhstan's Role in International Organizations*, Washington, D.C.: Central Asia-Caucasus Institute – Silk Road Studies Program, December 2015.

stan has been highly active in the issue of nuclear non-proliferation and peace-building. Addressing the UNGA in September 2015, President Nazarbayev suggested to establish a Global Anti-Terrorism Coalition (network) under the UN auspices. The next year, at the 4th Nuclear Summit in Washington, D.C., he presented a Manifesto entitled "The World. The 21st century", aimed at promoting world peace and advance a total ban on nuclear weapons.

Already in the early days of independence, Kazakhstan boldly launched a Conference on Interaction and Confidence Building Measures in Asia (CICA) – a format that has grown to include 26 member countries, approximating an Asian variant of the OSCE. Such unilateral initiatives have given Kazakhstan an important platform on the international scene.

A second aspect of Kazakhstan's rising international engagement involves its working with partners to build diverse forms of regional integration. This started immediately after independence when it joined the Commonwealth of Independent States and became an active partner in the Central Asia Union. Though scarcely remembered today, this project created productive collaborations in the economic, political, and even security spheres. Indeed, this idea was so promising that Russia sought to join, arguing that Central Asians should undertake no integrative projects without Russia. Within three years President Putin proposed to close the Central Asia Union and merge its members into an integrative project, which eventually became the Eurasian Union.

Yet another integrative project in which Kazakhstan played a vital role was the designation of all of Central Asia as a nuclear free zone. First proposed by Uzbekistan, this agreement was eventually signed by the foreign ministers of all five Central Asian states at a meeting in Semipalatinsk, Kazakhstan. This important initiative signaled to both Russia and China (as well as other nuclear powers further afield) that Central Asia, speaking with one voice, had placed a strict limit on what nuclear states could do within its territory.

Meanwhile, President Nazarbayev had early on signaled his desire to preserve what he considered the positive aspects of Soviet economic integration. Already in 1994 he proposed the idea of Eurasian integration. This bore fruits

with the establishment of a Customs Union in 2010, which in 2015 evolved into the Eurasian Economic Union. Again, Kazakhstan set firm limits on its involvement with this project, insisting that it welcomed economic integration but would oppose all forms of political integration, including the creation of a common currency or a common parliament, as proposed by Moscow.

The result of these efforts has been to embed Kazakhstan's important relationship with Russia in a web of institutions involving multiple partners and institutions in order to shelter the country from the effects of narrowly bilateral negotiations with the Kremlin.

The third focus of Kazakhstan's international dynamism called for it to play active roles in as many international organizations as possible. Kazakhstan has devoted much attention to its membership in the Shanghai Cooperation Organization and also the OSCE, which it was elected to chair in 2010. Kazakhstan has also chaired the OIC, EAEU, CIS, CSTO and Turkic Council, and in the past two years also joined ASEM and WTO. It also participates actively in diverse programs within the EU and UN, as well as region-wide annual consultations with Japan, the EU, South Korea, and, beginning in 2016, the United States. Kazakhstan's election to a non-permanent seat on the UN's Security Council in June, 2016, for 2017-18, crowned these various initiatives and serves as a timely indicator as the country starts out its second quarter of a century of independence.

Outlook to 2041

An Evolving Social Structure

Over the next quarter century, Kazakhstan's population will grow by one quarter. Yet the country has already peaked in terms of its dependency ratio, and as its society will gradually age, by 2041 the ratio of dependents to working population is likely to double. This will necessitate that Kazakhstan focuses on improving the productivity of its economy. Yet at the same time, booming populations in nearby countries will continue to provide low-skilled laborers for its economy. Though its society shows few signs of being attracted to more radical ideas, Kazakhstan will also continue to deal with possible challenges to its secular model of governance. That, as well as a fuller integration with the wider world, will also require that multi-vectorism, which has guided the country's foreign policy, also be applied to the area of information, where Kazakhstan's citizens lack the span of sources that its global role would indicate.

Demography

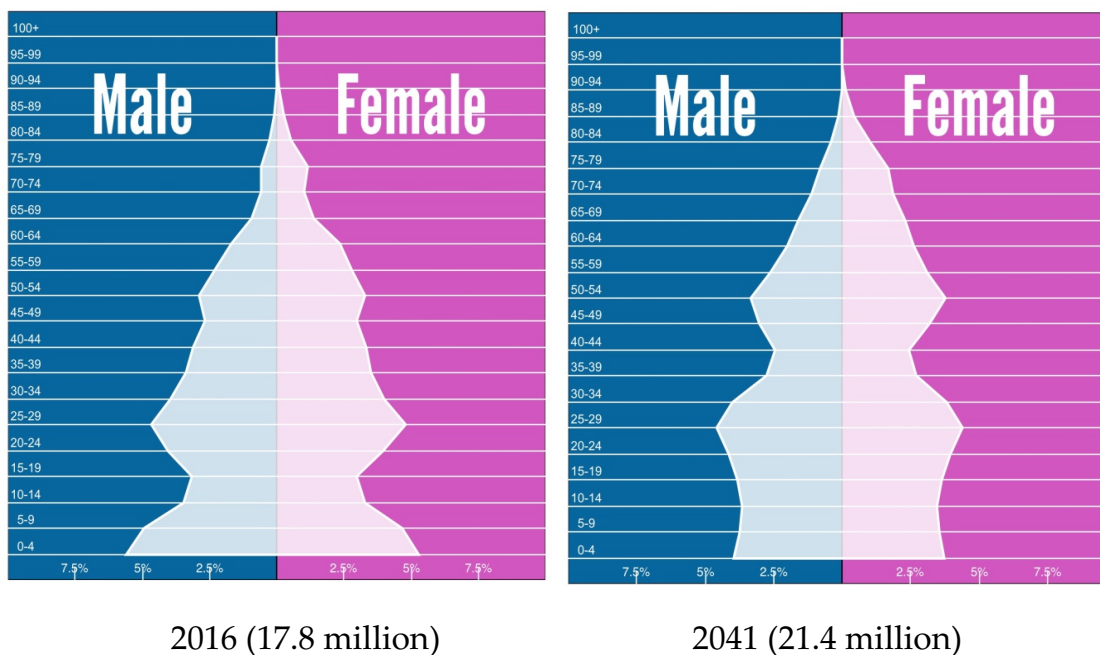
In contrast to the projected demographic decline in much of the former Soviet space, the Central Asian region is projected to experience significant population growth from now to the year 2100. The United Nations' most recent study on World Population Prospects concluded that the region's population is expected to grow from approximately 68 million in 2016 to 88.6 million in 2050.²³ This follows the rising trend during the twenty-five years following independence, when the region's population grew from around 50 million in 1991 to almost 68 million today, an annual increase of around 700,000 people.

²³ United Nations, *World Population Prospects: The 2015 Revision*. Volume 2: Demographic Profiles, United Nations: Department of Economic and Social Affairs, 2015, 18-22.

Kazakhstan's population is predicted to grow from 17.6 million today to 22.5 million by 2050, an increase of twenty-seven percent. In comparison, this is roughly the same pace maintained by Turkmenistan and Uzbekistan but slower than Kyrgyzstan and Tajikistan, the latter of which is projected to see a staggering population growth of close to 70 percent by 2050 (from 8.5 million to 14.3 million).²⁴ Likewise, by 2050, Afghanistan will grow from 32 million to 55 million.

This demographic picture will deeply affect every country in Central Asia and the region as a whole. It will likely exacerbate the current structural weaknesses of the poorest countries in Central Asia, Kyrgyzstan and Tajikistan, where only roughly a tenth of the territory is considered arable and where there is limited employment amid the highest levels of poverty. This will generate new waves of migration, not only to Russia but also to Kazakhstan and to Uzbekistan (if its economy continues to grow at current rates, though at present it is a migrant-exporting country). A rapid influx of new and largely unskilled immigrants risks could lead to social tensions and a destabilized labor market.

Figure 3: Population pyramid of Kazakhstan 2016 and 2041 projection²⁵



²⁴ Ibid.

²⁵ Source: "Population Pyramids of the World". (<https://populationpyramid.net/kazakhstan/2041/>)

Economic divides among regional states will broaden, juxtaposing energy-rich and migrant-importing Kazakhstan with the migrant-exporting Kyrgyzstan, Tajikistan and possibly Uzbekistan. Since the highest population growth in the region is bound to occur in the fertile but overpopulated Fergana Valley, this will only exacerbate the pressure on resources, including water and energy in these countries, with potentially severe impact on the supply of water to Kazakhstan from upstream China and Kyrgyzstan and from neighboring Uzbekistan.

Kazakhstan is projected to have a larger proportion of older citizens than its Central Asian neighbors. In this respect it will more closely resemble western countries. A key indicator is the ratio of the working-age population (ages 15 to 64) to the dependent population (children aged 0 to 14 years and the elderly, aged 65 years and above). More of the former means that fewer dependents need to be supported by the working group. Because this requires fewer resources, it is known as the “demographic dividend.” UN figures indicate that Kazakhstan’s working-age ratio peaked at around 2010, which began the shift of its demographic structure to old-age dependency. This demographic transition is projected to intensify after 2030. A group of Kazakh scholars estimate that the country’s dependency ratio will increase from 11.3% in 2010 to 20.8% in 2040.²⁶

The obvious implication from this data is that if Kazakhstan’s future labor force is to provide for the enlarged but aging population, it will have to become more productive and at the same time use its resources more efficiently. Many other countries will confront this same challenge, but in Kazakhstan it will be rendered more difficult by the heritage of the Soviet system, which was based on *the extensive* rather than *intensive* use of all resources, including labor. In practice, this meant that the normal way to increase production was to add more inputs, whether land, labor, or other resources. Kazakhstan will have to do so instead by getting more output from every unit of input. This can be ac-

²⁶ Assel K. Izenkova, et al., “Trends in ageing of the population and the life expectancy after retirement: A comparative country-based analysis,” *Journal of Research in Medical Sciences* 20, no. 3 (2015): 250-252.

complished in part through the application of new production technologies. The likely arrival of large numbers of unskilled immigrants will make this more challenging than it would otherwise be.

Urbanization and a Growing Middle Class

At 53% of the total population, Kazakhstan has the largest share of urban dwellers in all of Central Asia. The percentage of its population who are urban dwellers has increased by roughly 5%.²⁷ Over the next twenty years the urban population may rise to 70% of the total population. The three major cities – Almaty, Astana and Shymkent account for one-third of the country's urban population, but Karaganda, Atyrau, Taraz, Uralsk, Ust-Kamenogorsk and Aktau are also growing quickly. The booming economy in the years after 1998 enabled the government to support cities and small towns through budget transfers. The government's current and long term strategy is to develop the three major cities as urban agglomerations so that they may lead the country's future development. This means the development of large economic clusters around the three megalopolises.²⁸ This approach, along with the strong move towards urbanization that already exists, could render many of the country's numerous smaller cities and towns uncompetitive and less economically viable. This problem will be especially complicated in the so-called industrial towns established around single factories in Soviet times. Prudent policies will be required either to find new lives for these settlements or to phase them out.

Urbanization and migration from elsewhere in the region will combine to create a number of serious challenges over the next 25 years. As noted above, migration from regional neighbors is bound to continue, with most of the newcomers coming from tradition-bound rural areas. In combination with internal migration from rural areas to cities, this could lead to mounting tensions and divisions between urban dwellers and rural migrants, not least regarding education, modernity versus traditionalism and more secular lifestyles versus reli-

²⁷ UNDP, "Urbanization in Central Asia: Challenges, Issues and Prospects," Analytical Report 2013/03, Tashkent 2013, p. 25.

²⁸ Ibid, p. 22.

giously influenced worldviews. Beyond this, Kazakhstan's ability to handle a growing population will be constrained by the limited water supply and the landlocked location of the country. Issues of food security and agricultural modernization must be addressed in this context. Finally, urbanization will inevitably put the ageing infrastructure built during the Soviet era under ever greater stress. In short, while migration and urbanization are likely to enhance economic and social development, the attendant problems must be mitigated by policies that focus on resources and infrastructure, not only in the burgeoning cities but in the "left behind" towns and countryside. If not addressed, urbanization and the resulting "backwash" in the countryside could give rise to social tensions.

Since the turn of the millennium, Kazakhstan has achieved an impressive reduction of poverty and has witnessed the rapid emergence of a substantial urban middle class. This new middle class can become a guarantor of social stability in the country and a shield against extremism and the ideas that inform it, whether domestic in origin or imported from abroad.²⁹ Thus far, the new middle class has maintained a positive and productive relationship with the government. Acknowledging President Nazarbayev's role in their social advancement, they have been disinclined to support opposition parties. This is bound to change as Kazakhstan enters a new era. As in other developed countries, citizens will align themselves with parties representing the diverse interests in society. Government should not and cannot attempt to manipulate the emerging affirmations of the middle class, but it can deliver effective governance that will encourage members of this pivotal group to work within the system to improve it, rather than against it.

Identity Formation and Education

In order to sustain a peaceful and stable Kazakhstan, state and society alike must be able to manage regional, ethnic, linguistic and religious diversity. Like other post-colonial countries beginning with the United States, the main focus in Kazakhstan has been on the nation as a whole, which has meant strong

²⁹ Daly, *Emerging Middle Class*.

support for the titular nationality while at the same time attending to the interests of minority groups. Inter-ethnic conflicts in southern Kyrgyzstan remind us of the dangers that failure in this project can bring. The building of a nation, however, involves far more than the accommodation of pluralistic tendencies. Far more important is the need to identify and act upon the fundamental values that link citizens in an open society. For Kazakhstan, one of the central values must be the central importance of a secular state, secular system of laws, secular courts, and secular education. For religiously pluralistic societies there is no viable alternative to this principle. Religious toleration is important, and lies at the very heart of Central Asia's Golden Age, when the region led the world in intellectual development and innovation. Far from being against religions (or irreligion, for that matter) the secular state is the essential guarantor of the religious freedom of all its citizens. Indeed, as one of this study's authors showed in his book *Lost Enlightenment*, the region flourished when it was infused with a spirit of openness and fell into decline when people with narrow religious views seized control of the state.³⁰ The challenge for Kazakhstan is to continue the secularism of the state that was instituted during Soviet times, and to replace the anti-religious prejudice that alienated much of society with tolerance and respect for all religions, and official neutrality.

Fortunately for Kazakhstan, far fewer of its citizens advocate the introduction of Sharia law than in other Central Asian states, and more reject extremism out of hand. Indeed, in the Pew Research Center's study, support for Sharia law – at 10 percent – is lower in Kazakhstan than in any other Muslim-majority state save Azerbaijan. Incidentally, nowhere in the Middle East, North Africa, or South or Southeast Asia was the response lower than 50 percent.³¹ This may reflect the continuing influence of the Kazakhs' tolerant erstwhile native faith, Tengrianism, but it also attests to the success to date of the government's policy of tolerant secularism. Provided this approach is refined along the lines

³⁰ Frederick Starr, *Lost Enlightenment: Central Asia's Golden Age from the Arab Conquest to Tamerlane*, Princeton University Press, 2013. (Kazakh and Russian translations, Almaty, 2016.)

³¹ Michael Lipka, "Muslims and Islam: Key Findings in the U.S. and Around the World", Pew Research Center, July 22, 2016. (<http://www.pewresearch.org/fact-tank/2016/07/22/muslims-and-islam-key-findings-in-the-u-s-and-around-the-world/>)

suggested above, we see no likelihood of intolerant Islamization arising in Kazakhstan in the coming quarter century.

Will Kazakhstan possess the human resources needed to develop rapidly during the coming twenty-five years? It is customary to address this question by referring first to the status of higher education. It is well known that the Bolashak Program enabled many students from Kazakhstan to seek higher education abroad, in Western countries as well as in Russia, Turkey, China, South Korea, etc. Because recipients committed to working for five years in Kazakhstan after completing their studies, Kazakhstan has been successful in keeping skilled members of the younger generation connected to their country and prepared to take up jobs in the public and private sectors.

Beyond this, the new Nazarbayev University in Astana has been launched with the goal of having a major international teaching and research institution in the country itself. Locally anchored, it has formed alliances with leading institutions abroad. These have drawn many competent scientists and researchers from abroad, all of them under the explicit condition that they train a successor generation of young Kazakhstani citizens to take over in the future. The project has proven that it is possible to rid higher education of the corruption endemic across all the formerly Soviet countries. It remains to be seen if educational principles developed at this innovative institution will be successfully applied elsewhere, or, indeed, if other institutions will long remain content to have so many resources concentrated on just one flagship university. What is beyond question is that Nazarbayev University has opened a path to modern higher education and development-related research that is based purely on meritocratic principles.

Notwithstanding these achievements, large numbers of younger citizens of Kazakhstan still retain habits of mind that are holdovers from the Soviet system. A reluctance to strike out autonomously as entrepreneurs, citizenship that is still tinged by undue deference to authority, a "we vs. them" attitude to agencies of the state and readiness to resort to corruption when necessary, and a general aversion to risk-taking are among the traits from an earlier era that have been passed on to many in the rising generation. A central task of Ka-

zakhstan's educators at the school level over the coming decades will be to identify and address these elements of what might be called a "Soviet hangover" in the mentality of their young citizens. Failure to do so can allow frustrations to simmer and leave many open to the attractions of extremist ideologies.

Globalization and Technology

In order for Kazakhstan to produce more as the proportion of its citizens who are of working age declines, it will have to exploit the latest technologies. This is already being done, but the effort will have to be expanded at all levels. The natural tendency is for such innovations to be applied first in urban areas and only later extended to the countryside. However, efficiency will demand that the modernization of agriculture be achieved through the same kind of focused investment as in the urban and manufacturing sector. Not only will this help Kazakhstan become a "breadbasket of Eurasia" but it will reduce rural-urban gaps in income and achievement.

With millions of Kazakhstan's citizens regularly glued to their smartphones, one might think that the country has already embraced the revolution in communications technologies. However, most Kazakhstani men and women still rely on television and traditional print media for news and information. This would not in itself be a problem if it were not for the fact that these sources of news and information continue, as in Soviet times, to be dominated by Russian suppliers. Kazakhstan is only beginning to apply its multi-vectored approach to the world to the realm of information. The problem is not with Russian media themselves, but with the fact that citizens of Kazakhstan have so little access to information and opinions direct from China, Europe, America, and other world areas. Without it, they will not be able to form the balanced outlook that is the hallmark of Kazakhstan's policy towards the world and which is increasingly important in a globalized world.

A Diversified Economy?

Kazakhstan's strong GDP growth after 2000 testifies to its economic prowess, just as slowed growth since the decline in world oil prices highlight the challenges it faces for the future. Caution is in order. To some extent the post-2000 boom reflected Kazakhstan's successful transition to sovereignty. Moreover, numerous studies of other countries remind us that success in one period rarely translates into success in the next, when unexpected shocks might occur and policies might suddenly change.³² Global financial crises have occurred approximately once every ten years over the past half century. How Kazakhstan manages upcoming challenges and crises will have a decisive impact on where it will find itself twenty-five years hence.

Current economic difficulties highlight Kazakhstan's vulnerability to negative developments in the world economy. Two major external shocks affect the economic situation today and are likely to extend into the medium-term. First, the 2014 dip in oil prices had a major impact on oil-producing Kazakhstan. While prices may recover, the declining role of OPEC and the rise of shale oil suggest that they may never reach previously high levels and will continue to be volatile for the foreseeable future. Second, Russia's economic slowdown has impacted Kazakhstan's trade, investment, banking, and currency. Since Russia's economy is expected to register slow growth in the coming years, the slowdown seems likely to continue, affecting also China's economic performance.

Many argue that for Kazakhstan to return to high growth it must respond with major economic reforms, particularly in areas where the country lags behind other emerging markets. These include the business climate, export diversification, financial sector development, and the need to better utilize worker's skills. To its credit, the government has signaled its readiness for change by drawing up an unprecedented privatization plan designed to attract foreign investors, and by continuing with concerted efforts to improve its business

³² Pradeep Mitra, "Recent economic performances and the drivers of long-run growth", in Rajat Nag, Johannes F. Linn and Harrinder S. Kohli, eds., *Central Asia 2050: Unleashing the Region's Potential*, Sage, 2016, p. 31.

climate, which resulted in its World Bank's 2017 Doing Business rating rising to 35th place. Through this and future responses to threats generated by global developments, the government has to steer a wise course between demands for short-term crisis management and the implementation of measures that are essential for long-term development.

Kazakhstan's economy strains under the tension between the centripetal force of state control, planning and monopolies and the centrifugal force of market competition. Finding the right balance between them will be challenging. A key to future success will be to prevent the forces of state capitalism from impeding the development of private initiatives and market competition. It is worth noting that between 2005 and 2015 the state sector in Russia grew from 35% of the economy to 70%.³³ It is difficult to see such an approach as a path to economic vigor.

A New Economic Policy: Diversification and Institutional Reform

In the same vein as the BRIC countries (Brazil, Russia, India, and China), Kazakhstan has adopted an innovative state-led capitalist economic model. In this development, Kazakhstan has been receptive to learning from other countries, including China, Japan, Malaysia, Singapore, South Korea, Turkey, the United Arab Emirates, but also European countries such as Norway (in setting up its National Fund) and Finland (for example in its innovation policy strategy). As demonstrated by economist Roman Vakulchuk, the type of market-oriented economy that has emerged in Kazakhstan during its first quarter of a century consists of two major blocs, operating under different legal regimes, incentive structures and involving different types of economic actors. The first and dominant part of the economy, labeled the state-led core dominates in energy and extraction and is characterized by big companies, high-capital intensity, and a much more active role of the state, in terms of regulation, financing, and taxation. In total, these state-led strategic sectors of the economy generate

³³ "Gosudarstvo i goskompanii kontroliruyut 70% rossiiskoi ekonomiki," *Vedomosti*, September 29, 2016. (www.vedomosti.ru/economics/articles/2016/09/29/658959-goskompanii-kontroliruyut-ekonomiki)

about 70% of the country's economy. The second economic bloc, referred to as the market-driven periphery, consist mainly of small- and medium-sized businesses in the low capital intensive service sector. In comparison to the extractive industries, these businesses are subject to little state regulation, limited access to finance, lower tax burdens, however, the investment regime and the general business environment is less secure. The implications of this difference in economic management across these two sectors is that inferences to Kazakhstan's economy as a whole cannot be fully understood by looking only at the natural resource sector, as often tend to be the case.³⁴

However, for the development of a modern diversified economy, the major question relates to whether this transformation can be accomplished within the current predominantly state-led capitalist system or whether the system is bound to give way to a more competitive market-driven economic regime, thus far mainly confined to the service sector. In the Kazakhstan-2050 strategy both elements feature prominently. On the one hand, the stated ambition is to double the share of small and medium enterprises in the economy by 2030; wide scale privatization is needed to redistribute the balance away from the state to the market. On the other hand, in the organic economic thinking predominant in Kazakhstan, the state remains the key actor. As the driver of economic strategy, the state must take on stronger corporate management skills. In other words, the government appears committed to continue pursuing a market model featuring a strong role of the state. A strong, active state could nonetheless represent a threat to the market forces. It is therefore critically important that the state clearly delimit its activities in the economic sphere. In other words, the government needs to get the priorities right, and adopt a selective focus on key areas rather than scatter its resources and initiatives across too many areas. The role of the government should be to provide guidance, support and a stable economic framework, not to interfere or engage in activities best handled by private market forces.

Among the many challenges facing Kazakhstan will be to avoid the so-called Middle Income Trap. This is the condition that exists when a country is unable

³⁴ Roman Vakulchuk, *Kazakhstan's Emerging Economy: Between State and Market*, Peter Lang, 2014.

to compete in manufacturing with low-income, low-wage countries and incapable of competing with advanced economies in skill-based innovations. In the more optimistic scenario embodied in the 2050 Strategy, the country will advance along the path toward “best global practice” over the next 25 years. Realizing Kazakhstan’s 2050 vision, thus, requires a transformation of its growth model away from dependence on natural resource extraction toward a more diversified and competitive economy based on manufacturing and services.³⁵

The much desired diversification of Kazakhstan’s economy will require a major mobilization to address constraints relating to infrastructure, laws and institutions affecting the investment climate, and incentives for strengthening human capital and encouraging innovations. It will also be important to Kazakhstan’s long-term development to manage the country’s vast natural resources in a manner that is both efficient and consistent with the needs of the environment.

Kazakhstan’s successful long term economic performance will require transformations in both the country’s economic structure and its management. The record so far is positive. An index measuring the degree of market reform in the post-Communist bloc developed by the European Bank for Reconstruction and Development (EBRD) distinguishes between first phase reforms and second phase reforms. The former include small-scale privatization, price liberalization, and the liberalization of foreign exchange. The latter include large-scale privatization, governance, enterprise restructuring, and competition policy. Kazakhstan’s progress on the first phase reforms has been strong, while the more challenging second phase reforms have lagged behind.³⁶ This pattern is in line with other post-Soviet republics but it indicates the need for deepening reforms in areas where progress lagged during the economic boom. Encouragingly, the EBRD report for 2015-16 notes approvingly of the recent changes

³⁵ Johannes F. Linn, “Creating a competitive and innovative manufacturing and service economy”, in, Rag, Linn and Kohli, eds., *Central Asia 2050*, pp. 129-170.

³⁶ For a summary, see Mitra, “Recent economic performance”, pp. 33-34.

made to promote investment and growth. The new privatization program is however progressing slowly.³⁷

The market will not produce a legal order on its own. Meanwhile, unpredictable state interference in the economy through legislation, regulations, and confiscations serve as active disincentives for businesses of every type. In international comparisons, Kazakhstan performs well in macroeconomic management and the development of market-based institutions. However, as the World Bank recently reported, “to do good economics we need to go beyond economics,” and that Kazakhstan lags behind on governance and institutional development.³⁸ This has important negative effects on the country’s investment climate. Foreign investors in particular complain about “appropriations, capriciously imposed taxes, favoritism, and corruption.”³⁹ It is good that the country’s authorities acknowledge these problems and that President Nazarbayev has proposed measures to address deterrents to foreign investments, particularly on the regional and local levels. The implementation of these directives cannot be achieved without the strong political will needed to overcome the entrenched interests that benefit from the current situation.

Kazakhstan’s joining the World Trade Organization (WTO) on November 30, 2015 has the potential to spur a business-friendly environment. However, the direct gains from WTO membership should not be overestimated, since Kazakhstan’s main exports are natural resources that tend to have markets irrespective of trade regimes. However, membership can stimulate reforms that will move Kazakhstan towards the goal of becoming an open, rules-based market economy. WTO membership can provide a lock-in-effect on reforms, and positively impact foreign investment. It can also stimulate both manufacturing and the service sector. However, important choices will remain. Will Kazakhstan’s new transportation infrastructure enable it to build an industrial

³⁷ EBRD, “Country Assessments: Kazakhstan,” Transition Report 2015-16. (<http://2015.tr.ebrd.com/en/countries/#>)

³⁸ World Bank, “Making Politics Work for Development”, p. ix. (<http://pubdocs.worldbank.org/en/999311464019076764/Making-Politics-Work-for-Development.pdf>)

³⁹ S. Frederick Starr, et al., *Looking Forward: Kazakhstan and the United States*, Silk Road Paper, September 2014, p. 25. (<http://www.silkroadstudies.org/resources/pdf/publications/SRP-1409Kazakhstan.pdf>)

economy and get its goods to distant markets? At present, this is all but impossible, which severely constrains the agricultural sector.⁴⁰ Or should it instead focus more single-mindedly on services? Either way, WTO membership will help Kazakhstan improve its ability to avoid the “resource curse.”⁴¹

The Energy Sector

Enthusiasm for high-tech manufacturing, export agriculture, and modern services should not hide the fact that it was the oil boom that was the prime driver of Kazakhstan’s development. Indeed, the share of the oil and gas sectors in the country’s GDP has grown from 3.7% in 1997 to 14.7% in 2006 and up to 25.8% in 2011.⁴² The government has successfully managed to diversify its export routes with the opening of pipelines to China and the West, thus, reducing its dependence on the Russian market and transit routes. The energy boom allowed the country to reap huge oil revenues for a decade, which it invested in infrastructure and poverty reduction. But the oil industry does not generate a large number of jobs, and unemployment has remained a problem in rural areas where subsistence farming absorbed the country’s excess labor. The economic gap between the country’s major urban centers and the oil-producing regions and the poor agricultural regions in the south, has widened dramatically.

Over the next 25 years the effective management of energy resources, minerals, and water will be of critical importance. But Kazakhstan cannot suppose that world demand for hydrocarbons will remain high. As one analyst perceptively noted:

Driving a car on gasoline or diesel could be as old-fashioned by [2050] as using a typewriter is now. This would have major implications for the global demand for oil, and particularly for the rela-

⁴⁰ Richard Weitz, “Kazakhstan’s National Development Strategies. An Assessment,” Central Asia Policy Brief No. 14, December 2013.

⁴¹ Starr et al., *Looking Forward*, p. 34.

⁴² Nursultan Nazarbayev, *Strategy Kazakhstan 2050*, Astana 2012. (www.consolatokazakhstan.venezia.it/wp-content/uploads/2012/12/Poslanie-English.pdf)

tively high-cost oil of Central Asia. After all, more than 60 percent of global oil demand today is for transportation – much of that demand may have disappeared by 2050.⁴³

Kazakhstan's ability to react effectively *and above all proactively* to such possible changes will determine its economic future. To do so it must anticipate the worst and plan for the best.

Structural reforms in the energy sector have progressed further in Kazakhstan than in neighboring Turkmenistan or Uzbekistan. They include the unbundling of energy generators, distributors and suppliers into separate and extensively privatized entities. The government has also made large investments to upgrade its transmission networks, built new lines and enhanced capacity. Yet many Soviet era technologies and institutions remain in place. As a result, the EBRD considers Kazakhstan to fall behind the benchmarks for an efficiently-functioning electricity sector.⁴⁴ It is estimated that 17.5% of thermal energy is lost, mainly because of deteriorating facilities. The crumbling Soviet-era energy infrastructure in small towns is in a particularly dire need of repair. To its credit, the government has established a Clean Technology Fund designed to promote energy efficiency and reduce waste. Whether it will effectively address waste caused by corruption remains to be seen.

Renewable resources, such as wind, solar, small hydro and bioenergy as of now contribute less than 1% of Kazakhstan's energy. The country's major renewable energy potential is in wind power, favored by the steppe geography, but the country also has areas that hold promises for solar energy.⁴⁵ We have already taken note of Kazakhstan's dependence for water on the policies of China, Kyrgyzstan, and Uzbekistan. Less frequently mentioned is the massive waste of water caused by the decaying irrigation infrastructure. Soviet engineering, based on the extensive rather than the intensive utilization of resources, created a grossly inefficient and wasteful irrigation system. The Soviet

⁴³ Jonathan Walters, "Managing the energy transition", in *Central Asia 2050*, Nag, Linn, Kohli, eds., pp. 84-85.

⁴⁴ Ibid, p. 91.

⁴⁵ Marat Karatayev and Michèle L. Clarke, "A review of current energy systems and green energy potential in Kazakhstan", *Renewable and Sustainable Energy Reviews* 55 (2016): 491-504.

system should be replaced, not repaired, and this will require massive investment. Since this is a regional problem as well, Kazakhstan should organize a major Central Asia-wide campaign to engage international financial institutions and donors with this mega-problem. The U.S., EU, World Bank and many countries have already worked in this area and will understand the need for a region-wide effort to address this massive problem.

The Non-Oil Sector – the Breadbasket of Eurasia?

In the long term, energy will cease to be the main driver of the country's growth. The non-oil sector which holds the greatest potential for a boom in exports is agriculture. To become a global leader in agricultural exports, the 2050 strategy envisages the agricultural share of GDP to increase five-fold by 2050. Kazakhstan's major advantage in agriculture is represented by the high-quality of wheat produced in its northern territories. Kazakhstan stands as the sixth-largest wheat producing country in the world, but it lags severely in production methods, logistics, storage infrastructure and access to foreign markets. Kazakhstan's agricultural sector is further hampered by low labor productivity.⁴⁶

These will not be corrected through existing institutions alone. Kazakhstan boasts a number of well-regarded educational institutions that focus on agriculture. However, training and research in the agricultural sector have yet to receive the kind of attention that has been accorded to technology, medicine, and business at Nazarbayev University. We therefore suggest that the government designate a single agricultural training and research center as the nation's lead institution, that it charge it with facilitating the transformation of Kazakhstan's agriculture, and that it be adequately funded to meet these ends. Needless to say, this goes hand in hand with the reform of the irrigation system. Kazakhstan should also consider adopting a system of highly localized

⁴⁶ Richard Pomfret, "Modernizing agriculture", in Rag, Linn and Kohli, eds., *Central Asia 2050*, pp. 107-124.

agricultural service centers along the lines of America's ubiquitous Agricultural Extension Services, which exist in every county.

None of the above changes will succeed until the existing and incomplete reforms in land tenure are brought to a conclusion. Experience has shown clearly how vested interests and the force of tradition can neutralize even the best intended initiatives in this area. In the spring of 2016, the government proposed changes in the law that would extend the terms under which foreigners can rent agricultural land from 10 to 25 years. These changes would also enable Kazakh citizens to buy or lease land at auction. Massive protests greeted these proposals and the government backtracked on some of the proposed measures.

This experience dramatically underscores Kazakhstan's urgent need for the kinds of educational/research program and agricultural extension services described above. Without something of this sort, talk of modernized agriculture will remain just talk, and Kazakhstan's economy will become overwhelmingly dependent on the urban sector, with predictably negative implications for the countryside.

At the time of its 25th anniversary, roughly half of the country's total population lives in rural areas. This figure will drop significantly over the next 25 years, posing the question of whether Kazakhstan is really serious about transforming the agricultural sector into a major driver of national prosperity. If it is, it will have to focus much more intently on its future development, and on the training of the men and women who will make it possible.

Trade and Transport

Over the years, outsiders have often viewed Kazakhstan as an isolated economy: landlocked, distant from world markets, and for decades forced to transport all its exports to and through Russia's one-hub system. Today this is rapidly changing. Indeed the country will have to fundamentally rethink its relationship to all major world economies and markets. By 2041 all of these relationships will have been transformed. New opportunities will arise, linked

to the region's closeness to the buoyant markets of Asia and its location as hub of an enormous Eurasian continental economic space. The real key here is to supplement the existing ties with the economies of the former Soviet Union with the building of stronger economic links to East and South Asia as well as with Europe and the Middle East. In other words, Kazakhstan will have the opportunity to extend its "balanced" foreign policy more deeply into the fields of business and the economy. But will it actually do so?

Kazakhstan's immediate priority is to raise the competitiveness of east-west links to China and Europe, as well as the North-South Corridor to Turkmenistan and Iran. This process is already well advanced. An international logistics center for intermodal freight transport has been set up on the border with China, and the government has invested heavily in the Aktau port complex on the Caspian Sea. In 2012, Kazakhstan opened a second border crossing with China at Khorgos, complementing the Dostyk/Alashankou crossing. President Nazarbayev has set the goal of doubling transit through Kazakhstan by 2020, which would translate into 50 million tons of cargo.

Viewed from the perspective of 2041, all of the above will be seen as yesterday's projects, the grand initiatives that dominated public discussion back in the period of 2015-2025. Their successful completion is urgently necessary, but by 2030 it will be amply evident that these projects alone will not open Kazakhstan's windows to the world. To date, Kazakhstan has barely registered the fact that by 2030 the population of India will have surpassed China's and, equally significant, be far younger than the Chinese populace. Given the fact that the already large populations of both Pakistan and Bangladesh are projected to grow at the same rate as India's, it is all but inevitable that South Asia will become a world center for production and consumption in many spheres. Again, we must stress that these conclusions are based not on speculation but on firm demographic data on those already born in the countries in question.⁴⁷

⁴⁷ Whereas China's current population of 1.36 billion exceeds India's 1.3 billion, it is far less than the combined population of India, Pakistan, and Bangladesh, which already stands at 1.65 billion. By 2040, China's population is expected to have plateaued around 1.4 billion but India will reach 1.640 billion, Pakistan 254 million and Bangladesh 235 million. This will make for a combined total population of the Indian subcontinent 2.129 billion.

Given the all-but inevitable rise of the Indian sub-continent as a major economic force by the year 2040, it is in Kazakhstan's interest to combine forces with other regional states and with international partners, donors, and financial institutions to open up the most direct and efficient transit corridors between Kazakhstan, Central Asia, and the Indian sub-continent. To realize the potential emergence of Kazakhstan and the rest of Central Asia as a land bridge connecting both China and India with Europe, a number of obstacles need to be overcome. First among these is to improve relations within Central Asia itself, and to reduce existing barriers to intra-regional communications and trade. This means opening frequent direct airline connections between all regional capitals and the reduction of impediments that now make regional borders among the slowest and bureaucratically most vexing in all Eurasia.

The Asian Development Bank estimates that regional cooperation across a wide range of areas has the potential to double the region's GDP over a 10-year period.⁴⁸ Yet, the World Bank's Doing Business Survey's gives all Central Asia low rankings in the category "trading across borders".⁴⁹ The high cost of intra-regional trade prevents Kazakhstan from diversifying its economy away from the export of resources. In order to become competitive participants in the global supply chain, Kazakhstan and all its Central Asian neighbors need low and predictable trade costs.⁵⁰

The major driver for the development of continental trade in the immediate and mid-term future is likely to be China's ambitious Silk Road Economic Belt (SREB) initiative – an enormous foreseen infrastructure investment of US\$50 billion in the mid-term. The main purpose of the new Silk Road is to simplify trade between China and the EU. Yet, even though the land corridor is quicker compared to the sea routes, it remains comparatively expensive, especially at a time when the cost of seaborne trade has plummeted due to an oversupply of ships. An earlier study by the present authors details further challenges for

⁴⁸ Harinder S. Kohli, Ashok Sharma and Anil Sood, eds., *Asia 2050: Realizing the Asian Century*, Sage 2011, p. 259.

⁴⁹ World Bank, *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, Washington, DC: World Bank, 2016, p. 211.

⁵⁰ UNDP, *Trade and Human Development*, Central Asia Human Development Series, 2014, Chapter 4.

Kazakhstan if it is to reap the full benefits of the new roads and railroads.⁵¹ First, Kazakhstan must focus more on the “soft” infrastructure that makes trade possible. Will Kazakhstani firms handle logistics, warehousing, equipment maintenance, and insurance along the corridor that crosses its territory? These potentially lucrative tasks can only be handled by private firms, most of which are yet to be established in Kazakhstan. However, too much of Kazakhstan’s thinking about the new trade routes is confined to the government. Governmental policy in Astana must encourage private initiatives in all these areas. These spheres, too, can best be developed by firms operating across national borders within Central Asia. The IMF correctly notes that cooperation in these areas will be necessary in order to build a region that can connect to the rest of the world, and improve its diversification and growth.⁵²

Improving Governance: Kazakhstan’s Political System

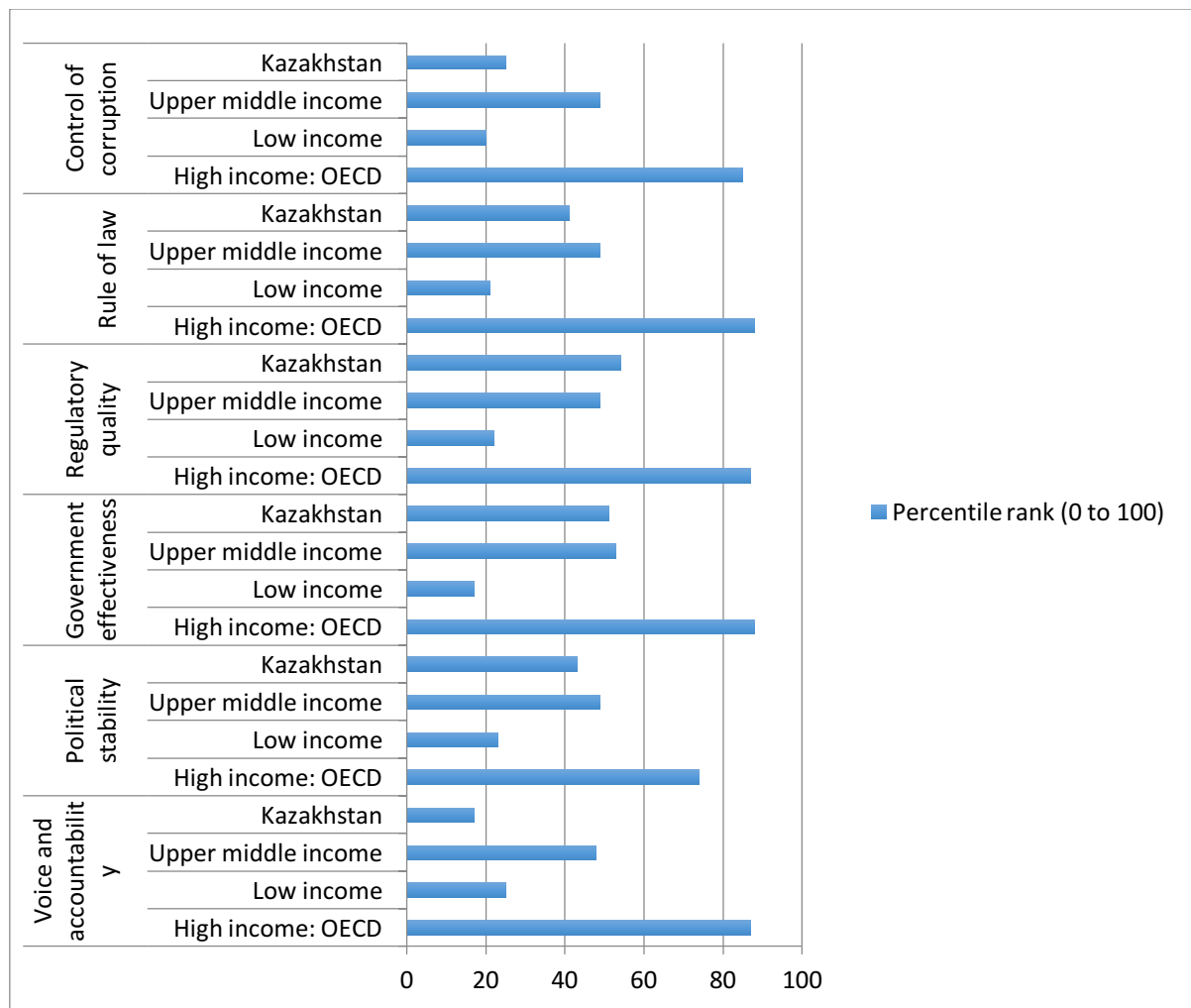
Kazakhstan’s gradual approach to political reform has received a fair amount of criticism from international observers, both special-interest NGOs and governments. Many of these critics have pointed to its purported “democratic deficit” and electoral shortcomings. At the core of these analysis is the assumption that the process of transition to open government and the development of electoral processes can be easily and quickly effected. This is manifestly not the case, nor was it so in western European countries, which required centuries to make this transition. Kazakhstan and its Central Asian neighbors sometimes retort to their critics that westerners err in thinking that open societies and electoral democracy are universal, and can be successfully achieved everywhere. But this, too, is faulty, as the evolution of India, Japan, South Korea and other non-western states clearly indicates.

⁵¹ S. Frederick Starr, Svante E. Cornell and Nicklas Norling, *The EU, Central Asia, and the Development of Continental Transport and Trade*, Washington, DC: Central Asia-Caucasus Institute – Silk Road Studies Program, December 2015.

⁵² IMF, “The Caucasus and Central Asia: Transitioning to Emerging Markets,” Middle East and Central Asia Department, 2014, 2.

Over time it has become clear to both sides of this argument that this simplistic one-dimensional focus on authoritarianism versus democracy was inadequate. Instead, attention has increasingly been directed towards the establishment of “good governance” and state effectiveness in the former Soviet territories. These have increasingly come to be appreciated as prerequisites to the development of governmental openness and the creation of any functioning electoral system. Over the past decade, research has shown that there is a strong positive correlation between a country’s social development and the quality of governance. In order to be able to respond to ever more complicated tasks of the future, the establishment of responsive and effective governmental agencies in all areas directly affecting the lives of citizens will be of central importance for Kazakhstan’s future development. Although Kazakhstan’s institutional performance has improved along most dimensions over the past decade, it remains weak by international standards. This “governance deficit” becomes especially obvious in light of the benchmarks set by those developed countries that Kazakhstan aspires to join by 2050.

The centrality of the quality of governance is underscored also by the widely used Worldwide Governance Indicators (WGI), a research dataset summarizing the views on the quality of governance provided by a large number of enterprises, citizen, and expert survey respondents across countries. The survey focuses on six major aspects of governance: accountability; political stability and the absence of violence and terrorism; governmental effectiveness; regulatory quality; rule of law; and control of corruption. Kazakhstan ranks best on political stability (although its ranking has worsened over the past decade), regulatory quality, and governmental effectiveness. It has also seen some improvements, albeit from very low initial levels, from 2003 to 2013, regarding the rule of law and the control of corruption. Its lowest score, which has declined over time, is for “accountability.”

Figure 4: Worldwide Governance Indicators 2015⁵³

In the past decade, the social contract between the government and the citizens has been based on increasing living standards and national stability. However, in a changing time of increasingly volatile growth, the stability of this order cannot be taken for granted. Sustained growth is important for the creation of jobs, the ability to address inequalities within the country, and the further empowerment of an expanding middle class. In this context, there will likely be a growing need for a government that is flexible and responsive to legitimate popular demands. It seems particularly urgent that Kazakhstan strikes a balance between the hitherto emphasis on strong centralized power and the long-

⁵³ Source: Worldwide Governance Indicators, Interactive Data. (<http://info.worldbank.org/governance/wgi/#reports>)

term goal of decentralization. The possibly growing demands of an expanding middle class may be a particularly potent driver for improved public service delivery and a more accountable and transparent political system. Thus far, this group has been content with enjoying improved material well-being, but over time this dimension is likely to be supplemented with growing demands for greater political plurality.

Public Administration, Quality of Governance, and Control of Corruption

No political system is static, and over the next 25 years, Kazakhstan's political institutions will go through many changes. The question is whether this will happen in an evolutionary and incremental manner or through disruptive processes of change. The Kazakhstan 2050 strategy acknowledges that institutional status quo is not a viable option, and singles out a new personnel policy at the core of the country's long-term strategy for institutional development. In 2015, President Nazarbayev announced a 100-step reform program focusing on introducing greater transparency and increase institutional effectiveness.⁵⁴ The major challenge is obviously in the implementation, in particular overcoming vested special interests intent on preserving the status quo. But if the reforms are implemented, they would undoubtedly improve in the quality of public administration and bridge any existing gaps between citizens and their government. Another important reform is under way in local governance. In 2015, the government adopted new rules on the financing of local governments, coupled with a general legislative reform package.⁵⁵ In addition, in 2013 indirect mayoral elections were introduced in small towns and villages. The stated purpose of these initial decentralization efforts was to make the government more responsive to the local population.

Kazakhstan has been at the forefront of post-Soviet countries in Central Asia in the steps it has taken to modernize the system of public administration. Strides

⁵⁴ "President Nazarbayev unveils 100 concrete steps to implement five institutional reforms," *Kazinform*, June 2, 2015. (www.inform.kz/eng/article/2782614)

⁵⁵ Joanna Lillis, "Kazakhstan", Freedom House, Nations in Transit 2016. (<https://freedomhouse.org/report/nations-transit/2016/kazakhstan>)

have been made to address the worst problems posed by a lingering Soviet-era apparatus. Public administration reform has been uneven however, and mostly initiated in the major cities, while small towns and villages have a long way to go until they are modernized and staffed on a meritocratic basis.

Significant bureaucratic progress in the first 25 years of independence notwithstanding, there is considerable room for intensified reforms as the country enters the next quarter of a century. Improving the quality of governance and reducing corruption must stand at the top on the agenda. The annual ranking of the authoritative international corruption monitoring organization Transparency International, as well as the World Bank's governance indicators, confirm the need for further reforms. In Transparency International's annual global corruption barometer index, Kazakhstan has consistently ranked in the lowest third of the world's countries, and significantly below such states as Malaysia and South Korea, which the Kazakh government has held up as models for its own Asian path of development. While corruption was once perceived as the grease that may help spur economic and political modernization, scholars and policymakers of today have increasingly documented the disruptive effects of corruption in the long run, i.e. on economic growth and investment, health, welfare, equality of opportunities, etc.

Research on corruption worldwide concludes that over the past forty years no more than a dozen countries have managed successfully to fight corruption.⁵⁶ All those success cases had two things in common: a strong political will and extensive political and economic reforms. Corruption is unlikely to disappear on its own, for it requires broad institutional reforms. The problem with corruption is mentioned in the Strategy-2050, but that document sets forth few concrete steps by which the government intends to approach the issue. To achieve its 2050 goals, Kazakhstan would do well to specify the needed measures.

Merely to focus on low-level offenders will have little impact. However, a full frontal attack on corruption is likely to be very risky and encounter strong re-

⁵⁶ Alina Mungiu-Pippidi, *The Quest for Good Governance: How Societies Develop Control of Corruption*, Cambridge: Cambridge University Press, 2015.

sistance; indeed, it could even lead to political instability. Rather than fight corruption directly, which is likely to lead to a counter-response from corrupt actors, an alternative strategy would be to focus systematically on improving the quality of public administration reform. Several post-Soviet states have achieved success through these means, notably Estonia and Georgia, and may provide useful lessons for Kazakhstan. In sum, it is important to note that any successful anticorruption campaign must be carried out with subtlety and determination, and will require something much more fundamental than a series of technical adjustments to institutions.⁵⁷

To achieve its goals by 2041, or 2050, Kazakhstan needs to transform fundamentally what it means to be a civil servant and the way services and goods are exchanged between public officials and citizens. This amounts to something more specific than adopting policies drawn from successful international experiences. Most such approaches neglect the need to generate a demand for change from inside public bodies themselves. As long as there are no incentives for public officials to approach their work in a new manner, business as usual will prevail. A key driver in this process is certain to be the revolution in communication technology, which will offer new opportunities for improving governance and reducing corruption. Specifically, new technologies can cut back the multitude of useless physical encounters between state officials and citizens that provides such fertile ground for bribery.

Thus, the future development of e-government in Kazakhstan must be an integral part of any long-term anti-corruption initiative. Internet and other communication tools offer new opportunities to secure hands-off contacts between the state and citizens and between the state and businesses, for example through on-line income declarations, e-procurement, and the electronic issuance of various documents. A concerted drive to apply current and future advances in technology to the new model of state governance would be indispensable for simplifying trade, investments, and other private sector activities,

⁵⁷ Johan Engvall, *The State as Investment Market: Kyrgyzstan in Comparative Perspective*, Pittsburgh: University of Pittsburgh Press, 2016.

as well as for improving transparency, accountability and the general effectiveness of the state.⁵⁸

Foreign Relations

Over a quarter century of independence, Kazakhstan has built up a remarkable position in regional and international affairs. It goes without saying that the country is located in a complex environment: a Central Asian region with deep internal challenges and uneasy relations among its young constituent nation-states, in turn surrounded by some of the largest powers on the Eurasian continent. Clearly, while Kazakhstan has shown a unique proactivity in seeking to shape the region it inhabits, it does not have the luxury of large oceans separating it from major powers: it is inevitably affected by global and regional developments in a number of areas.

Global Developments

Processes on a global scale will determine the environment in which Kazakhstan develops. Three in particular deserve closer scrutiny: the future of the process of globalization and its critics; the broader intellectual and political trends in the Muslim world; and the global role of the United States.

Globalization. It bears mention that Kazakhstan's first quarter century of independence coincided with rapidly accelerating globalization. For a landlocked and young country, this produced considerable opportunities to integrate with the world; indeed, Kazakhstan has been a driver of cooperation and integration on a regional scale and beyond. This process of globalization has been taken for granted, or viewed as unstoppable. But it would be unwise to take this for granted.

⁵⁸ The case of Georgia offers interesting lessons in the effective use of innovation and modern technology in the fight against corruption. See World Bank, *Fighting Corruption in Public Services: Chronicling Georgia's Reforms*, Washington, DC: World Bank, 2012.

Indeed, for the past two generations, the globalist perspective has reigned dominant, and greater interdependency between nations has not only developed but been seen as desirable. Yet in the past decade it has become increasingly obvious that both in Eurasia and across the world, counter-currents to this process of globalization and integration have become increasingly powerful. In the region itself, Turkmenistan, and to a lesser degree Uzbekistan, have taken positions considerably at variance with Kazakhstan's appetite for integration. Their leaders have viewed most forms of externally supported integration with utmost skepticism, and have veered to various degrees toward isolation in both the security and economic realms. Further afield, in both Europe and North America anti-globalist forces have arisen on both the left and right of the political spectrum, particularly as a result of the 2008 financial crisis and its aftermath as well as the 2015 migration crisis in Europe. These forces criticize the globalist paradigm, including the economic order that underpins it, and support greater focus on separate national identities and self-governance. In other words, they urge a return to the primacy of nation-states, and are attracting growing numbers of followers.

One can only speculate as to the outcome of this current battle of ideas. Yet it is hard to imagine that either force – the globalists or their critics – will vanish in the coming twenty-five years, as both are deeply rooted in economic reality and deep social traditions. But the outcome of these political battles will certainly have an important effect on Kazakhstan and Greater Central Asia, not least because they will play an important role in determining the conditions under which the countries of Central Asia interact with the rest of the world. For landlocked Kazakhstan a general retreat from globalization would decrease the opportunities of the country's foreign policy, while continued, measured global integration would enable it to continue its outreach beyond its immediate neighborhood.

The Islamic World. A parallel global issue of equal importance is the future of the Islamic world. While a secular state, Kazakhstan is part of the Islamic world, and its majority Muslim population is slowly building connections – intellectual and personal – with Muslim communities elsewhere. Kazakhstan

over the past half-decade has strengthened its role within the Organization of Islamic Cooperation (OIC). It proposed an initiative on the Islamic Rapprochement, the development of the Islamic Infrastructural Integration Strategy, and establishment of the Islamic Organization for Food Security. It also offered to host the first OIC summit on science and technology in 2017. Kazakhstan cannot help but be affected by the broader ideological and political tendencies in the world of Islam – whether close by, as in Afghanistan, or further afield in Syria and Iraq. The past quarter century has seen the strengthening of radical, extremist ideologies that began to develop in the mid-twentieth century. These are facilitated both by globalization and the reaction against it; and as the flow of European *jihadis* to the killing fields of Syria and Iraq illustrate, they have become decidedly global. So far, in spite of occasionally dire predictions, radicalization has not happened in Central Asia, and certainly not in Kazakhstan. But the country's ability to avoid future radicalization will depend to a large extent on processes outside its borders. A decade ago, few would think Al Qaeda might ever look moderate; yet today the organization Bin Laden created pales in comparison to ISIS. From the vantage point of 2041, ISIS could well come to be seen as the culmination of a murderous distortion of Islam, which gave way to a return toward the moderation and even secularization that dominated half a century earlier. That, after all, is what happened in Europe after the equally murderous ideologies of Nazism and Stalinism were destroyed. But given the current weakness of internal resistance to radical forces in the Muslim world, it is also possible that the process of radicalization has yet to culminate. This question will be decisive in determining the broader context of Kazakhstan's development, and its government's ability to maintain a secular state supporting the coexistence of religious communities. Indeed, to the extent that the spiral of radicalization continues, it is likely that, at the very least, marginal groups in Kazakhstan itself will be affected by this radicalization and contribute to destabilizing Kazakhstan's society. If, on the other hand, the Muslim world decisively rejects radicalism, Kazakhstan's secular system could be a model for others to follow.

The United States. A final factor on the global level that is likely to influence Kazakhstan's development will be the trajectory of the United States. While far removed geographically, America will remain the world's leading and perhaps only superpower for the quarter century until 2041. Consequently, America's general level of global involvement, and particularly its interest in Central Asia, will do much to shape the global and regional environments in the coming quarter century. As the past two decades have shown, America can have a decisive influence when involved in the region; when not, its absence also does much to shape Kazakhstan's international environment. From the Central Asian perspective, a pressing question is whether the attention America bestowed on the region in the first decade and half of independence was an aberration; or whether the aberration is in fact America's disengagement since 2008. Both interpretations are defensible. On the one hand, one can argue that the novelty of the independence of the Central Asian states provided the region with an otherwise unwarranted level of American attention. This was extended by the events of 9/11 and the campaign in Afghanistan; but those in fact diverted American attention from matters in Central Asia *per se*. Especially as America looks inward to address its mounting deficit and other social and economic matters, its willingness and ability to accord much attention to Central Asia could dwindle further.

But the opposite scenario is equally plausible: the 1990s and early 2000s provided ample evidence of the importance of American access to the heart of Asia; and from 2008 onward, the twin developments of the financial crisis and a revisionist Russia came to create an unnatural situation, in which the West was internally confused and unable to engage; and where a centralized but decaying Russia was asserting itself beyond what its actual power and resources warranted. Once America recovers from the fallout of the 2008 crisis, and Russia realizes the futility and unsustainability of its imperial ambitions, the regional situation could revert to that of fifteen years ago. Clearly, it is far too early to tell which scenario will prevail. Yet on balance, it appears that the pendulum in the U.S. has already begun to swing back from the isolationist tendencies following the 2008 crisis. In the coming decade, America is likely to

return to a global role, which will by necessity include an increased engagement in Central Asia. The role of the region as a meeting place of Eurasia's largest powers, and as a group of Muslim societies with secular states, is in the longer run unlikely to escape western attention. American engagement will be crucial for Kazakhstan, because as will be seen below, Europe on its own is not able to fill the gap and provide balance to Russia and China.

Regional Powers

Of more immediate concern, and an area where Kazakhstan has greater abilities to influence events, is the impact of the powerful economic and political forces surrounding Kazakhstan and Central Asia. The future of Kazakhstan and its region will depend to a considerable degree on the internal development of these large powers; their relationship to one another; and their approaches to Central Asia and Kazakhstan. The most important powers for Kazakhstan's political and economic development are China, Russia, the U.S. (as discussed above), Europe and within the timeframe of this study, India. Turkey, Iran and Japan are relevant but of secondary importance.

China. It goes without saying that China's role in Central Asia and beyond will likely grow in the next quarter century. This influence was initially economic; it is in the process of acquiring strong political and cultural aspects. In the next few decades, this role is highly likely to expand into the security field, particularly as China becomes increasingly reliant on the "Silk Road Economic Belt" for its trade with Europe and the Middle East.

While this is widely acknowledged, it is important to pose the question what kind of power China will be in 25 years. By 2041, China will have passed its demographic peak, and will have an ageing population. In the next two decades, the boom that is visible at present will have passed, China will be seeking to stabilize as a middle-income country. Beijing's main attention is likely to shift to sustaining an aging population, with a largely built economic structure. Therefore, the most complex period in China's relationship with Kazakh-

stan is likely to be in the next two decades, before the demographic peak is being felt.

India and the Subcontinent. The Indian subcontinent does not presently figure prominently in Kazakhstan's foreign relations. This is natural, given that the ongoing conflict in Afghanistan has prevented the restoration of historical trade and cultural links between Central Asia and the subcontinent. Yet historically, the subcontinent was a larger trading partner to Central Asia than any other; indeed, the distance Almaty to New Delhi is half that between Almaty and Beijing. There is considerable reason to expect that to be the case again in the future. The potential is immense: by 2040, the total population of India, Pakistan and Bangladesh is projected to be 2.1 billion; India's alone will be 1.6 billion, while China's will be 1.4 billion. Not only will the subcontinent have a much larger population than China, its population will also be much younger. Of course, that will not matter if the current political realities persist: trade within the subcontinent and between it and Central Asia is hampered by political issues, primarily the India-Pakistan conflict and the unrest in Afghanistan.

Yet as intractable as these problems may be, it would be wrong to assume that they will remain static. In fact, compared to only a decade ago, the constituencies advocating for greater economic interaction between India and Pakistan are considerably greater; so is the formal and informal trade between the two countries, estimated presently at \$5 billion. As the subcontinent's economies grow, the pressure for expanding trade relations northward will be powerful, and it is more than plausible that this will help open up transportation corridors across Afghanistan. For Kazakhstan, this would open new prospects for a balanced foreign policy that may seem utopian presently. Yet if the trends of the past quarter century are not reversed, it is more likely than not that following a difficult period in the immediate years, that the subcontinent could emerge as an important link in the region's foreign relations.

Russia. More perhaps than any time since independence, Russia is the foreign power most frequently in the minds of Central Asian leaders. This is nowhere more true than in Kazakhstan, which shares a 4,000 mile land border with Russia. In the past several years, Moscow has aggressively promoted its inte-

grative institutions both in the security fields, such as the **Collective Security Treaty Organization (CSTO)**, and in the economic and political field, particularly the Eurasian Economic Union. Kazakhstan is a member of both, while seeking to maintain its sovereignty and resisting political integration. As the present authors have argued elsewhere, the viability of Kazakhstan's foreign policy based on positive balancing is challenged by the elevation, through the Eurasian Union, of a relationship with Russia that risks reducing the *relative* importance of other relationships, thus creating an imbalance.⁵⁹ This will certainly remain the main challenge in Kazakhstan's foreign relations in the near term. But in the longer term, certainly over a quarter century, this state of affairs is not to be taken for granted. In spite of Russia's high international profile and its success in temporarily outshining the U.S. as a player in the Middle East, the fundamentals do not suggest that Russia will have the ability to continue to exercise such power over the longer term.

Russia's demographic and economic development are indicative of a country in decline. Demography is a primary factor: since independence, Russia has lost 14 million people to the disparity between birth and death rates. While the fertility rate has improved somewhat lately, Russia's current population is kept from decline largely by immigration, and by the higher birth rates of non-Russian peoples. By contrast, ethnic Russians are still in numeric decline; and Russian life expectancy levels are at par with the least developed countries in the world. As a result, Russia itself will be transformed over the coming 25 years. By 2041, ethnic Russians may be on the verge of losing their status as Russia's majority population; by contrast, more than a third of Russia's population could be Muslim by then. As a result, a majority of the conscription-age population will be Muslim. This will have enormous implications, not least for Russian foreign policy. Russian leaders have also come to realize this, flirting with the idea of aligning Russian and Muslim traditional values against the West. But parallel with this, the government has also been tempted to rally the ethnic Russian population around an ethno-religious nationalism, as seen most blatantly during the annexation of Crimea. In the coming quarter century,

⁵⁹ Engvall and Cornell, *Asserting Statehood*.

Russia will almost inevitably have to recast itself from a self-definition in ethno-religious and imperial terms to move toward a pluralistic system based on citizenship, not ethnicity. The price of not doing so could be catastrophic for Russia's continued coherence as a state. In turn, this could mean a Russia that may no longer be able or even willing to seek imperial domination over the former Soviet space.

Adding economic factors into the picture, Russia's reliance on hydrocarbons also threatens its ability to build the sort of assertive, and sometimes even aggressive, global power that President Putin aspires to. In fact, it is more than likely that on account of these demographic and economic realities, Russia will either undergo major convulsions or be forced to reassess its identity as a state and its approaches to its neighbors. For Kazakhstan, this means a considerable level of uncertainty. But if the country is able to manage its relations with Russia over the short term, the prospect that Russia will come fully to accept Kazakhstan's sovereignty and independence in the long term, and of it finding a *modus vivendi* in the longer term, is relatively good. Even if Russian assertiveness grows and Moscow succeeds in strengthening its grip over former Soviet states, it is unlikely that such a pattern of domination could survive for long.

Europe. Europe's economy is bound to continue to play a global and regional role, and to remain a leading trade partner for Kazakhstan. In the economic realm, thus, Europe's future trajectory will be of key importance. However, it is hard to imagine that Europe's political aspirations will extend significantly beyond its current borders. It is probable that the EU will absorb the Western Balkans in the next quarter century, a process that has already begun. It is plausible but not necessarily probable that some, or even most, of the Eastern Partnership countries could become EU members in the same time period – something most likely in Moldova, plausible in the case of Ukraine and Georgia; but unlikely concerning Armenia, Azerbaijan and Belarus. Yet there is no plausible scenario in which this political expansion will extend east of the Caspian. What is possible, however, is that an arrangement similar to the Eastern Partnership be extended – i.e. the unilateral adaptation to EU regulations

and norms without the prospect of membership. Because no other Central Asian state has a comparable relationship with the EU, this would likely to be a bilateral arrangement with Kazakhstan.

Whether Kazakhstan pursues deeper integration with the EU or not, Europe is likely to play a role, as it does presently, in Kazakhstan's balanced foreign policy in various individually limited but together significant ways.

Relations within Central Asia

Kazakhstan's leaders have made clear in numerous official documents that Central Asia remains its first foreign policy priority. The first quarter century of relations among Central Asian states have been rocky, but have never deteriorated into outright confrontation. This is, in a sense, natural, as the priority of new and post-colonial states everywhere is to strengthen national sovereignty and their own unique identity and institutions, and to assert a clearly defined national *persona* on the international scene. In a region as closely integrated (in the Soviet period) as Central Asia this inevitably led to tensions, where resources, economies and even borders had been delineated in such a way as to thwart the development of separate nation-states. Over the next quarter century, the nature of these relations will change considerably over the next quarter century as a new generation of leaders rises to power everywhere and as the older generation formed under Soviet rule passes from the scene.

But what will be the inclination of the next generation of leaders across the region, including Kazakhstan? The current generation of power holders in Kazakhstan and the other Central Asian countries are united by a common Soviet background, and the frame of references that this entails. This common understanding goes some way in explaining the lack of real risks of inter-state war in the region. Such restraint may not be as obvious for the future generation of leaders, whose bureaucracies will be products of national educational systems instead of the common Soviet system. From a regional perspective, it remains to be seen whether these new leaders will be more nationalistic than their predecessors, or whether a regional ethos of cooperation will prevail. In the 2050

Strategy, President Nazarbayev is very clear on the issue, arguing that: “the best way to stabilize the region is through interregional integration. In doing this we can decrease the conflict potential of our region, resolve vital social and economic problems and address water, energy and other contradictory issues.”

For the long-term future stability and development of Kazakhstan as well as the entire Central Asian region, the issue of water management is likely to pose a difficult challenge. As noted by President Nazarbayev in connection with the acute water supply problem: “There is a geopolitical aspect to this issue. We are already facing a serious issue of trans-boundary river use. Given the complexity of this problem, we should avoid politicizing it.” As we have seen, water scarcity in Central Asia is exacerbated by the grossly wasteful irrigation system inherited from Soviet times and by the effects of climate change. Regional water resources are unevenly distributed and also used for very different purposes. Taken together, these factors have turned water into a major source of inter-state tensions. Resolving the water problem will require not only a common strategy for agriculture and energy, but also a modernization of agriculture.

Earlier in this paper the authors proposed that Kazakhstan lead a regional effort to convince international funders, national donors, and the major financial institutions to combine forces to replace the disastrously wasteful Soviet-era irrigation system with a more efficient one. The cost would be enormous, but so would the costs of not doing so. Moreover, such a joint initiative by the various states of Central Asia, including Afghanistan (a major riparian state), would go far to heal past animosities and create a collective identity in the region.

Kazakhstan has effectively backed several regional initiatives, including the Central Asia Union of the 1990s, the pact establishing Central Asia as a nuclear free zone, and the new regional financial center in Astana. However, if oil prices remain low as a result of the development of shale technology and a shift to renewable energy, Kazakhstan may be forced to be more selective with the international initiatives it takes.

However, regional leadership involves more than the expenditure of money. In recent years the first signs of the reemergence of a *regional* identity have begun to appear across Central Asia, and in Afghanistan as well. This is based in part on their recognition that a millennium ago the region led the world in trade, manufacturing, urban development, science, and ideas generally. Pride in a shared past can become the source of a new regional identity, one that does not juxtapose itself to the new nation states but serves instead as a kind of second story linking the various national houses. The recognition of such an identity would open the door to greater levels of economic cooperation across national borders, and would make the whole greater and more effective globally than the sum of its parts. If Kazakhstan were to embrace such a notion, and take the lead in applying it to the solution of the region's practical problems of today, it would leverage its resources in a way that would benefit all, and strengthen the region's effectiveness in dealing with outside forces and powers. Such a transformation can realistically be envisioned within the next quarter century.

Specifically, Kazakhstan's relationship with Uzbekistan is of crucial importance. While Tashkent has been outright skeptical to many regional initiatives, recent events suggest that this could very well change in the next two decades. Tashkent and Astana could develop the Strategic Partnership signed between Presidents Karimov and Nazarbayev in June 2013. A real strategic partnership between the two most powerful states of Central Asia would make it very difficult for any external powers to seek to decide Central Asian matters over the heads of Central Asian states. Furthermore, it would make it all but inevitable that other Central Asian states, including Afghanistan and Mongolia, be drawn to this dynamic. That would in turn rekindle a form of regionalism in Central Asia that is not dependent any external power or a combination of them.

In the next 25 years, the future viability of Kazakhstan's foreign policy will depend as much on Kazakhstan's own policy choices as on the broader developments in the outside world. While Russia is likely to continue to be the dominant political actor in large parts of Eurasia, and China is likely to continue to

invest in Central Asian energy and infrastructure projects, the success in maintaining – and in the process keeping the heart of Eurasia open – will depend on the readiness of Western and Asian partners willing to engage with the region.

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