

THE TRANSFORMATION OF KAZAKHSTAN'S ECONOMY



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The Transformation of Kazakhstan's Economy

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Foreword

When in May 2017, shortly before the “Astana EXPO 2017” Exhibition, the first edition of the book “The Transformation of Kazakhstan’s Economy” was presented to the public, no one could foresee that in just a few months it would be completely sold out. At the same time, over the past year and a half, Kazakhstan has undergone changes in many areas of the economy, some of which are very significant. New difficulties and challenges have emerged, but new opportunities and prospects have opened up. Therefore, it is logical that the book cannot be simply reprinted; a new version is needed.

This book has undergone a radical revision, additional articles have been included, and new authors have been involved. The surviving articles have been updated or completely revised.

The second edition, just like the first, opens with a review introductory article, in which the authors tried to consider the most important aspects of the successful transformation of Kazakhstan’s economy from the German point of view. This article is followed by the work of Kazakhstan’s authors - recognized luminaries in the fields that they represent, whether it is the field of tax legislation, business promotion or energy policy.

Like the first edition, this book is meant for decision-makers in politics and business, as well as educators and all those who are interested in the trends of economic development of Kazakhstan.

I wish all readers a fascinating reading of this book, which, I hope, will cause a fruitful discussion of the authors’ statements, as well as the issues of successful transformation of Kazakhstan’s economy.

Thomas Helm,

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Transformation of the Economy of Kazakhstan – Touch Points¹

Thomas Helm (Author), Nurzhan Syzdykov (Co-author)

Introduction

In December 2016, Kazakhstan celebrated the 25th anniversary of its independence. On December 16, 1991, Kazakhstan had proclaimed its sovereignty, thus becoming the last republic to withdraw from the Soviet Union before the Alma Ata Declaration formalized its dissolution five days later. The reason for this 'belated' declaration of independence was less an exuberant loyalty to the system, but rather the strong interdependence of the Kazakh and Russian economy. Therefore, the first years of independence were marked by great economic and social difficulties – Russia was developing chaotically in the initial market conditions of the 1990s and unable to become a draft horse for the Kazakh economy. Subsequently, Kazakhstan was lacking economic perspectives, its citizens started to emigrate. A large number of ethnic Russians, for instance, left the former Soviet republic and moved to permanent residence in Russia. Equally, out of almost one million ethnic Germans living in Kazakhstan in 1991, about 800,000 made use of the provision of Article 116 of the German Constitution and left for Germany as late repatriates. Quite often, this decision was based on purely economic reasons.

The State of Transformation

This initial stage, which did not facilitate comprehensive economic reforms, was followed by the commodity boom of the 2000s with a 'fast money euphoria' and long-awaited consumption opportunities. This boom, as in Goethe's *Faust*: "Beautiful moment, do not pass away!", significantly lowered the desire for reformation. Reforms were planned, but often inconsistently implemented or drowned in the thick of opposing interests. Much was done based on the principle "If it is working, why change it?" It took a dramatic drop in prices on the global commodity markets in 2014 to revive the enthusiasm for reforms.

¹ This article is partially based on the article Transformation of the Economy of Kazakhstan: from Resource Dependence to a Modern Industrial Society by authors Thomas Helm and Nicolas Scholz, published in the first edition of the book Transformation of the Economy of Kazakhstan, Astana, 2017.

How eager is Kazakhstan to reform its economy? According to the *Transformation Index BTI 2018* published by the Bertelsmann Foundation, Kazakhstan ranks economically in the middle-field of the countries surveyed (64th place out of 129) and on 93th and 81st place in the areas of political reform and governance.²

Regarding political transformations, the country is more specifically classified as a hardline autocracy. An association agreement with the EU, as in the case of Moldova and Ukraine,³ is not mentioned in regard to Kazakhstan, even more than two years after their adoption. However, a Partnership and Cooperation Agreement between the European Union and the Republic of Kazakhstan was signed on December 21, 2015 in Astana. The EU-Kazakhstan Cooperation Council welcomed the agreement's successful implementation on February 26, 2018. It covers areas such as trade and customs, the environment and climate change, energy and environmental economics, as well as the rule of law and legal cooperation. The Cooperation Council reaffirmed the parties' common interests to strengthen relations and cooperation and, in particular, to stabilize and develop the region.⁴

For some reason, it remains unmentioned that Kazakhstan has been the only country in Central Asia that, for many years, constructively participated in the implementation of the EU Strategy for Central Asia. This fact clearly shows that "overseeing" foreign countries by means of valuation schemes has its limits and often turns out to be more than undifferentiated. This is a quite common phenomenon in regard to Central Asian countries. In fact, the report left out the results of the 2017 EXPO and, in particular, its numerous initiatives to introduce renewable energy sources. In terms of economic transformation, the index attests Kazakhstan by far the greatest reform drive among the Central Asian nations.⁵ At the same time, however, it reports a recent slow-down – only two years later – a stagnation in many areas of the economy.⁶ This is being explained by the still decisive oil price and its decline, as well as by blockade mechanisms related to an overly monostructured ownership of

² Bertelsmann Foundation: Transformation Index BTI 2018, Country Report Kazakhstan, Guetersloh 2018, P. 1.

³ Transformation Index BTI 2016, P. 96.

⁴ [http://www.consilium.europa.eu/de/meetings/international-ministerial-meetings/2018/02/26/\(01.02.2019\)](http://www.consilium.europa.eu/de/meetings/international-ministerial-meetings/2018/02/26/(01.02.2019)).

⁵ Transformation Index BTI 2016, P. 98.

⁶ Transformation Index BTI 2018, Country Report Kazakhstan, Pp. 19–27.

large parts of the economy in the form of the National Fund Samruk-Kazyna. Both are accompanied by significant corruption and problems with a judiciary dependent on the executive branch. Also, the economy is plagued by deep corruption and problems stemming from a legal system that is dependent on executive power.⁷ Ambitious reform strategies designed to place Kazakhstan among the top 30 most developed countries in the world by 2050 could therefore possibly fail, according to the Index.

Even if the Transformation Index BTI is, in relation to the Republic of Kazakhstan, outlining the current economic situation too roughly, it nevertheless raises one interesting question: how strongly the measures on economic transformation, without sufficient transformation in the political life, bump up against their natural boundaries.

In order to evaluate the aspirations for transformation in Kazakhstan from an outside perspective more accurately, further statistical data must be consulted. The impressive growth is visible in all major economic indicators from the beginning of the 2000s to the last year before the economic crisis caused by a sharp drop in oil prices (2014). Thus, the gross domestic product (GDP) has grown over the past 14 years from US\$18 billion to US\$216 billion.⁸ The per capita income rose from US\$1,230 to US\$12,400, the highest of all successor states to the Soviet Union, even ahead of Russia. Due to the renewed rise in oil prices since 2017, per capita income increased from the bottom of the crisis in 2016 to about US\$7,500 to US\$8,841 in 2017.⁹ In addition, in 2010–2014, Foreign Direct Investment increased more than tenfold from US\$10.1 billion to US\$129.2 billion¹⁰ and remained stable even during the crisis.¹¹

On the other hand, this impressive growth is based largely on the exploration and sale of raw materials and the services infrastructure accompanying/supporting it. During the period before the crisis in 2014, the share of the already weak industrial sector fell from 40.5% to 36% of the GDP, and the share of agriculture in GDP (from 8.7% of the GDP to 4.7%) almost halved.¹²

⁷ Transformation Index BTI 2016, P. 99.

⁸ Federal Statistical Office: Kazakhstan, Country Statistical Profiles, Special Issue 2016, P. 2.

⁹ Federal Statistical Office: Kazakhstan, Country Statistical Profiles, Issue 06/2018, P. 2.

¹⁰ Federal Statistical Office 2016, P. 2.

¹¹ Federal Statistical Office 2018, P. 4.

¹² Federal Statistical Office 2016, P. 4.

After economic growth fell to 1% during the crisis, a stable growth rate of 4.0% was again achieved in 2017, and, the growth is about 3.8% is expected in 2018.¹³ For a country in transition, these are solid, but certainly not high rates. This emphasizes the need for economic transformations again, away from a one-sided resource-dependent economy, to open up new opportunities for growth.

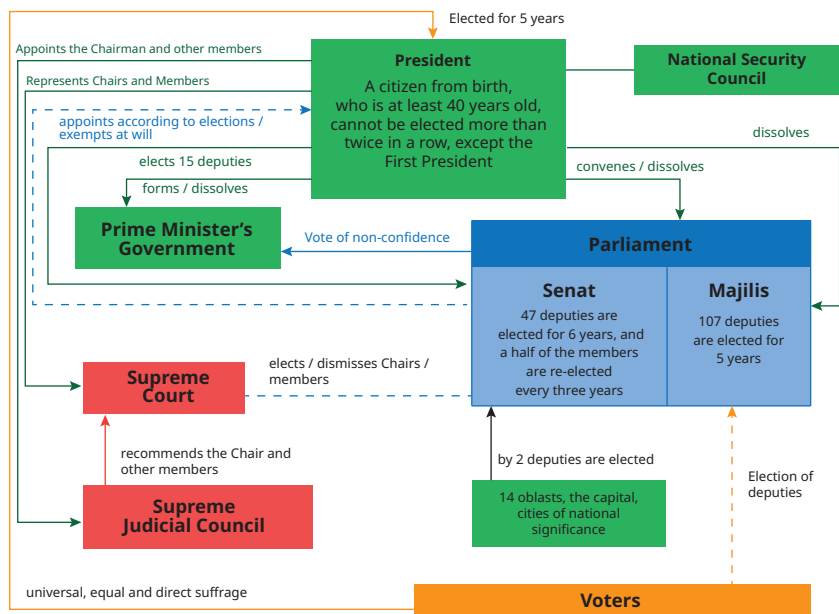
A positive outlook for the future, on the other hand, provides the country's demography: after a decline to 14.9 million at the end of the 90s, it has grown significantly and currently totals 17.8 million people, presenting population growth by 20% in just a decade and a half. In particular, the fact that more than 26% of the Kazakhstani population is below the age of 15 carries a potential worth mentioning for the future.

The Need for Reforms in the Political and Administrative Spheres

If properly deployed and prepared, the human capital for a successful transformation of Kazakhstan's economy is certainly at hand. However, it is important to understand that the potential for an economic transformation which is not accompanied by political reforms is rather limited. At present Kazakhstan is at the stage of a market economy with structural deficits, embedded in a presidential administrative system.

The political system is characterized by the fact that the President of the country is a significant or even the only factor of power in many management areas.

¹³ www.worldbank.org/en/country/kazakhstan/publication/economic-update-spring-2018 (01.02.2019).

Figure 1. Schematic diagram of the political system of the Republic of Kazakhstan¹⁴

Thus, the President has the right to dissolve and convene the Parliament (Majilis). He can appoint independently nine out of 107 deputies of the Majilis and 15 members of the Senate. Since the incumbent President is also the Chairman of the ruling Nur Otan party, which has more than 80% of the mandates (whereby the members of parliament are not elected directly by the voters, but via party electoral lists), he can ultimately decide who will get to the list and consequently, to the Parliament.¹⁵

At least parts of the government will still be formed and dismissed by the president, even after the constitutional reform of 2017. The President, based on the recommendation of the High Judicial Council also appoints judges. Thus, the legislative, executive and judicial branches are ultimately united in the

¹⁴ https://de.wikipedia.org/wiki/Politisches_System_Kasachstans. The responsible author made some changes in the schedule to update the data. The constitutional reform in the first quarter of 2017 significantly extended the rights of parliament with regard to the formation of the government.

¹⁵ Since March 19, 2019, Nursultan Nazarbayev is (by voluntary resignation) former President of the Republic of Kazakhstan, but remains chairman of Nur Otan.

presidential administration, whereby incumbent Nursultan Nazarbayev, as Kazakhstan's first president, is not bound by the limit of two terms of office and may stand for election as often as he considers necessary.

In July 2018, the Law "On the Security Council of the Republic of Kazakhstan" entered into force, which turned this body into a controlling institution of constitutional bodies. The law provides for Nursultan Nazarbayev's right to life presidency in this body that will maintain his influence on the main events in the country and his successor even after he leaves the presidency.¹⁶

A system of "checks and balances" in Kazakhstan, as we see, does practically not exist. This affects both the issues of legal certainty and the prevention of corruption, which are becoming increasingly important in global competition, and the management of the country's economically particularly relevant companies.

In the current Corruption Perception Index by Transparency International, Kazakhstan ranks 122nd, the less glorious rank out of 180 (thus, it is clearly ahead of Russia that ranks 135th, and Ukraine that ranks 140th) and, thus, compared to the previous year, the situation has even improved by ten positions.¹⁷ For many years, the Government of the Republic of Kazakhstan has made serious attempts to curb corruption in the country. An Anti-corruption agency has been created under the Presidential Administration. The main task in the fight against corruption is the responsibility of the General Prosecutor's office. The Konrad Adenauer Foundation supports them.

The dismissal of former Minister of National Economy Kuandyk Bishimbayev and his arrest in early 2017, as well as his sentencing in 2018, became a new climax that characterizes the widespread corruption¹⁸ that is observed in many areas of public life. Bishimbayev was charged with abuse of his official position at the Baiterek Holding, namely, privately taking bribes for the provision of work contracts.¹⁹ According to the hearings of the case, the Holding allocated construction contracts for the high-quality works, which were then

¹⁶ Helm, Thomas.: Country Report entitled The Field is Tilled by the Konrad Adenauer Foundation, July 2018, P. 2.

¹⁷ https://www.transparency.org/news/feature/corruption_perceptions_index_2017 (01.02.2019).

¹⁸ <https://thediplomat.com/2018/03/former-kazakh-economy-minister-sentenced-to-10-years-on-corruption-charges/> (01.02.2019).

¹⁹ inform.kz, January 12, 2017.

performed at a low level, and as a result, were accepted by the customer for the corresponding bribe. This kind of interventions hinders any fair competition.

Such cases should give a cause to reflect on changes in the management structures of the Baiterek Holding and the Samruk-Kazyna Sovereign Fund. This also includes the basics of promoting the market economy principals.

Already on the verge of 2015–2016, in his addresses to the Nation of Kazakhstan, President Nursultan Nazarbayev called the activities of both enterprises ineffective, as their overblown staff contributes most likely to the crowding out of private investments.²⁰

The corruption case presented here shows that the National Fund's money flows not only into desirable directions, as for instance the state budget. It seems necessary to divide urgently two large holdings into small structures that will become more transparent for their control and management.

On July 5, 2018, the Astana International Financial Center (AIFC) was officially launched: it operates based on English common law, and is aimed at promoting the privatization of large state-owned enterprises. This gives a chance to radically change the portfolio of the Sovereign Wealth Fund and, subject to proper management to curb corruption in this area. Thus, the Kazatomprom was the first to be listed, although this did not bring the desired income.

Whether the measures announced and implemented by the Government, such as training of police personnel, are sustainable, this can hardly be detected based on improved rating indicators over the past year. However, this is a commendable beginning. Since the beginning of 2017, the Konrad Adenauer Foundation collaborates with the General Prosecutor's office of Kazakhstan on anti-corruption issues. Fair trade and the prevention of economic corruption are priority issues. One of the main recommendations concerns the establishment of structures such as Chambers of public contracts and antitrust authorities to guarantee fair competition and avoid corruption.

In the Transparency rating, compared to the last two years, Belarus has risen by 39 positions – from 107 to 68th.²¹ It shows that even in authoritarian systems like Belarus, there are opportunities to constrain and reduce corruption.

²⁰ Annual Address of President N. Nazarbayev to the Nation of Kazakhstan on November 30, 2015, P. 11.

²¹ https://www.transparency.org/news/feature/corruption_perceptions_index_2017 (01.02.2019).

However, it must be emphasized that every case of the fight against corruption has barriers where there is no clear separation of powers, and the (democratically) legitimized controlling authority is not opposed to the government. In other words, where the Government controls itself, every effective anti-corruption measure is confronted restrained by itself.

Clearly, not all possibilities are exhausted in the existing system. Especially, when it comes to combating everyday corruption in the police, schools, and universities, as well as government institutions, where more could be achieved. Most civil servants in Kazakhstan receive relatively low salaries – and are therefore susceptible to the proposed “amenities”. In case of an increase in salaries and pensions, the propensity for “additional sources of income” mainly decreases. Often, many civil servants are not ready to take risks and this prevents corruption, when the charge of bribery threatens to lose their jobs and/or all their pension entitlements.

The enormous damage that corruption is causing to the country has clearly affected the economic relations of Kazakhstan with the Federal Republic of Germany. The collapse of the Kazakh BTA Bank in the wake of the global banking crisis in 2009, whose restructuring and rescue by Samryk-Kazyna also involved the misappropriation of funds, resulted in losses of around 280 million euros for the German state, with which business covered by the credit insurer Euler Hermes is ultimately reinsured. The economic crisis in the country and the strong devaluation of tenge complicated the credit operation²² and, thus, the repayment of damage. Since that time, Hermes has no longer been covering long-term loans for German companies in Kazakhstan. Thus, now the conditions for large investments are at least difficult, and if they are hedged through Hermes, these investments are de facto excluded. The German Federal Government strongly demands the payment of wasted funds for the reactivation of Hermes.

After several years of stagnation, according to stakeholders, this issue was planned to be solved in the near future, that is, in the fall of 2018. However, so far only a relatively small part of the amount remains the real subject of

²² <https://www.gtai.de/GTAI/Navigation/DE/Trade/Maerkte/Geschaefstspraxis/kreditvergabe-und-zahlungsmoral,t=kreditvergabe-und-zahlungsmoral-kasachstan,did=1398466.html> (01.02.2019).

negotiations. It is hoped that both parties will demonstrate the necessary flexibility to reach consensus to remove this brake in bilateral economic activity.²³

Events of this kind are a serious obstacle to unlocking the potential of economic cooperation. Thus, in the first half of 2016, German exports to Kazakhstan decreased by almost 24% compared to the previous year; imports from Kazakhstan over the same period decreased by more than 13%.²⁴ In the subsequent period of 2016, this negative trend slightly eased. In general, German exports to Kazakhstan decreased by 12% in 2016.²⁵ In 2017, trade indicators between Germany and Kazakhstan straightened again, not least because of the sharp increase in oil prices, which was at the level of more than \$70 per barrel during the most of 2018. Thus, for example, imports from Germany increased by 16.4% to €1.3 billion, while exports to Germany increased by 23.5% and reached the level of €3.6 billion compared to the previous year.²⁶

If we take the potential of an enhanced partnership between Germany and Kazakhstan as a basis, primarily in the aspect that high-tech Germany can make a significant contribution to the success of the transformation in Kazakhstan, then the Kazakh government can only be recommended to do everything necessary to erase the Hermes case from the history.

The loss due to lost business in the course of a decade since this occurrence already exceeds the original loss incurred by many times.²⁷

The implementation of the Commodity Agreement concluded in 2012 between Germany and Kazakhstan is still significantly lower than the corresponding potentials, although the first projects were initiated in early 2018 (see article by A. Mussina). On the part of German enterprises, such companies as

²³ According to information from diplomatic sources, a final breakthrough was achieved in May 2019 and financial compensation for the damage was at least largely provided by Kazakhstan. Long-term credit insurance is once again possible. The AGA portal provides the following information: Until now, credit transactions with the public sector required a guarantee from the Ministry of Finance or the central bank. Such a guarantee is no longer mandatory with immediate effect. For credit transactions with the private sector, annual financial statements prepared and certified in accordance with international accounting standards will in future be sufficient for the granting of cover, <https://www.agaportal.de/Resources/Persis-tent/8d05f4e9f01f-101c36a6d5095692bd02f430399b/ar302.pdf> (23.09.2019).

²⁴ The German Eastern Business Association: trade figures from January to June 2016.

²⁵ The German Eastern Business Association: German trade in the East in 2016.

²⁶ <https://www.oaov.de/de/kasachstan> (23.09.2019).

²⁷ See P. 17, Footnote 23.

Siemens, Thyssen-Krupp, and Lanxess took part in the conclusion of the Agreement, which was to operate on the principle of “raw materials in exchange for the transfer of knowledge and technology.”²⁸ Thus, one of the first ongoing projects was the supply of copper to Germany from the Karaganda region and the support provided to Kazakhstan by Germany in the industrial sector’s digitization.

The German side repeatedly criticized investment conditions that impede the implementation of projects. They include incomplete fulfillment of the agreement terms, the lack of transparency in decision-making, insufficient legal support, and inadequate information to cover the economic profitability of commodity projects.²⁹ Since the investments necessary for technology transfer are also covered by credit insurance, the questions of corruption and lack of legal certainty are also raised in the case of the commodity agreement.

Given the limits of anti-corruption in the presidential republic and the managerial deficit in large state holdings, we can only support the President’s intentions to implement the reforms that were announced in the 2016/17 Address and led to the Constitutional reform so that they also become constitutional reality.

In January 2017, President Nazarbayev announced that he would strengthen the rights of parliament, both in terms of government formation and in terms of control mechanisms vis-à-vis the government.³⁰ Although the constitutional reform, according to statements, has led to the adoption of the law, the Government’s practice has not changed much since then. The president still quite routinely carries out tasks in the area of domestic policy which he had wanted to place in other hands through the constitutional reform. Above all, he still has the power to take all the major decisions on personnel, including those for which Parliament is supposed to be responsible.

Kazakhstan is at a crossroads. The country has the potential to transform successfully its economy and its institutions. However, there is a danger of collapse, if all necessary reforms are delayed or are not implemented at all.

²⁸ Dahlmann, Anya et al.: German commodity partnerships: A model with a future perspective? Konrad Adenauer Foundation, Analyzes and Arguments, Vol. 137, November 2013, P. 4.

²⁹ *ibid.*

³⁰ *inform.kz*. 25.1.2017; *Rferl.org*. 25.01.2017.

How the state economy, controlling everything in the country, combined with exorbitant corruption, can destroy a country rich in its natural resources, can be observed over the past few years on the example of Venezuela (166th rank in the Transparency rating). An aggressive wave of expropriation handed over to government many important enterprises that were degraded by incapable managers (often former military servants) with a minimum of business knowledge, but with a pronounced mentality of self-enrichment.³¹ As a result of mismanagement, today, Venezuela faces a humanitarian catastrophe due to an insufficient supply of food and medicine.³² Currently, hundreds of thousands of people are leaving one of the world's richest countries in oil reserves to neighboring Latin American countries to escape poverty and hunger. This is just absurd.

Wealth of Natural Resources as a Pillar of the Kazakhstan Economy

Owning 1.8% of the confirmed world oil reserves, Kazakhstan ranks 18th among its most important producers and it is the second oil producer after Russia in the post-Soviet space.³³ However, geographically, these reserves are unevenly distributed throughout the country. Despite the fact that oil and gas pools cover about 62% of the country, and more than 172 oil fields are in operation, three richest fields are located in the western part of the country near the Caspian Sea.³⁴

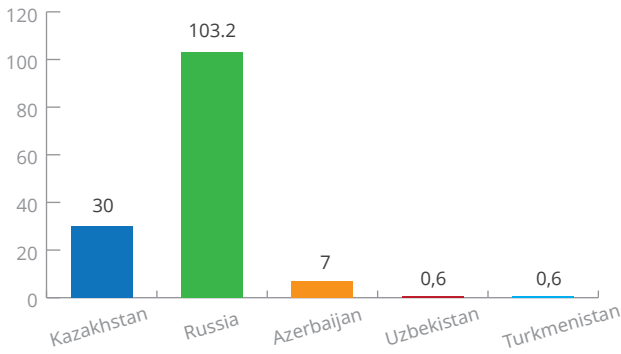
³¹ See Suhr, Hennig: Ruined – Venezuelan Road to Ruins, In: Foreign Information of Konrad Adenauer Foundation, ed. 3/2016, P. 65/66.

³² *ibid.*, P. 70.

³³ Slav, Irina: The Oil Production Starts At Giant Kashagan field, OILPRICE, 13.10.2016, in: <http://oilprice.com/Latest-Energy-News/World-News/Oil-Production-Starts-At-Giant-Kashagan-Field.html> (18.01.2017).

³⁴ KazMunaiGas, https://www.kmgep.kz/eng/about_kazakhstan/oil_and_gas_sector/ (01.02.2019).

Figure 2. Proven oil reserves (1,000 million bbr.)³⁵



These three fields – Karachaganak, Tengiz, and Kashagan – contain the most part of the country’s recoverable oil reserves.³⁶ At the same time, both older Karachaganak and Tengiz fields with corresponding shares of 250,000 barrels/day and 600,000 barrels/day, respectively, make up almost half of the country’s total oil production.^{37,38} Both fields play a significant role for various reasons in the plans of the Kazakhstan Government on the oil and gas sector’s further development.

Tengiz

In July 2016, the Kazakh Government approved an investment of US\$36.8 billion to increase the production at the Tengiz field to 850,000 barrels/day. This is taking place first and foremost against the backdrop of the US\$5.4 billion expansion project for the CPC (Caspian Pipeline Consortium) pipeline, whose capacity is to be gradually doubled from the current 670,000 barrels/day to

³⁵ Umbach, Frank; Rashevsky, Slavomir: Strategic Prospects for Bilateral Energy Cooperation between the EU and Kazakhstan, the Konrad Adenauer Foundation / European Center for the Safety of Energy and Resources, 2016, P. 21,; http://www.kas.de/wf/doc/kas_44337-1522-2-30.pdf?160519070605 (17.01.2017).

³⁶ Razavi, Hossein: A Sustainable Energy Sector, in: Aytzhanova, Aktoty; Katsu, Shigeo; Linn, Johannes F. and Vladislav Yezhov (ed.): Kazakhstan 2050 – Towards a Modern Society for Everyone, 2014, Pp. 113–145, here: P. 115.

³⁷ Tengizchevroil: Company Overview, 2016, <http://www.tengizchevroil.com/about/overview> (17.01.2017).

³⁸ Razavi, Hossein: A Sustainable Energy Sector, in: Aytzhanova, Aktoty; Katsu, Shigeo; Linn, Johannes F. and Yezhov, Vladislav (ed.): Kazakhstan 2050 – Towards a Modern Society for Everyone, 2014, Pp. 113–145, here: P. 115.

1.4 million barrels/day. With the expansion of the CPC pipeline, Kazakhstani Government intends to reduce its dependence on geopolitically risky transit countries, such as Ukraine and Georgia, and increase crude oil exports to European countries through the Russian Black Sea port of Novorossiysk. At the same time, a market share should be ensured in the current complex global market environment by increasing sales of high-quality crude oil from the Tengiz and Karachaganak fields, the production volume of which exceeds the transit capacities of the CPC pipeline since 2007.

Karachaganak

The significance of the Karachaganak field can be seen in the direction of government plans to improve energy efficiency and domestic consumption not only from oil production, but also from a 45 percent participation in local gas production.³⁹

Although Kazakhstan owns gas reserves of 85 trillion cubic feet⁴⁰ and, thus, is the nation with the 18th largest reserves in the world, it can only cover parts of its entire domestic needs, which forces it to import the remaining rest from Uzbekistan and Russia.⁴¹ Against this background, in 2005 gas flaring during oil production was prohibited by a Law amendment, and foreign oil companies were advised that gas leaking from oil wells must either be stored or pumped back into the soil. By reinjecting the gas, the necessary pressure in the oil reservoir can be maintained, and the oil production significantly increased. The vast majority of Kazakhstan gas is petroleum gas produced as a by-product of oil production.⁴²

³⁹ Natural Gas World 2016: Astana Claims \$1.6 Billion from Karachaganak Partners, Natural Gas World, 04/07/2016, in: <http://www.naturalgasworld.com/astana-claims-1.6bn-from-karachaganak-partners-28955> (17.01.2017).

⁴⁰ Razavi, Hossein: A Sustainable Energy Sector, in: Aytzhanova, Aktoty; Katsu, Shigeo; Linn, Johannes F. and Yezhov, Vladislav (ed.): Kazakhstan 2050 – Towards a Modern Society for Everyone, 2014, Pp. 113–145, here: P. 118.

⁴¹ Yenikeyeff, Shamil Midhatovich: Kazakhstan Gas: Export Markets and Export Routes, Oxford Institute for Energy Studies, 2008, Pp. 93–97, in: <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2010/11/NG25-KazakhstansgasExportMarketsandExportRoutes-ShamilYenikeyeff-2008.pdf> (17.01.2017).

⁴² *ibid.*, P. 21.

This is particularly true of Kazakhstan's large, high-yield oil fields: 75% of the total volume of gas is extracted from only four oil fields: the Karachaganak, Tengiz, Imashevskoye and Kashagan oil fields.⁴³ On the other hand, the role of gas in domestic energy supply is limited by the reuse of natural gas to increase oil production.

The since many years widely underdeveloped infrastructure for transporting gas produced in the Western parts of the country to the largest population centres inevitably limited its importance for the domestic energy market. For these reasons, the economic feasibility of the goal formulated in the government document "Development Strategy of Kazakhstan until 2030" of significantly increasing the share of gas in domestic energy consumption is linked to a considerable effort to expand the corresponding gas pipelines

But the government is willing to accept this challenge. Thus, Almaty is benefiting from a gas pipeline, which stretches over more than 1,400 kilometers from Kazakhstan towards China since 2017.⁴⁴ As a result, the gasification of coal-fired power plants in Almaty has been initiated. Another gas pipeline from the South-West of the country to the North, to which Astana and Karaganda would be connected, is currently under construction.

Two consequences arise from these findings. Firstly, investments in gas transportation infrastructure will help to significantly reduce the extremely high share of coal in the energy balance of Kazakhstan (previously 63%), which prevails both in electricity supply and in the production of thermal energy. Secondly, the lack of a gas infrastructure at the same provides chances for renewable energy sources, primarily for the decentralized consumption in rural areas, since the infrastructure requirements here are low, sometimes even lower than when using coal.

Kashagan

Kashagan's geological reserves amount to 38 billion barrels of oil, of which 10 billion are extractable.⁴⁵ Thus, up to 1.66 million barrels per day could be

⁴³ Witte, Michelle: Natural Gas: Other Natural Resources of Kazakhstan, Conclusion, <http://www.edgekz.com/natural-gas-kazakhstans-natural-resource/> (17.01.2017).

⁴⁴ http://www.chinadaily.com.cn/business/2017-04/15/content_28939945.htm. (01.02.2019).

⁴⁵ Abbasova, Nigar: Reduction of Oil Production in Kazakhstan, AZERNEWS, 22.08.2016, in: <http://www.azernews.az/region/101187.html> (17.01.2017).

produced at Kashagan; as much as the OPEC member Angola produces per day.⁴⁶ In addition, the field contains more than 1 billion cubic meters of gas reserves. However, the development of the field has recently posed great technical difficulties, and the final commissioning took place, with a long delay only, in September 2016. Expenditures on the project, which increased significantly from the initial \$10 billion to ultimately more than \$100 billion, sparked conflict within the Caspian Pipeline Consortium, managed by the Italian oil company ENI, and complicated the elimination of technical problems. The continuously high exploration costs ultimately led to the fact that Kazakhstan, which together with Russia was ready to support the OPEC countries' goal of decreasing production volumes to increase oil prices in 2017, reached a deviation under the relevant regulation due to the difficulties faced in Kashagan.

Economic Dependence on the Oil and Gas Sector

Although the difficult market environment (an average of 42.81 US dollars per barrel in 2016) actually spoke against starting production in the crisis year,⁴⁷ the Kazakh government decided to expand oil production everywhere to ensure its market share and to sustain the state budget which strongly relies on oil revenues. Revenues from oil sale account for 60% of the Kazakhstan state budget and, thus, are fundamental to the government's financial planning. The 2018 rise in oil prices to an average to US\$75 per barrel emphasizes two points. The economy of Kazakhstan has partially recovered again and tripled its previous GDP during the crisis with growth rates from 3% to 4%. However, it has not yet returned to its pre-crisis growth strength.⁴⁸ The crisis, based on the decline of oil prices, demonstrates the dependence on oil exports and thus – fragility of Kazakhstan's economy. At the same time, high oil prices are no longer sufficient for a sustainable development of the economy of the Central Asian state.

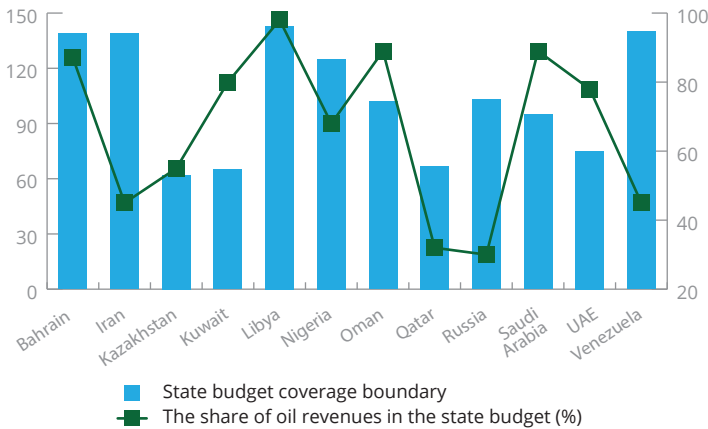
⁴⁶ Callus, Andrew; Jewkes, Stephen: The Crippled Kashagan Oil Project Is a Bureaucratic Nightmare, 01.01.2014, in: <http://business.financialpost.com/news/energy/crippled-kashagan-oil-project-a-bureaucratic-nightmare> (17.01.2017).

⁴⁷ Author's own calculation (Ycharts: Average Crude Oil Spot Price, in: https://ycharts.com/indicators/average_crude_oil_spot_price (17.01.2017).

⁴⁸ <https://de.statista.com/statistik/daten/studie/323350/umfrage/wachstum-des-bruttoinlandsprodukts-bip-in-kasachstan/> (01.02.2019).

During the crisis, President Nursultan Nazarbayev felt compelled, in view of the destabilizing economic situation and the drastic devaluation of the national currency, the tenge, to launch several rescue and economic packages, which were financed by the Kazakhstani state fund Samruk-Kazyna and the pension funds. In 2014, for example, Kazakh banks were supported with capital injections of 5 billion US dollars and 2.8 billion US dollars were used to combat unemployment.⁴⁹ As part of the Nurlı Zhol State Program, US\$1 billion have been invested in economic diversification, jobs creation, and, first and foremost, local infrastructure development until 2017.⁵⁰

Figure 3. Share of oil revenues in the national budget



Source: Stratfor.

Strategic reorientation and the role of KazMunayGas

Investments in oil and gas infrastructure, such as the expansion of the CPC pipeline and the construction of the Caspian transport system, have the highest priority in this regard. The production of one barrel of crude oil costs \$28

⁴⁹ AsiaNews.it 2008: Kazakh Government Taking Aggressive Steps to Tackle Global Financial Crisis, 22.10.2008, in: <http://www.asianews.it/news-en/Kazakh-government-taking-aggressive-steps-to-tackle-global-financial-crisis-13548.html> (17.01.2017).

⁵⁰ Uatkhanov, Yerbolat: Kazak President Orders New Mass Investments in the Economy, 11.02.2016, in: <http://astanatimes.com/2016/02/kazakh-president-orders-new-massive-investments-in-economy/> (17.01.2017).

on average, although it should be noted that neither high transportation costs nor transit duties are included in this calculation, so that the Kazakh oil sector only became profitable again after the worldmarket price rose.⁵¹ Especially in the view of the fact that the price on the world market should be at least \$66 to equalize the state budget of Kazakhstan, the reduction of production costs has the highest priority.⁵²

In addition, limited transportation capacities impede the oil production's further development and increase of exports. Enormous financial efforts and political expertise are therefore required to implement the government's plan to increase production from today's 558.5 million barrels/year to 1.1 billion barrels/year.⁵³ For its fulfilment, the KazMunayGas (KMG) National Oil Company, established in 2002, will play the leading role as the right hand of the state. In view of the oversupply on the global oil market due to increased production in Iran, Iraq, and Libya, as well as the shale oil revolution in the United States of America, the company has redefined its strategic priorities and long-term targets.

To improve the company's financial position and accelerate its conversion into a sustainable enterprise for the upstream and downstream sectors (exploration and production of oil, as well as its transportation), KMG intends to separate from the downstream sector, that is, the processing of raw materials, in the medium term.^{54,55} An example of such a strategy is that CEFC China Energy Company Ltd. acquired KazMunaiGas International (KMG I) for \$4 billion in December 2015.⁵⁶ The sale of a large Petromidia refinery in the Black Sea (Romania), which is owned by KMG, is also associated with this. The auctioning

⁵¹ Petroff, Alanna; Yellin, Tal: Rystad Energy on CNN Money, Rystad Energy, 23.11.2015, in: <https://www.rystadenergy.com/NewsEvents/PressReleases/rystad-energy-on-cnn-money> (17.01.2017).

⁵² Stratfor: When Oil Prices Drop, Some Countries Lose, Stratfor, 04.11.2014, <https://www.stratfor.com/analysis/when-oil-prices-drop-some-countries-lose> (17.01.2017).

⁵³ Hoogendoorn, Jonathan: Kazakhstan Moves Towards Becoming A Top-10 Oil Producer, OILPRICE, 22.07.2016, <http://oilprice.com/Energy/Crude-Oil/Kazakhstan-Moves-Towards-Becoming-A-Top-10-Oil-Producer.html> (17.01.2017).

⁵⁴ Author's note: *Upstream*: Crude Oil Production; *Midstream*: Oil Transportation; *Downstream*: Crude Oil Refining.

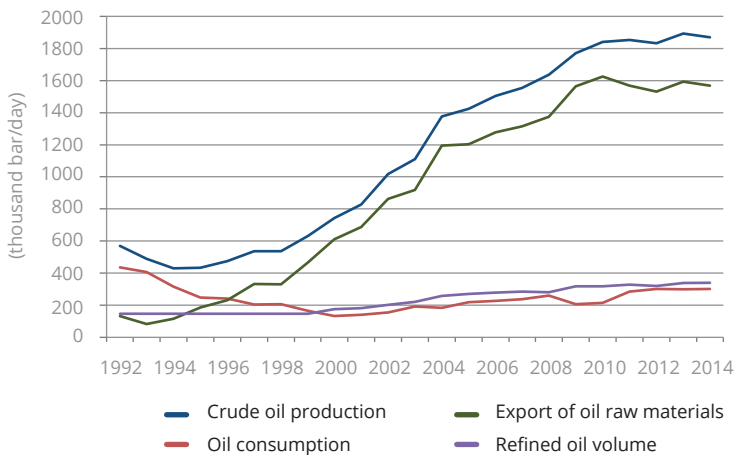
⁵⁵ KazMunayGas 2016: Development Strategy of NC KazMunaiGas JSC until 2025, Internal Strategic Document of KazMunaiGas, 01.03.2016.

⁵⁶ Cohen, Ariel: Kazakhstan Oil and Gas: A Strong Partnership Potential, Middle East Institute, 04.04.2016, in: <http://www.mideasti.org/sites/default/files/Cohen%20Op-Ed.pdf> (17.01.2017).

of the three old refineries in Pavlodar, Atyrau and Schymkent as part of the privatisation programme in 2016 is of equal importance.⁵⁷

Despite repeated modernization in 2012–2014, these refineries cannot satisfy the demand of the Kazakhstan market for petroleum products, as the situation at the end of the summer of 2017 testified once again. Instead, a deficit in total demand of around 30% is covered by imports from the Russian Federation.⁵⁸ At the same time, investments in the modernization and construction of new refineries would not only reduce economic dependence on Russia, but would also make it possible to export high-quality petroleum products such as high-octane gasoline or kerosene to Europe. In this regard, it is necessary to critically reconsider the business strategy both from the economic and geopolitical points of view.

Figure 4



Source: *indexmundi, Observatory of Economic Complexity.*

⁵⁷ Konyrova, Kulpash: China Mulls Buying Kazakh Oil Refineries, *NEWEUROPE*, 11.11.2015, <https://www.neweurope.eu/article/china-mulls-buying-kazakh-oil-refineries/> (17.01.2017).

⁵⁸ kazinform: Kazakhstan Imports Up To 30% of Various Fuel Products From Russia, *kazinform*, 05.11.14, in: http://www.inform.kz/en/kazakhstan-imports-up-to-30-of-various-fuel-products-from-russia_a2713663 (17.01.2017).

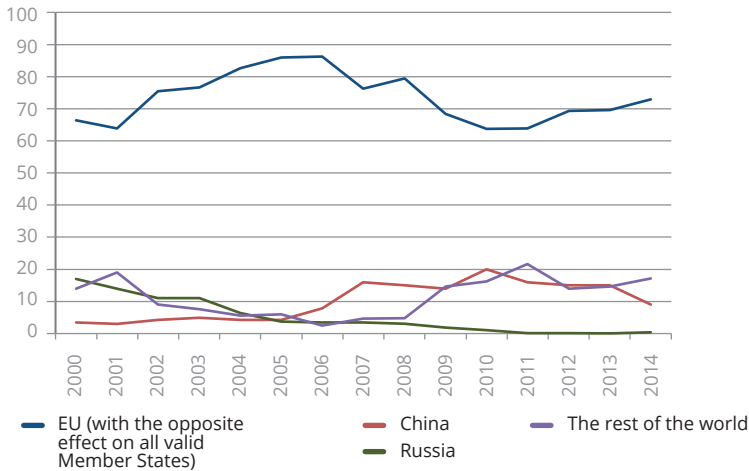
The Importance of the Midstream Sector (Oil Transportation)

The importance of the midstream sector or the transportation of raw materials, in this case crude oil, derives not only from economic necessity, but also from the geopolitical considerations of the Kazakh Government. For this land-lock nation, crude oil is a strategic trade resource and plays a central role in Kazakhstan's multi-vector foreign policy. The supreme goal of a multi-vector foreign policy is again state sovereignty. It must be maintained through a balance of interests between neighboring countries and major powers, primarily the Russian Federation, the People's Republic of China and the United States of America. Against the background of these political security aspects, the Kazakhstan Government has been trying since the beginning of the new millennium, through the diversification of oil export routes, to create relationships with the outside world, especially with the countries of the European Union (EU), and accelerate integration into the global economy. Undoubtedly, the Government has achieved certain successes. Thus, for example, Kazakhstan exports about 10% of the total export volume of oil through the Kazakhstan-China oil pipeline built in 2005.⁵⁹ In addition, the country has expanded its tanker capacities in the Caspian Sea and currently has eight vessels at the state-owned enterprise Kazmortransflot, among which the three largest oil tankers in the Caspian Sea are capable of transporting between 12,000 to 13,500 tons. They transport crude oil from the Kazakhstan port of Aktau to Makhachkala in Russia, Baku in Azerbaijan, and Neka in Iran.⁶⁰ Given the geopolitical challenges in the future, routes to Neku and Baku will become increasingly popular. The Ukrainian conflict and the associated dispute between Russia and the Western community of states make the Kazakh government aware of its vulnerability.

⁵⁹ Author's calculation based on the data of Observatory of Economic Complexity.

⁶⁰ Foster, Hal: Kazakhstan utilizes the largest oil tankers in the Caspian Sea, KazWorld, 09.09.2010, in: <http://kazworld.info/?p=9748> (17.01.2017).

Figure 5



Source: *indexmundi, Observatory of Economic Complexity.*

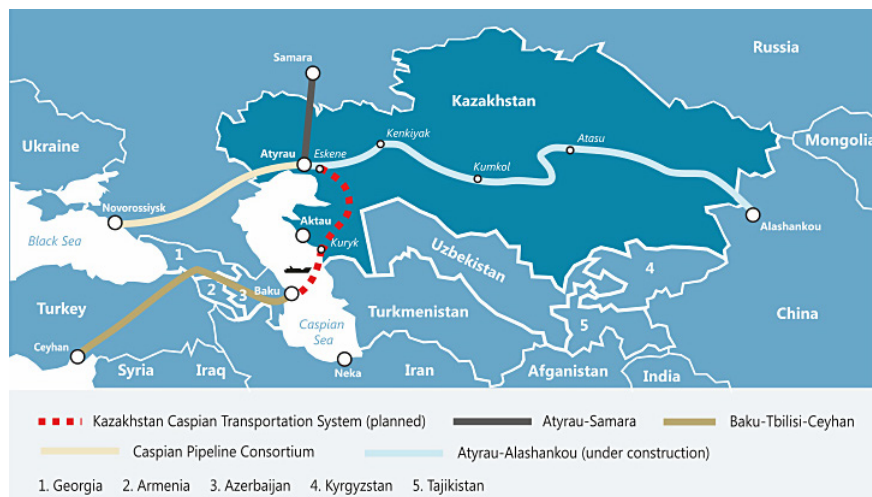
Despite the fact that Kazakhstan sells about 80% of its crude oil to Europe, most of it, about 75%, is still transported through Russia.^{61,62} In the worst case, Kazakhstan’s oil supplies to Europe may be affected by sanctions from Russia and may lead the Kazakhstan economy downward. Thus, tanker transportation via the Caspian Sea opens up alternative possibilities.

Thus, Kazakhstan and Iran were able to resume their oil bartering (Swop) after the settlement of disputes over the Iranian nuclear program in 2015. Following, Kazakhstan crude oil is again delivered to the Iranian port of Neka to enter the local market after the refining at refineries in Tehran and Tabriz. In exchange, Iran is transporting the corresponding volumes of Kazakhstan crude oil from its ports in the Persian Gulf. It should be noted in this regard that, for several years, there have been discussions about the possibility of building a Kazakhstan-Turkmenistan-Iran pipeline.

⁶¹ Jarosiewicz, Aleksandra: Russia as the main corridor for oil export from Kazakhstan, OSW, 29.12.2010, in: <https://www.osw.waw.pl/en/publikacje/analyses/2010-12-29/russia-main-corridor-oil-export-kazakhstan> (17.01.2017).

⁶² Author’s calculation based on the data of Observatory of Economic Complexity, http://atlas.media.mit.edu/en/visualize/tree_map/sitc/export/kaz/show/3330/2014/ (17.01.2017).

Figure 6. Kazakhstan Caspian Transportation System (planned)



In addition, Kazakhstan plans to develop the Caspian Transport System (KCTS) to fulfill its export obligations on the Baku-Tbilisi-Ceyhan oil pipeline, launched in 2006. Through KCTS, exports to Baku should be gradually increased through the construction of the Eskene-Kuryk oil pipeline, expansion of the transshipment capacity in Kuryk, and the acquisition of additional tankers.⁶³ However, due to delays in the Kashagan field commissioning, as well as a economic depression and the tense situation on the market, the Government has frozen the project until 2020.⁶⁴

Therefore, in oil exports, Kazakhstan will, for the time being, depend further on the CPC and Uzen-Atyrau-Samara oil pipelines passing through Russia.

Against the backdrop of the changed policy for Asia under the new US administration of President Trump, in particular with regard to China and the growing economic influence of the “Middle Kingdom” on Central Asia, the viability of Kazakhstan’s multi-vector policy will be seriously tested. In the future, it will be even more important for Kazakhstan to consolidate control over the sector of raw material transportation and prioritize the diversification of oil export routes.

⁶³ KazMunaiGas (<http://www.kmg.kz/en/manufacturing/oil/kkst/>) (17.01.2017).

⁶⁴ Kosolapova, Elena: No Progress Expected in Kazakhstan Caspian Oil Transportation System, European Dialogue, 29.10.2014, in: <http://www.eurodialogue.eu/No%20progress%20expected%20in%20Kazakhstan%E2%80%99s%20Caspian%20oil%20transportation%20system> (17.01.2017).

Mineral Resources and Alternatives

Since Kazakhstan gained independence in 1991, the oil and gas sector have played a central role in the plans of the Kazakh government to accelerate the development and modernization of the country. Two different hopes are associated with the development and liberalization of the oil and gas sector in the 1990s: first, the country's economic isolation should be replaced by access to the world economy by attracting Foreign Direct Investments. Amidst the country's unfavorable geographical position and the limited domestic market, due to the sparsely populated territory, the oil and gas sector, with its traditionally global value chain, offered the best chances for economic growth.

At the same time, the country intended to profit not only from the distribution of licenses and oil exports, but also from the transfer of know-how and other related effects, which were supposed to help the entire domestic economy in the long term. However, the Kazakh leadership headed by President Nursultan Nazarbayev also clearly pursued a goal in the field of security policy. By diversifying its export strategies for the strategic resource of crude oil and attracting other countries to the Kazakhstan oil and gas sector, the Government has created geo-economic tools to bolster the country's national security and reduce dependence on its powerful neighbor – Russia.

Over the past two decades, the importance of the oil and gas sector has become significantly weighty, and only the crisis of 2015–2016 could become a turning point. While more than 30% of the GDP is generated in the oil and gas sector, the sale of petroleum products amounts to about 70% of total exports.⁶⁵ In addition, the Kazakh state is heavily dependent on oil profits to finance its expenses. Currently, 60% of the state budget derives from oil and gas trade.⁶⁶ In this regard, the legitimate question of the success of Kazakhstan's development strategy, which is based on the oil and gas sector as the engine of overall economic development, arises.

Kazakhstan has significantly prospered since the start of the new millennium.⁶⁷ However, this has so far hardly been due to robust and sustainable economic development, but rather almost exclusively to the expansion of the oil and gas

⁶⁵ Badykov, Naija: A New Era for Caspian Oil and Gas, Center for Strategic and International Studies, 13.02.2015, <https://www.csis.org/analysis/new-era-caspian-oil-and-gas>, (17.01.2017).

⁶⁶ *ibid.*

⁶⁷ See P. 11

sector and the associated continuous increase in revenues from its exports. In the same period, the shares of both the processing industry and agriculture in the country's gross domestic product decreased significantly, while the share of the trade and services sectors up to 2014, when oil prices fell, grew by almost 60%.⁶⁸ This is a clear sign that the national increase in economic prosperity has been exhausted. After years of complete deprivation in the Soviet Union, with its perpetual shortage of goods and the economically difficult first decade after independence, with a lack of liquidity among the population, this is also comprehensible. Nonetheless, it is important to see the economic crisis caused by the fall in oil prices as a chance to restructure the economy.

Building a Modern Industry

The process of de-industrialization of Kazakhstan cannot be continued; much rather the secondary sector of the national economy will need to develop prospectively and sustainably. Kazakhstan needs domestic production. In order to create a production which can be competitive at both national and international levels, three essential conditions are required.

- 1) The industry sector should be built at a modern and latest technological level (including digitization).
- 2) With a population of roughly 18 million, Kazakhstan's domestic market is too small for large multinationals. Therefore the economy of medium-sized enterprises should be developed and remain at the center of attention. Moreover, it is necessary to develop new sales markets to have at least a chance to create a 'major player.'
- 3) Kazakhstan needs to find its market niche in the global competition.

Digitization as a Chance

In a widely deindustrialized country, a fresh start grants the possibility to consequently attract the latest technologies, rather than slowly and gradually improve the already existing equipment.

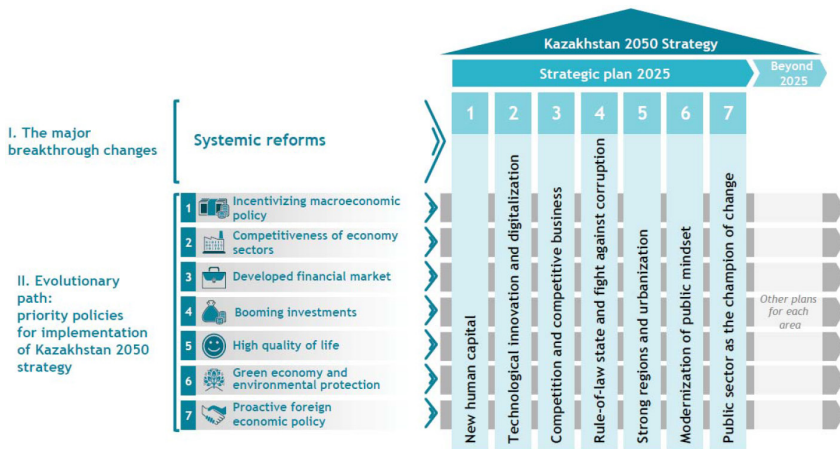
The Federal Republic of Germany went through this path in its early phase of formation. While the largest industrial facilities were either destroyed at

⁶⁸ Federal Statistical Office: Kazakhstan, Country Statistical Profiles, Special Issue 2016, P. 2.

the end of World War II or later dismantled and removed as compensation to the victorious powers, during the following restoration, machines and equipment of the most modern technical standard were created. Thanks to this, the young Federal Republic immediately became fully competitive, especially when compared to the countries that continued to use old pre-war equipment.

Thus, it is necessary to go not by separate steps of industrialization, but to instantly use the chances of digitization and Industry 4.0. In his annual address to the Nation of Kazakhstan in 2018, President Nazarbayev focused on the topic of digitization in more detail than ever before, and many key elements for its successful implementation are part of the Government Strategy.

Figure 7. The Strategic Development Plan “Kazakhstan 2025”⁶⁹

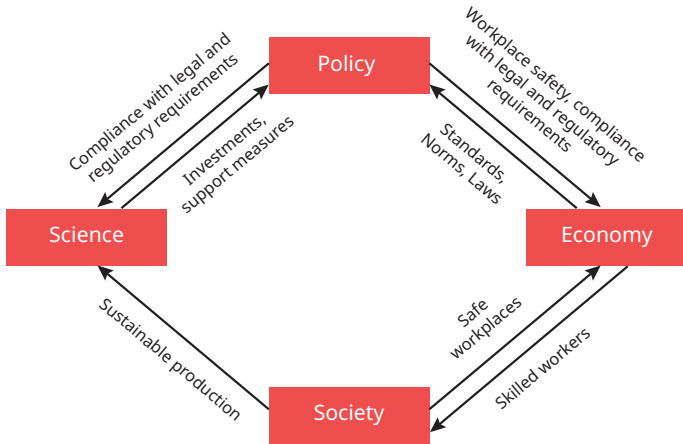


Digitization is associated with a new impetus to modernize industrial production determined by communication, transaction and interaction across all borders and physical barriers. In Germany, the concept of Industry 4.0 has long been widely limited to a political emphasis on the development of broadband Internet and information security⁷⁰ Undoubtedly, these are important aspects, but by far not all.

⁶⁹ The Strategic Development Plan of the Republic of Kazakhstan until 2025. <http://documents.worldbank.org/curated/en/178631527661848309/pdf/126685-28-5-2018-17-22-8-KAZCEUS-pringfinalfinaleng.pdf> (04.04.2019).

⁷⁰ See Helm, Thomas: Industry 4.0 in: Civis und Sonde, Issue 2, 2014, P. 75.

Figure 8. Stakeholders in the process of establishing Industry 4.0 and their interdependence⁷¹



To implement Industry 4.0 successfully, Kazakhstan, like Germany, must take into account the dependence and interdependence of various groups of stakeholders and merge them into a political strategy.

Many business enterprises see here an opportunity to optimize their processes and increase efficiency. Anglo-Saxon states talk more and more about the “Internet of Things.”⁷² The decisive aspect for enterprises to benefit from Industry 4.0 is the customer interface and, thereby, the ability to actively solve customer problems and/or know the needs of the end user.⁷³ This applies not only to B2C enterprises, but also to B2B enterprises and therefore the suppliers of other industrial sectors.⁷⁴ Otherwise, these industrial companies will only be performing operators and will lag behind the development of their industrial customers. This need arises from an ever-growing network of production

⁷¹ See Borgmeier, Andt; Grohmann, Alexander (et al.): Smart Services and the Internet of Things, Munich 2017, P. 10.

⁷² Roland Berger GmbH on behalf of the Internet Economics Foundation (IEF): Digital Germany – Seven Steps to the Future, P. 13.

⁷³ *ibid.* Pp. 13–14.

⁷⁴ Authors’ note: B2C companies supply products to consumers (end users), for example, cars, clothing, or consumer electronics. B2B companies supply products for industry, mainly for production or further processing, for example, auto parts or machinery.

processes in the Industry 4.0 complex and the growing influence of the (final) consumer on these processes. If Kazakhstan intends to play an international role in the field of supply in the future, it is recommended to follow the steps of digitization, when building the industrial sector.

In Germany, Industry 4.0 is a comprehensive initiative proposed by the Federal Government,⁷⁵ while the Industrial Internet in the United States is an initiative of mainly large technology corporations (such as General Electric, AT&T, Cisco, IBM, Intel, etc.).⁷⁶ Here one can already observe the 'Top-Down' approach of the German side, whereas the German concept of Industry 4.0 corresponds primarily to the interests of German industry and the German economy; and, on the other hand, the Americans use a business-oriented approach, in which the Government does not play such a big role. However, the meaning of both concepts is the same: they try to use a number of technological aspects, as well as smaller concepts based on them and operations associated with the production process, such as Internet of Things, Internet of Services, Cloud Computing, Big Data, IT security, cyber-physical systems (CPS: automated devices capable of the Internet of Things, such as industrial robots, production lines, autonomous transport systems, etc.), Machine-2-Machine Interaction, Software-Defined Networking, Smart Factory, Lean Manufacturing, Six Sigma,⁷⁷ etc. – to systematically integrate them, standardize and interconnect in the industrial sector.

One should not be deluded by the fact that leading economic and political countries as Germany, USA, and China have concepts and programs for a digitization of their industry – all these countries still face multiple problems with their implementation. Therefore, it is easy to imagine that Kazakhstan will face an even greater number of challenges.

The State Program for Digitization "Digital Kazakhstan" was adopted in 2017 by the Government of the Republic of Kazakhstan and represents the 'Top-down' approach to the diverse digital transformation of the country, which includes both economic and social aspects. Briefly about the program: its implementation

⁷⁵ See De Bernardini, L.: Industry 4.0 or the Industrial Internet of Things – What's your preference? Automation World, 2015, <https://www.automationworld.com/industry-40-or-industrial-internet-things-whats-your-preference/>, (01.02.2019).

⁷⁶ See *ibid.*

⁷⁷ The Manufacturer: How Could Lean & Six Sigma Accelerate Industry 4.0 and IoT? 2018, <https://www.themanufacturer.com/articles/how-could-lean-six-sigma-accelerate-industry-4-0-and-iot/> (17.01.2017).

is planned for four years (2018–2022, which is rather short-term); the responsible state body is the Ministry of Information and Communications of the Republic of Kazakhstan. The main goals are to accelerate economic development and improve the quality of life of the population through the spread of the usage of digital technologies. The priorities of the strategy include the following: digitization of industry (focus on Industry 4.0), digitization of logistics and transport, digitization of agriculture, digitization of government structures, the spread of IT infrastructure and the development of IT security, E-commerce, E-government, Smart City, increasing the level of IT literacy among the population, and promoting the development of an environment for IT startups.⁷⁸ Thus, the state program generally provides the basis for relevant projects, among which a specific project in the field of Industry 4.0 can also be developed. However, such a framework should be considered rather from a strategic perspective and we can conclude that four years are not sufficient at all.

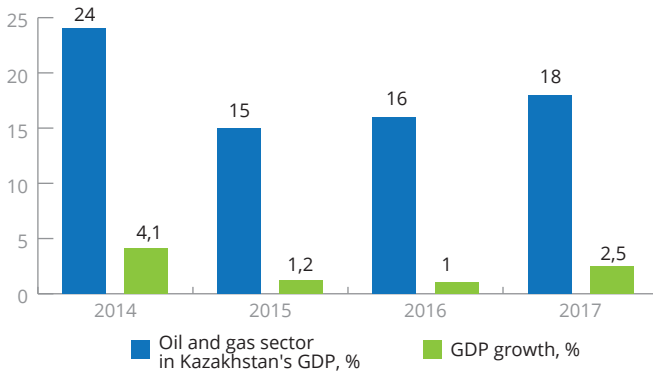
When it comes to the potential use of Industry 4.0 technologies in Kazakhstan, one must first understand why this is relevant for Kazakhstan. Up to date, the economy of Kazakhstan was focused on the extraction of raw materials, especially crude oil and natural gas, with their subsequent export: about 80% of the oil produced is annually exported to foreign countries, and the remaining 20% is processed at oil refineries for the domestic market. The oil and gas industry accounts for a significant part of the total Gross Domestic Product of Kazakhstan. This indicator amounted to 24% in 2014, while it decreased to about 15% in 2015 due to a fall in prices with a slight increase to 16% in 2016. Against this background, the growth of economic indicators has slowed down significantly: from 4.1% of GDP per year in 2014 to 1% in 2016.⁷⁹ In 2017, the share of the oil and gas industry amounted to about 18% of the country's total GDP – this increase compared with 2016 is related to the discovery of a new offshore oil field in the Kashagan region.⁸⁰

⁷⁸ The text of the State program Digital Kazakhstan adopted by the Government of the Republic of Kazakhstan on December 12, 2017. Official website of the Prime Minister of Kazakhstan, https://primeminister.kz/ru/page/view/gosudarstvennaya_programma_digital_kazakhstan (01.02.2019).

⁷⁹ Arnabekova, A.; Temirkhanov, M. and Ibraimova, A.: Oil and Gas Sector in the Economy of Kazakhstan. Halyk Finance, 2017.

⁸⁰ Study: Migration and Mobility – Economic Updates in Europe and Central Asia, World Bank Group, 2017, Pp. 75–76.

Figure 9. Kazakhstan's GDP growth and its dependence on the oil sector



Thus, it is obvious that this industrial sector is the main driver of the economy of Kazakhstan, and the Kazakh economy is highly dependent on the fluctuation of oil prices. All this means that this dependence should be reduced through the economy diversification. Therefore, the Government of Kazakhstan is now turning its attention to the development of the manufacturing industry, as well as the mining and metallurgical sectors, agriculture, logistics, and IT sector. Industry 4.0 could be a smart step forward in the context of the Government's focus on economic diversification.

Generally, Industry 4.0, or smart industry, conceptually strongly depends on prerequisites such as:

- Infrastructure
- IT infrastructure (including IT security, data centers, internet access, internet speed and quality in different regions)
- location and logistics connections
- industrial equipment (including machines, plants and production lines as well as their age, condition, previous degree of automation and the possibility to connect obsolete equipment with modern IT solutions)
- the possibility for training and further education of skilled workers
- the number and status of Kazakh technology companies that could act as suppliers of relevant technologies for Kazakh industry
- the degree of standardization of the technologies affected

It is therefore quite important to develop an appropriate program for Industry 4.0 in Kazakhstan based on the current situation. The main difficulty here is that there is a need to reasonably assess the situation first. It is necessary to check what companies are ready for the Smart Industry in the relevant industrial sectors of Kazakhstan and the degree of readiness; which players in Kazakhstan could become the basis of an appropriate exchange and development platform for Smart Industry, and to what extent these actors are committed to it.

In Kazakhstan, the role of such consultation was transferred to the German Fraunhofer Society, one of the largest European research organizations, which acts as a consulting organization for the Kazakhstan Industry Development Institute (KIDI – a research institute owned by the Ministry of Investment and Development of the Republic of Kazakhstan) on the country's Industry 4.0 deployment.⁸¹

Kazakhstan faces many challenges on its way to a smart industry. According to the Fraunhofer-Gesellschaft, the solutions for this can be the following:⁸²

- To establish competence centers for Industry 4.0,
- To establish a specialized institute for industrial automation and digitization,
- To establish an appropriate Industry 4.0 platform for Kazakhstan,
- To introduce regulatory measures and low-interest financing opportunities to motivate and encourage companies to introduce Industry 4.0 technologies,
- To update curricula and create new specialties at universities to train the necessary specialists,
- To further improve communication infrastructure and regulatory measures to accelerate the development of Internet of Things-technologies in Kazakhstan.

Furthermore, Kazakhstan is encouraged to create pilot digital factories within the framework of the Smart Factory concept as a specific solution and a logical step forward. There are already reasonable conditions for this. Firstly, the Free Economic Zone “Park of Innovative Technologies” established in Almaty

⁸¹ Kazakhstan Industry Development Institute (KIDI JSC): Bilateral Relations between Germany and Kazakhstan. 2017, <http://kidi.gov.kz/novosti/korporativnye/773> (01.02.2019).

⁸² Fraunhofer Society: Digitization and Industry 4.0: Kazakhstan – Typical Digital Plants. Lecture of the Burghard Scheel, the Chairman of the Board of Trustees of the Fraunhofer Society, at the Berlin Eurasian Club in 2017.

with its technological orientation, customs and tax preferences opens up favorable opportunities for launching a pilot factory on its territory. Secondly, despite the relatively small number of industrial enterprises, which are ready for Smart Industry, there are some of them that are mature enough for Industry 4.0. More precisely: there are large industrial companies with a sufficient budget for technological transformations, which are already trying to implement some specific technologies. An example of this is ArcelorMittal in Temirtau, a large mining and metals company. The company uses modern production planning and control systems, automated systems for identifying employees and vehicles, cloud solutions and unmanned systems (drones) for video surveillance and control of some production processes.⁸³ There are some effects from the concept of pilot factories. Advantages are the following:

- A pilot factory can serve as an example and guideline for other companies,
- A pilot factory can help to increase the basic understanding of Industry 4.0 technologies and is able to demonstrate this in practice,
- A pilot factory can help to assess specific indicators related to the improvement and optimization of internal logistics processes, production and other internal processes,
- A pilot factory can help to develop and demonstrate specific special solutions for other enterprises,
- A pilot factory is a great place for the practical training of the required specialists,
- A pilot factory is much simpler, faster, and more economical to organize compared with the reorganization of already established and complex technological operations at other enterprises, which are far from Industry 4.0,
- Finally, the virtual presentation of a pilot factory, the so-called virtual factory, is even more cost-effective. Using virtualization software, the current processes, infrastructure, equipment and structural organization of the pilot factory can be displayed both using a PC and any mobile devices for demonstration purposes.

The functionality of the pilot factory in terms of levels of production planning and automation can be roughly described as follows:

⁸³ ArcelorMittal Temirtau Press Center: ArcelorMittal Temirtau JSC Keeps Up With The Era of Digital Transformation, 2017, <https://www.arcelormittal.kz/index.php?id=10&pr=75> (01.02.2019).

Table 1. Table view of vertical integration of production systems⁸⁴

Level of planning and automation	Tasks	Data transfer:	
		For Cyber Physical System (CPS)	For human resources on production lines
Level of production planning and control (PPS level)	ERP-systems. Long-term and medium-term production planning (rough planning), order processing	Software integration between ERP and MES systems (for example, through the standards of Business to Manufacturing Markup Language (B2MML); machine codes are translated into 'human' language and vice versa	
Manufacture Execution System Level (MES level)	Short-term production planning (detailed planning), obtaining production data, performance indicators, production management and control in real time	Internet of Things (technically not quite the Internet, but an internal "network of things")	The Internet of Things on mobile PCs or tablets using a graphical representation of MES-related data; PLC level is "skipped"
Programmable Logic Controller Level (PLC Level (SPS)	Devices for direct control and regulation of automated production machines		
Machines, plants, and robots on production lines			
Production Line Employees			

However, the biggest disadvantage of the pilot factory is that it is truly independent and has no potential for communication with other participants in the supply chain or value-added chain. The digitization of industry also should be considered in terms of its large-scale logistical complexity, which is associated not only with the flows of goods, but also with financial and information flows. The digital pilot plant cannot cover such important areas of Industry 4.0 as big data processing and IT security. However, all of this should be covered step by step to avoid chaotic and sporadic development of the Smart Industry that potentially can result in additional problems. This is another argument in favor of why Kazakhstan needs a specially fixed strategy for the

⁸⁴ Table: Author's own development.

Smart Industry or a project in the context of the Digitization Strategy similar to the German approach.

Promotion of small and medium-sized enterprises

To speed up the digitization and technical modernization of the economy, it is necessary to improve significantly the financing opportunities for startups and SMEs. Support for small and medium-sized enterprises is one of the most pressing requirements of economic policy in many countries of the world. It is necessary to build a bridge between the intention to realize good ideas that are in demand in the market and the unwillingness of financial institutions to take risks, of which the latter has increased significantly in Kazakhstan as a result of the global banking crisis. University spin-offs should be financially encouraged Business incubators created in some cities and rural areas, where young enterprises can use the infrastructure at low cost, as well as receive economic support and advice, should get increased support, whereas also the barely existing bridges to credit institutions need to be built. In order to gain the interest of banks that are afraid of risks, for the initial financing, the Development Bank of Kazakhstan should develop further, following the example of the German Credit Institution for Reconstruction (KfW Bank), which has become the third-largest bank in Germany as a financial institution for startups and medium-sized businesses. Interest-free long-term loans and guarantees of the Development Bank coupled with loans from commercial banks can become the basis for a wave of formation of new enterprises in Kazakhstan. Investment funding through convenient loans is important due to the fact that tax legislation in Kazakhstan, as an opportunity to subsidize, has significant limits because of the existing single tax. However, the Government recognized the importance of support for enterprises. The President of the state has repeatedly pointed out the importance of supporting SMEs.⁸⁵ However, the Development Bank of Kazakhstan, instead of supporting start-ups and SMEs, is betting on large projects and shifting the financing of start-up enterprises, small and medium-sized businesses to the shoulders of Atameken National Chamber of Entrepreneurs of Kazakhstan and Damu Entrepreneurship Development Fund owned by Baiterek Holding. This is a mentionable

⁸⁵ Annual Address to the People of Kazakhstan of the President Nazarbayev dated November 30, 2015, Pp. 11–13.

disadvantage, since Damu is just a fund, and not a bank as such. Moreover, fund loans are provided at a 14% interest rate.⁸⁶ For enterprises at the stage of their formation, it is too costly.

Kazakhstan's path to a competitive industrial nation will be successful only, if steps are taken towards the latest technologies and to Industry 4.0. To achieve this, it is essential to bring key technologies into the country, whereby the fact that Kazakhstan is hardly industrialized today must be turned into an advantage. Where there is hardly any industrial activity, only a little "ballast from the past" needs to be carried along. No jobs that should be saved, no staff who need retraining, no old production facilities that need to be upgraded at a working factory, no supply chains that need to be serviced, and no shared ownership requiring a constant return of investment.

Definitely, modern industrial society does not arise out of nothing. Therefore, the decisive question is whether the country will succeed in attracting key technologies. At the same time, Baiterek and Samruk-Kazyna Sovereign Wealth Fund should take a leading role. But the Sovereign Fund invests too much in outdated structures.

At a meeting with the Head of the State President Nazarbayev, Yerbolat Dosaev, the Chairman of the Board of Directors of the Baiterek National Holding, which manages state-owned enterprises and organizations responsible for the country's development, presented a report for the 2016 financial year, according to which the consolidated property amounted to about €10.8 billion (4.100 billion tenge) and a net result of €79.3 million (30 billion tenge) was achieved.⁸⁷ Given the devaluation of the tenge at the end of summer 2015, the net result decreased by more than half compared to and according to an international scale. In 2015, it amounted to €201 million (49.4 billion tenge). Although the assets, based on their value in national currency, would have been 3,460 billion tenge in 2015 and consequently would have grown; however, if the devaluation is taken into account, 14.1 billion euros would have been on the balance sheet of the previous year and a substantial loss of value can be observed.⁸⁸ For the national economy of Kazakhstan, the devaluation

⁸⁶ <http://www.damu.kz/303> (01.02.2019).

⁸⁷ http://www.akorda.kz/public/index.php/en/events/akorda_news/meetings_and_receptions/meeting-with-baiterek-national-holding-board-chairman-yerbolat-dosayev (01.02.2019).

⁸⁸ Average exchange rate of € to tenge was €1 = 245.80 tenge in 2015; and €1 = 378.63 tenge in 2016.

is a problem in relation to the country's assets and, without a doubt, limits the possibilities of outward international investment.

Even the banking industry itself suffered greatly from the devaluation of the tenge. After the collapse of the small Bank of Astana, which is now deprived of the right to cash trading, also the large Tsesna Bank began to flounder in August 2018, when the tenge exceeded the mark of €1 = 440 tenge. Contrary to the Government's statements regarding saving banks through tax money, in the case of Tsesna Bank, the Kazakh state intervened in the alleged and official version only because most of the agricultural loans go through this bank.⁸⁹ Perhaps, the reason was the fact that the owner of the bank is a long-time head of the Presidential Administration. Nevertheless, this financial institution is protected only until the end of 2018. The bank was then sold during the first quarter of 2019, restructured and renamed JysanBank.

The creation of the Astana International Financial Center (AIFC) in June 2018 fell on this period of turbulence among banks in Kazakhstan. In addition to the already mentioned effects in the field of privatization, one also hopes for good business in the field of Blockchain and cryptocurrencies, and the Government's Digitization Strategy clearly touches upon this innovative area. Whether this will bring success is difficult to assess now, although official statements from time to time refer to stricter regulations in the field of Blockchain.⁹⁰

However, since these financial products derive their success and attractiveness mainly from the low level of regulation, it remains to be seen whether Kazakhstan will find a path to success between regulation on the one hand and the fantasy of the unregulated market on the other. Nevertheless, the topic of Blockchain and cryptocurrencies once again clearly shows how urgently Kazakhstan needs key technologies in the future. Therefore, an investment strategy for 'key technologies' is needed.

Umirzak Shukeyev, Chairman of the Management Board of Samruk-Kazyna Sovereign Wealth Fund, which owns and manages state shares in enterprises, including KazMunaiGas and Air Astana, presented to the President a report on the planned sale of 217 enterprises and related privatization. Simultaneously,

⁸⁹ <https://www.reuters.com/article/tsesnabank-capital/update-1-kazakh-tsesnabank-says-owners-to-inject-over-100-mln-in-capital-idUSL5N1VX3ID> (01.02.2019).

⁹⁰ Cointelegraph dated September 17, 2018.

numerous sales and partial sales have been already concluded.⁹¹ It would be advisable to invest the sales revenues at the international level and in enterprises abroad, including in Germany, in the field of ‘key technologies’ – to also facilitate technology transfers for Kazakhstan

Technology transfers could support the “Digital Kazakhstan”-program implementation, which is currently in the focus of the efforts undertaken by the Government of Prime Minister Sagintayev.⁹² The Program is aimed at fostering the development of information technologies and creation of the EXPO International Technopark as a platform to found enterprises and invest in IT and high-tech areas.⁹³ In this regard, it is also planned to establish an “Alatau Innovative Park”.⁹⁴

Adequate availability of highly qualified personnel for employers will be a decisive factor for the success of these initiatives. At the level of academic education, it is necessary to further develop the “internationality” of students and graduates. At the same time, there is no need to limit such initiatives to only selected universities, as the Nazarbayev University; this should become a universal standard. However, internationality in education requires international comparability. In order to achieve international comparability, it is recommended to make the almost unlimited offer of educational services of universities (for example, there are 42 institutions of higher education in Almaty alone) more effective by merging universities in order to make them more attractive for international cooperation with, for instance, German universities. Curricula should be revised, as they often lack education components that would put them in line with the international academic standard and ease their international recognition. At the same time, some content which is mandatory in all curricula; such as sports, Kazakh language and history, make university education often seem like a continuation of a comprehensive school. This drawback must be urgently addressed. Along with this, it seems appropriate to develop clusters of excellence with the participation

⁹¹ http://www.akorda.kz/public/index.php/en/events/akorda_news/meetings_and_receptions/meeting-with-samruk-kazyna-board-chairman-umirzak-shukeyev (01.02.2019).

⁹² Since February 2019, Askar Mamin is prime-minister of Kazakhstan.

⁹³ <https://primeminister.kz/en/news/industrializatsiya/premer-ministr-rk-poruchil-uskorit-razrabotku-programmi-tsifrovoy-kazakhstan-14010>. (01.02.2019).

⁹⁴ *ibid.*

of many universities. In Germany, good experience has been gained from this thematic focus and synergies arising from cooperation.

Further, the priority task is to accelerate dual education according to the German vocational standards, especially for professions closely related to the industry. It is gratifying that the joint work of the Kazakhstan Ministry of Education and Science and the German Society for International Cooperation (GIZ) led to the creation of a legal framework for the most popular occupations from 2012 to 2018: students in Kazakhstan are now able to receive an education recognized by Germany quality standards.⁹⁵ According to the Government, Kazakhstan is implementing the first projects based on dual education with more than 20,000 study places in colleges, training centers, and other educational institutions.⁹⁶ However, there is still not enough on-the-job training in most cases. In Kazakhstan, the implementation of dual training is especially difficult for small and medium-sized enterprises. There are no mentors, instructors, and, often, also no technical equipment to conduct modern training. In cases where one enterprise does not have enough capacity to provide the educational infrastructure using the latest technologies, it is recommended to establish regional practical training centers or the so-called “centers of competence”, where the cost and maintenance can be shared by several companies, besides the government support required for its operation.

Companies also have to be encouraged to participate and employ trainees in the company, as well as partners such as Akimate at the regional level; and training capacities must be further expanded.⁹⁷ After the GIZ mandate for the introduction of dual education in the Republic of Kazakhstan expired on March 31, 2018, the Konrad-Adenauer-Stiftung has been continuing the project with modified content priorities.

Developing new markets

As the sales market in Kazakhstan is relatively modest in size with a population of around 18 million, major foreign investment in industrial production

⁹⁵ Goertz, Rainer: The Role of the German Society for International Cooperation (GIZ) on the Introduction of Dual Education in the Republic of Kazakhstan. Project Report.

⁹⁶ https://primeminister.kz/en/news/sotsialnaya_sfera/v-2017-godu-bolee-20-tisyach-kazahstantsev-smogut-besplatno-poluchit-rabochuu-spetsialnost-14021 (17.01.2017).

⁹⁷ Goertz, Rainer: The Role of the German Society for International Cooperation (GIZ) on the Introduction of Dual Education in the Republic of Kazakhstan. Project Report.

can only be expected if there is a genuine sales market. For semi-finished goods (supply industry) and finished goods, which are distributed in a larger region, it is advisable to look at the countries in the South, also with a view to the logistical challenges in a landlocked country like Kazakhstan.

Despite the membership in the Eurasian Economic Union (EAEU), Russia remains a difficult partner for Kazakhstan's exports, as Russia itself is constantly looking for new markets. In this sense, Russia uses the structure of the EAEU domestic market often rather for its own benefit, which many small enterprises in Kazakhstan have been painfully experiencing since 2015. This trend has exacerbated with the price decline on raw materials markets from 2014 to 2017 and with the sanctions against Russia related to the conflict in the east of Ukraine.

The People's Republic of China is a similarly complicated partner in this regard. First, this applies to potential adjacent production. Thus, for example, the idea of producing spare parts for Chinese car manufacturers in Kazakhstan and delivering them to China might turn out to be just an illusion. The People's Republic is closely monitoring to ensure that at least 80% of the value chain for products sold in China is located within the country.

In other words: products for the Chinese market are made in China. Furthermore, this trend is becoming even more relevant since the previous growth rates in the 'Middle Kingdom' are slowing down and domestic consumption began to limp. Against this background, the project Belt and Road Initiative (hereinafter BRI) should be considered rather as a project for China's unilateral benefit.

The Belt and Road Initiative (BRI) in detail

Firstly, BRI is a large-scale integration framework; it is a political, economic, scientific, cultural, and even social initiative with the participation of more than 65 countries⁹⁸ and a large number of candidate countries.

The BRI, formerly known as OBOR, was introduced to a large audience at the end of 2013 during lectures by the President of the People's Republic of China, Xi Jinping, at Nazarbayev University in Astana (as the economic "belt" New Silk

⁹⁸ Chin, H.; Hee, W.: One Belt, One Road Initiative: 65 Countries and Beyond. Fung Business Intelligence Center, May 2016, https://www.fbicgroup.com/sites/default/files/B%26R_Initiative_65_Countries_and_Beyond.pdf (17.01.2017).

Road – “One Belt” part). The “One Road” part, the maritime Silk Road of the 21st century, was later introduced in front of the Indonesian Parliament in Jakarta.⁹⁹

Since then, this initiative has acquired tremendous importance for Chinese foreign and domestic policy-making, to an extent that it is now included in the Constitution of the People's Republic of China.¹⁰⁰ At the international level, the initiative identifies five key priorities for cooperation, including political coordination, linking economic entities and investments, uninterrupted trade, financial integration and human relations.

Although the BRI has such an ambiguous status, the ‘physical’ basis of the initiative is actually based on geographic transport infrastructure. The BRI map identifies six major transport corridors, which are associated with their own micro-branches (“capillary routes”). Some of these branches functioned (or partially functioned) long before the initiative was announced in 2013. Thus, BRI seeks to systematize these routes “under one roof” and, if necessary, expand, and update the infrastructure. Other branches are almost re-built as part of the initiative. Kazakhstan is involved in two of the six main corridors:^{101,102}

- The New Eurasian Land Bridge. It is known also as the Second Eurasian Continental Bridge. This is an existing railway line with a start in the port of Lianyungang (Eastern China), passing through Kazakhstan, Russia, Belarus, Poland, and Germany, before it ends in the port of Rotterdam (the Netherlands). The BRI connects several European ports and hubs with this route.
- China – Central Asia – West Asia. Starting in Xinjiang Province (Western China), this land route mainly passes through Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan in Central Asia; Iran and Turkey in West Asia, and ends on the Mediterranean coast. This branch

⁹⁹ Official Chinese Internet portal for BRI: About the BRI (<https://eng.yidaiyilu.gov.cn/ztindex.htm> (17.01.2017)).

¹⁰⁰ Quartz Creative: The Belt and Road Initiative Is Now Part of the Constitution. HSBC, March 2018, <http://www.business.hsbc.com/belt-and-road/the-belt-and-road-initiative-is-now-part-of-the-constitution> (01.02.2019).

¹⁰¹ Article: One Belt, One Road Initiative. Hong Kong Trade Development Council, May 2018, <http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative/obor/en/1/1X3CGF6L/1X0A36B7.htm> (01.02.2019).

¹⁰² Study: Belt & Road: Opportunities & Risk. Becker Mackenzie, 2017, https://www.bakermckenzie.com/-/media/files/insight/publications/2017/10/belt-road/baker_mckenzie_belt_road_report_2017.pdf?la=en (01.02.2019).

requires a large amount of investment. Currently, it does not yet operate as expected.

Kazakhstan plays a special role in the Chinese BRI plan. Unlike other BRI countries, Kazakhstan, as the largest state in Central Asia in terms of territory, is for China literally an intercontinental gateway to Europe. The main infrastructure for this includes railway and highway networks, as well as logistics hubs – as transshipment nodes and customs clearance points. However, within the framework of the BRI, Kazakhstan should not position itself only as a transit country for China and Europe. The development of the transport infrastructure of Kazakhstan is also a direct interest of China, which is why China invests primarily in this area. In addition, given the enormous costs the entire BRI initiative causes for China and can subsequently only ring in profits of between \$4 to \$8 trillion, it is impossible to imagine that this huge amount would be divided as a “gift” between the BRI countries.¹⁰³ As it is still difficult to say anything concrete about the profitability of investments in the BRI (even the expected terms are not easy to name now), we can consider Chinese investments rather as a loan – a fact, which should not be easily ignored by Kazakhstan.

For clarity: the total amount of Chinese direct investment in Kazakhstan in 2017 amounted to \$42.8 billion, while the total amount of China’s loan to Kazakhstan reached more than \$50 billion.¹⁰⁴ For China, as the “largest factory in the world”, it would be quite acceptable to receive Kazakhstan’s natural resources and raw materials in return, but recently Kazakhstan has been trying to diversify its economy away from exporting raw materials and is doing so with good reason. This raises the question of interests. Definitely, the BRI is significant for all parties involved, but every party must pursue its own interests.

In addition to introducing Astana to the world community, Kazakhstan studies also current trends in global economic and scientific progress and tries to adapt to changes in a timely manner. The number of ongoing systematic political reforms aimed at the economic development of Kazakhstan in the

¹⁰³ Ho, D.: Cost of funding ‘Belt and Road Initiative’ is daunting task. South China Morning Post, September 2017, <http://www.scmp.com/special-reports/business/topics/special-report-belt-and-road/article/2112978/cost-funding-belt-and> (01.02.2019).

¹⁰⁴ Kapital.kz media portal: Total Amount of Chinese Investments in Kazakhstan’s Economy Exceeded \$42.8 Billion. June 2017, <https://kapital.kz/economic/60408/obcshij-obem-investicij-kitaya-v-ekonomiku-kazahstana-prevysil-42-8-mlrd.html> (01.02.2019).

context of current technological progress is the largest in the region. Nurly Zhol, Innovative Industrial Development, Development of Education, Digital Kazakhstan, Strategic Development Plan of the Republic of Kazakhstan until 2025, and the Kazakhstan-2050 comprehensive long-term strategy – all these government initiatives and programs are aimed at a wide range of interrelated aspects of a multifaceted development of Kazakhstan, including the development of economic and scientific potential, modern industrialization, urbanization, regional development, social improvements, expansion of infrastructure, reconstruction, and modernization, etc., and, of course, we are talking not only about infrastructure for the transit of goods.¹⁰⁵

For example, the Nurly Zhol Program (“Bright Way” in Kazakh) does not always aim to build and repair transport routes (although this is also an important part of this program). The main goal of the program is the best integration of the regions of Kazakhstan into the common Kazakh market through the development of infrastructure and improved support for regional economic sectors. In short, Nurly Zhol is a program for the economic development of the regions of Kazakhstan and their networking to integrate better in the entire domestic market. All this corresponds to the principle that the competitiveness of Kazakhstan in general is equal to the competitiveness of its regions. The program is quite short-term (2015–2019: five years), and in quantitative terms, it is designed for total investments of more than \$9 billion.¹⁰⁶ Definitely, this cannot be implemented without foreign investment, but there are certain obstacles to this: probably the most obvious one is too tight period against the background of a sharp difference in the current economic development of the regions of Kazakhstan. However, this is indeed a step in the right direction.

This echoes the BRI Initiative to the extent that the Nurly Zhol Program is a prerequisite to adequately prepare the domestic market of Kazakhstan for expanding the access to foreign markets.

Let us return to the issue of logistics infrastructure: under the Nurly Zhol Program, construction and modernization of a significant range of intra-regional highway routes have been planned and have already been implemented.

¹⁰⁵ Official website of the President of the Republic of Kazakhstan: Strategies and Programs of the Republic of Kazakhstan. Akorda, 2018 (http://www.akorda.kz/ru/official_documents/strategies_and_programs (01.02.2019)).

¹⁰⁶ Baiterek National Holding: Nurly Zhol Program (<http://www.baiterek.gov.kz/ru/programs/nurly-zhol/> (17.01.2017)).

Some of these routes are significant for the BRI, as they are part of the transit highways network and connect the regions of Kazakhstan with it. The most important of them are:¹⁰⁷

- Western Europe – Western China Highway. It passes from Lianyungang on the East coast of China to St. Petersburg in Russia. It is possible to move further from St. Petersburg along the Baltic countries towards Western Europe; from the capital of Russia, Moscow (which is located along the Russian route) – via Belarus. In Kazakhstan, the route from China to Russia goes through Khorgos, Almaty, Kordai, Taraz, Shymkent, Kyzylorda, and Aktobe in the direction of Orenburg.
- Astana – Ust-Kamenogorsk Highway. Center – East Direction passes through Pavlodar and Semey and connects the capital of Kazakhstan with the administrative centers of Pavlodar and East Kazakhstan regions.
- Astana – Aktobe – Atyrau – Aktau Highway. Going towards a Central-West direction, it connects the capital with the oil and gas-rich west of Kazakhstan and ends in the port city of Aktau on the Caspian Sea. Currently, a large reconstruction of the highway is ongoing. Its completion is scheduled for 2020.
- Karaganda – Zhezkazgan – Kyzylorda Highway, Center – South Direction will connect the capital (via the Astana-Almaty highway to Karaganda) with the more southern regions. Until now, this route was in a deplorable condition; about 1,000 km of the road will be reconstructed within the framework of the program.
- Almaty – Ust-Kamenogorsk Highway. From the South-East of Kazakhstan, this route goes from Almaty through the cities of Kapshagai and Taldykorgan to the administrative center of the East Kazakhstan region. The importance of this route also lies in the fact that it connects the Dostyk border checkpoint with the Western Europe – Western China highway. Renovation work is currently underway for this route.

Internal branches are built on the principle of a hub, where large cities are positioned as logistics hubs, with the main hub (center) in the capital of

¹⁰⁷ Ministry of Investment and Development: Information on the Implementation of the Nuryly Zhol State Infrastructure Development Programme (<http://mid.gov.kz/ru/kategorii/informaciya-o-realizacii-gosudarstvennoy-programmy-infrastrukturnogo-razvitiya-nuryly-zhol> (17.01.2017)).

Kazakhstan, Astana. The Western Europe – Western China international transit corridor does not pass through Astana. However, Astana has several links with this corridor through the new system of national expressways, for example, Lianyungang – Almaty – Astana – Aktobe – St. Petersburg.

The railway lines of Kazakhstan have been steadily developing since becoming independent from the Soviet Union. Additional branches were created to effectively connect the regions of Kazakhstan into a single internal network. Thus, Kazakhstan currently owns an already developed railway network. However, the main problem is that the throughput of individual lines in the context of BRI transit corridors may be insufficient, since about 60% of the lines have only one rail track. The main work of the Nurlı Zhol program on the development of railway lines is carried out in this direction.¹⁰⁸ Transit corridors in the Kazakhstan railway network are mainly concentrated on the Trans-Asian Railway, TRACECA (Transport Corridor Europe-Caucasus-Asia) and the North-South corridor. In Kazakhstan, the Trans-Asian Railway is the basis of the BRI Kazakhstan intercontinental route (New Eurasian Land Bridge). The importance of TRACECA is unlikely to be high in the BRI, since this corridor was planned and built bypassing Russia, meanwhile, Russia is an important geopolitical player for China and, therefore, for the BRI. In addition, the North-South corridor does not geographically correspond to the concept of the New Silk Road.

Since the railways of Kazakhstan are considered strategic infrastructure and, therefore, are not subject to privatization, they are fully owned by the state. Consequently, the Kazakhstan Temir Zholy National Railway Company (hereinafter KTZ) is the only operator of the entire Kazakhstan railway network. It is a 100% state-owned company owned by the Samruk-Kazyna State Holding (hereinafter SK). Thus, the organizational processes within KTZ and SK have a direct impact on the efficiency of railways in Kazakhstan and indirectly influence on the effectiveness of the BRI transport links in the direction EU-China-EU. Undoubtedly, there is still much room for improvement in the structures of state enterprises; mainly in the context of the transformation of the old “analogue” corporate culture into a digital one, in line with the in line with Kazakhstan’s state objectives in the field of digitization and

¹⁰⁸ The Nurlı Zhol State Infrastructure Development Programme for 2015–2019. On the web page of the Financial Monitoring Committee of the Ministry of Finance of the Republic of Kazakhstan. (<http://kfm.gov.kz/ru/activity/strategy-and-program/state-program-on-infrastructure-development-nurly.html>) (17.01.2017).

the digital principle of BRI. Based on the state program Digital Kazakhstan, KTZ initiated a number of measures, including an automated multimodal transportation control system, a digital train control center, a Digital railway station, an automatic railway wheel diagnostics system, a traffic optimization system and other administrative systems, as well as a monitoring system in the areas of services, safety, controlling, energy optimization and the localisation of trains.¹⁰⁹

More than Just a Transit Country

Given the challenges and opportunities of the BRI project, it would be negligent for Kazakhstan to play the role of a transit state only. The funds necessary to cover the costs of maintenance and repair, in the conditions of a developed transport infrastructure, can reach billions of US dollars per year, especially given the high level of its use due to the huge volume of transit cargo going through.

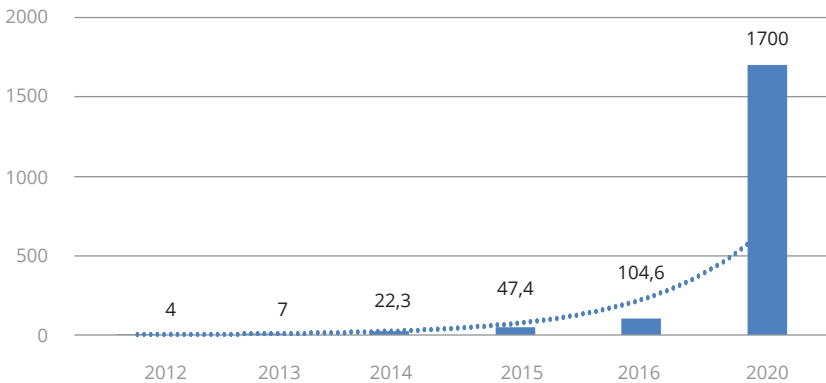
A very prominent component of the BRI in Kazakhstan, which has already received significant amounts of investment from China, is the Khorgos border point on the Kazakh-Chinese border. In view of its size and location, it is currently a unique “dry port”: it is located close to the so-called “continental pole of inaccessibility” (the point on earth with the maximum distance from the sea) and has been allowing high volumes of freight to pass through by rail since it became operational in 2012. The throughput capacity of the Chinese-Kazakh border hub is an important indicator, since it is the connecting point for transshipment of containers from the standard railway gauge used in China (1,435 mm) to the wider Soviet rail gauge (1,520 mm) used in post-Soviet CIS countries (a similar return point is also needed on the Belarusian-Polish border). The capacity of Khorgos currently stands at about 200,000 standard 20-foot containers (TEU) per year¹¹⁰; one full container can weigh about 24 tons maximum. Despite the fact that containers for rail transportation from China to Europe require changing to a different gauge two times, they still reach their destination point more than twice as fast as ship freight. Therefore,

¹⁰⁹ KTZ official website: Digitization. <https://www.railways.kz/ru/digitization/> (01.02.2019).

¹¹⁰ In this article, the term “standard container” and as the basis for calculating the TEU is mainly understood to be a 20-foot standard container. (Note: TEU – twenty-foot equivalent unit is a conventional unit of capacity of trucks. Often used to describe the capacity of container ships and container terminals).

almost US\$3.5 billion was invested in the development of this large logistics hub under the BRI, and the capacity of Khorgos is expected to be 540,000 standard containers (TEU) per year by 2020, if the infrastructure is further developed.¹¹¹ Whereas, according to studies by KTZ, SK, and McKinsey & Company, it is expected that Kazakhstan's total container transit potential in the China-EU-China direction will grow exponentially from 100,000 TEU in 2016 to an impressive 1.7 million standard containers in 2020:¹¹²

Figure 10. Container transit potential of Kazakhstan, thousand TEU



The main hub for container transit by rail from China through Kazakhstan is Khorgos, while the importance of Dostyk decreases with each passing year. This fact alone already marks Khorgos as a bottleneck within the BRI corridors through the Kazakh mainland: if the throughput capacities of Khorgos in 2020 are only 540,000 TEU, it is questionable, whether Kazakhstan will reach the expected container transit potential of 1.7 million TEU this year. Dostyk's capacities will not develop with a similar dynamism, as the main investments are flowing into Khorgos; and apart from Dostyk and Khorgos, no hubs of comparable importance are located on the Kazakh-Chinese border. Where will

¹¹¹ Article: Urankayeva, Z: Khorgos Dry Port to Process more than 500,000 Containers by 2020. Astana Times, November 2016 (<https://astanatimes.com/2016/11/khorgos-dry-port-to-process-more-than-500000-containers-by-2020/> (01.02.2019).

¹¹² Study: Kazakhstan and the New Silk Road: The Importance of Aligning Goals and How to Reach Them. PwC Kazakhstan, September 2017.

the other nearly one million TEUs come from? This question is still open. In any case, the use of trucks as an alternative solution would be uneconomical.

One elementary problem that needs to be addressed in relation to Khorgos is rampant corruption: from petty smuggling to carefully organized large-scale schemes of smuggling, fraud, and bribery of various size, and even local riots that break out for the aforementioned reasons. It is difficult to assess all losses. The biggest corruption scandal in Khorgos occurred in 2011, when the financial police uncovered a smuggling scheme involving senior customs officers and even the representatives of the National Security Committee, which led to the largest litigation in the history of independent Kazakhstan. 45 accused, more than 1,500 volumes of criminal cases, 162 court hearings – but practically no information was published on the extent of the damage. Another major incident occurred in September 2016, when the president of the Khorgos International Center for Border Cooperation (located on the Kazakh side) was caught red-handed while receiving a \$1 million bribe.¹¹³ In order to get a grip on corruption at the border and at customs, Kazakhstan should digitalise customs clearance so that no more papers are handed over by hand, because that is when most bribery takes place.

However, the digitization of procedures should be systematically implemented in all state bodies, and not just ‘pointwise’ and limited to customs only. In April 2018, the first customs and tax administration project ASTANA-1 was launched, which urgently needs to be expanded.

The Belt and Road Initiative (BRI) represents chances for Kazakhstan. To use them, Kazakhstan must create all the necessary conditions. Sure, the mentioned conditions are not limited to the creation of transport infrastructure, but also imply the development and support of the economy in the regions, an increase in production capacities and quality assurance at enterprises of priority non-resource sectors, the creation and maintenance of the image of Kazakhstan products (creating a “Made in Kazakhstan” brand).

¹¹³ Article: The Loudest Scandals Around Khorgos. Caravan.kz media portal, 2016, <https://www.caravan.kz/news/samy-e-gromkie-skandaly-vokrug-khorgosa-382272/> (01.02.2019).

The Development of Alternative Markets

Kazakhstan is therefore advised to focus more on the South regarding new sales markets. Besides the other Central Asian states, this refers above all to Iran and India. After the sanctions related to disputes over the country's nuclear program, Iran has a significant long-term lag in production, so economic and, above all, cooperation in the field of logistics¹¹⁴ in the field of crude oil can be exploited to mutual benefit. Against this background, it will be interesting to observe how Kazakhstan will react in the long term to the recent sanctions imposed on Iran by US President Trump in November 2018.

A stronger focus on the South could also create new trade opportunities with India. The subcontinent would in many regards be an easier partner for goods from Kazakhstan than the People's Republic of China. This is due to the fact that the Indian economy is at present still increasingly oriented towards the domestic market.

When it comes to developing new markets for industrial products, the question of industries and economic sectors should also be addressed. Kazakhstan must find its niche.

In the context of this economic transformation, Kazakhstan should take a look at the health sector, and in particular the area of pharmaceuticals and pharmaceutical research. At present, research-based pharmaceutical companies repeatedly complain that the environment for their research has developed in an unfavorable way. Even world-famous companies complain that it is increasingly difficult to get new research series approved – also in traditional strongholds of pharmaceutical research, such as the USA. If Kazakhstan fills this gap and offers a suitable research environment, there could very well be considerable growth potential in this area, since companies prefer to produce their products where they conduct research. In addition, pharmaceutical products, with their low transport volumes for the world's largest landlocked country, could also represent an attractive business area from a logistics perspective in view of the transport problems that arise in relation to global markets.

According to reports, the German pharmaceutical company Merck is prepared to make a major investment through a cooperation with Nazarbayev University.¹¹⁵ This would certainly be a good start. Fresenius has also been reported

¹¹⁴ See P. 24.

¹¹⁵ Oral Reports to authors.

to be planning to become much more involved in Kazakhstan. The company has been operating in the field of dialysis in Kazakhstan for years. This would extend the healthcare sector by adding the field of medical technology.

As in other areas of industry where market opportunities arise, there is a threat that China will seize these opportunities quickly and with the self-centeredness inherent in the country. However, Kazakhstan has a competitive advantage over its neighbor, especially in an economic sector, where research and production are closely interlinked, which it should play to its advantage. Kazakhstan can still credibly defend the claim to protect and respect the intellectual property of enterprises and individuals. China is no longer able to do so, after almost countless infringements over decades and the constant intrusion into foreign IT structures despite repeated affirmations to the contrary, even to high-ranking government representatives.

New Macroeconomic Development Strategies

There are many signs that the government's modernization strategy has fundamentally changed since the end of 2012. A systematic modernization approach has now replaced an often contradictory and tactically motivated approach of the Kazakh Government in previous years. This became first evident in the "Kazakhstan Strategy 2050" presented by the Kazakh President in December 2012, which aims to catapult Kazakhstan into the ranks of the 30 most developed countries by the year 2050 and formulates three far-reaching objectives: identifying new markets and partnerships, developing new sources of growth and creating a favorable investment climate in the country.

Thus, today we can confidently say that the Government of Kazakhstan is nowadays actively taking care of foreign investors. For example, every month a Council Meeting is held at the Prime Minister's office, organized by the American Chamber of Commerce (Am Cham), which is sometimes attended by more than half of the cabinet. Many enterprises with larger direct investments are represented in the council. General, but also specific problems of individual companies, which hinder a positive economic development, are discussed openly and solution-oriented. Naturally, this does not exclude that the implementation of such issues sometimes leaves much to be desired, and that not every problem finds its solution. Nevertheless, the fact that such a meeting

with the participation of senior government representatives is being held shows that foreign investors in Kazakhstan are now held in high esteem.

Moreover, the creation of a favourable business climate now explicitly involves the strengthening of political institutions and the fight against corruption. Therefore, the new government strategy now focuses not only on economic challenges, as it did in previous years, but has been expanded onto this sensitive political component. This new political will was underpinned, for example, by the granting of a compliance status to Kazakhstan in 2013 by the International Initiative for Transparency in the Extractive Sector (EITI) – after more than seven years of negotiations in which the payment flows of extractive companies to the state were disclosed.¹¹⁶

At the same time, the Kazakh government tried to internationalize the economy and strengthen the country's political institutions by joining multilateral organizations such as the Eurasian Economic Union and the World Trade Organization in 2015 and 2016, respectively. Particularly, the membership in the WTO was supposed to provide the reformers in the Kazakhstan Government with the necessary backup to modernize the economic and the political system fundamentally. In October 2015, the Kazakhstan Government introduced a giant privatization program, which envisages the sale of 65 largest state-owned enterprises in the oil and gas industry, the nuclear industry, and in the transport sector in 2016 and 2020.¹¹⁷ This will not only significantly reduce the current state quota of about 40% of the Gross Domestic Product and thereby increase economic competition, but may also further reduce corruption. However, all this requires profound changes in the bureaucracy. Thanks to the implementation of the 100 Steps Program and its focus on creating an effective and professional civil service, an important milestone was laid in this context. Overall, the investment climate has been sustainably improved.

If Kazakhstan is determined to carry out the necessary transformations on the way to a modern industrial site, then highly qualified and motivated specialists are of great importance. For this reason, significant improvements must

¹¹⁶ The World Bank 2013: The World Bank Welcomes Kazakhstan's EITI Compliance Status, 01.11.2013, in: <http://www.worldbank.org/en/news/press-release/2013/11/01/world-bank-welcomes-kazakhstans-eiti-compliance-status> (01.02.2019).

¹¹⁷ Desai, Michael; Wheeler, Eric: Can Kazakhstan's Privatization Plan Succeed? The Diplomat, 18.02.2016, in: <http://thediplomat.com/2016/02/can-kazakhstans-privatization-plan-succeed/> (17.01.2017).

be made in the “working climate” and employee rights need to be improved. This is necessary to prevent a situation where employees who have received a good education in terms of the transformation process, whether academic or vocational, are looking for a job abroad, since working conditions seem to be better there.

In Kazakhstan, workers' protests are taking place repeatedly – quite often in the West of the country, at the oil fields. The reasons lie in dissatisfaction with specific working conditions and in the obstacle to establish effective trade union structures. In January 2017, for example, there were hunger strikes by oil workers in the Mangistau region and a tall construction crane has been occupied.

According to human rights activists, the government reacted repressively against the suspected organizers of the strikes with house searches and charges.¹¹⁸ After the strikes, many activists were punished with dismissal, as well as with a high fine – in relation to their income – of several hundred dollars.¹¹⁹

A core problem in Kazakhstan is neither the lack of provisions related to the field of labor law, nor the lack of foundations for effective institutionalised representation of employees, including social partnership. It is just that the law is insufficiently applied and it has not yet been possible to implement a legal framework on this basis that would enable the potential social partners to act. For example, Kazakhstan does have trade unions, but no “free” trade unions. All trade unions are under the umbrella of the government-affiliated single trade union. It is not possible to found a trade union outside the umbrella. Based on the new labour law provisions of 23 November 2015, which came into force on 1 January 2016, more and more parts of the labour law have become the subject matter for the social partners.¹²⁰

At the same time, however, social partners are still not allowed to participate, for example, in the organization of ‘free’ trade unions. The author of a recent dissertation on this topic recommends to ensure the equality of the existing parties to social partnership (the representative of the employer and the representative of employees without the state participation), as well as to create

¹¹⁸ azattyq.org. January 11, 2017.

¹¹⁹ *ibid.*

¹²⁰ Khasenov, Muslim Kanatovich (Thesis): The Legal Framework for Social Partnership in Labour: Problems of Theory and Practice, PhD Summit, Astana 2016, P. 32.

the legal basis for a genuine negotiating mandate. In the future, not only the side of the employer, but also the side of the employee should be informed and should participate in the procedures of labor lawmaking.¹²¹ The participation in the work of oversight committees on social and health insurance is also required. In any case, this proposal is worthy to be supported in order to increase the transparency for the insured in regard to social security systems.¹²² Since there are also repeated reports of “withdrawals” from state systems, this could help to restore the confidence of the insured.

In Germany, the existence and activities of trade unions are constitutionally guaranteed. Article 9 (3) Sentence 1 and 2 of the Constitution state: “The right to form associations to safeguard and promote working and economic conditions is guaranteed for everyone and for all professions. Arrangements that restrict or impede this right are null and void and any measures aimed at this are unlawful.”

It can also be recommended to Kazakhstan that the activity of free institutional employee representatives be secured under constitutional Law. In view of the German experience in recent years, it is also desirable to ensure that only one trade union negotiates in a company and in a sector. Germany has not had a good experience with small but powerful sectoral unions (e.g. a union for pilots or train drivers only).

New Energy Sources – New Opportunities

The overall economic development of Kazakhstan can be particularly well traced in the context of the oil and gas sector. Since the country's independence in 1991, it has played a central role in all government efforts to advance the socio-economic development of Kazakhstan. It is also predictable that the resource-based sector will continue to play an important role in the country's economy. At the same time, it is clear that the primary sector of this national economy has so far clearly stood in the way of a positive development of the secondary sector (industry).

After a low of around US\$30 per barrel at the turn of the year 2016/17, the oil price initially stabilised at around US\$55 per barrel and, following a solidarity

¹²¹ Khassenov 2016, P. 39.

¹²² Khassenov 2016, P. 40.

campaign within OPEC and other countries (including Russia and Kazakhstan), even reached around US\$85 per barrel in 2018. Nevertheless, we should expect a fall in prices in the medium and long term. OPEC's artificially high oil prices (reduction of the production volume) conceals the fact that the increasing efforts of many countries to decarbonise will reduce the demand for oil. In addition, the sharp increase in oil prices did not lead to the restoration of Kazakhstani economy to the previous level and to the revaluation of the tenge (see above).

Against this background, and given the fact that mineral resources are not infinite, it is reasonable to pose the question, what contribution renewable energy sources can make to the necessary transformation of Kazakhstan's economy.

Opportunities of Renewable Energy Resources

The expansion of renewable energies is associated worldwide with the hope of increasing energy security on the one hand and reducing dependence on fossil fuels, energy intensity and greenhouse gas emissions on the other. For these reasons, the Government of Kazakhstan has outlined an ambitious plan to increase the share of renewable energy sources in the overall energy mix from approximately 1% to 3% by 2020 and to 50% by 2050. However, it must be taken into account that nuclear energy is ranked as a "green" energy source in Kazakhstan due to its low emissions. As the largest uranium producer in the world, Kazakhstan wants to accelerate the use of nuclear energy and increase its share in energy production by 2030 from today's 0% to 4.5%.¹²³ Wind, hydro and solar power are expected to contribute 10% of the total energy production by then.

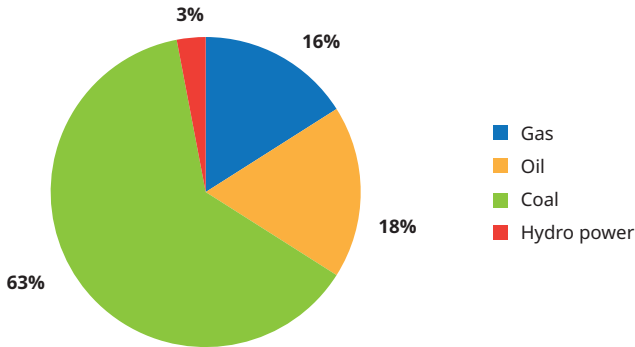
The restructuring of the energy sector requires tremendous efforts and will cost US\$64 billion until 2030 alone.¹²⁴ At present, about 63% of its own energy consumption is still covered by coal mining. This is considerably more than in economies in transition such as China (47%) and India (43%) and much more than in the USA (33%), which leads many negative rankings concerning

¹²³ See World Nuclear Association 2016: Uranium and Nuclear Power in Kazakhstan, in: <http://www.world-nuclear.org/information-library/country-profiles/countries-g-n/kazakhstan.aspx> (18.03.16).

¹²⁴ See *ibid.*

climate emissions.¹²⁵ In addition, coal has a high content of methane and sulfur in Kazakhstan.¹²⁶ This makes the issue of investments in alternative energy sources even more urgent.

Figure 11. Kazakhstan's energy consumption by energy source



The potential of renewable energies in Kazakhstan

Kazakhstan has excellent conditions for developing the renewable energy sector. Especially in rural areas, which have no access to the national power grid, the installation of solar panels, wind generators and mini hydro power plants can solve the problem of local energy shortages. Long transport routes and the burning of fossil fuels not only pollute the environment excessively, but also affect the productivity of many factories in the manufacturing industry and reduce the chances of economic growth. Renewable energies can make an important contribution to addressing all of these issues. However, temporary subsidies from revenues from the export of fossil fuels are necessary to make renewable energy marketable, especially because energy prices are extremely low in Kazakhstan, even in international comparison.

Kazakhstan's natural potential in the field of renewable energy is enormous: under the given climatic and geographical conditions and taking into account economic efficiency, for example, in the field of wind energy, it is quite possible

¹²⁵ Sakhanova, Raushan: Paris Agreement: National Analytical Center (NAC): Informational Analytical Bulletin, No.1/2016, P. 43.

¹²⁶ *ibid.*, P. 44.

to produce up to 760 GW of energy.¹²⁷ All this potential is still essentially untapped. Currently, hydropower dominates in the renewable energy sector with a share of 98% of total capacity.

Hydropower

Up to date, the use of hydropower is the most advanced with a total annual production of 7.78 GW. It accounts for about 13% of total electricity generation and about 3% of total electricity production in Kazakhstan.¹²⁸ Fifteen large operating hydropower plants have a total power generation capacity of 2.248 GW.

The Kazakh Government is also particularly boosting small projects in rural areas. 112 out of 257 projects are implemented in the South Kazakhstan region and 77 projects in the Zhambyl region. Thus, over 70% of hydropower projects with a production capacity of about 2.5 GW are located in the Southern regions of the country.¹²⁹

Wind Energy

Unlike hydropower, the wind power sector is still very underdeveloped. For the first wind farm in the Akmola region (about 150 km from Astana), the former German company Fuhrländer installed 22 wind generators under a joint venture with China. West Kazakhstan (almost 30% of the country's potential), Central Kazakhstan (19%), some regions of East Kazakhstan (4%), and South Kazakhstan (approximately 50%) are particularly suitable for the expansion of wind energy.¹³⁰ Even if the wind speed is the highest in Central Kazakhstan and the Caspian Sea (on average from 8–10 m/s), 30% of the total annual production capacity could be produced in the South alone. In the South, wind energy plays the largest role in the field of renewable energy sector after hydropower, although this type of energy production is hardly affordable

¹²⁷ See Karatayev, Marat; Clark, Michele L.: Actual Energy Resources in Kazakhstan and the Future of Renewable Sources: Overview, Energy Procedia 59, 2014 P. 101, in: http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade_Kazakhstan.pdf (18.03.2016).

¹²⁸ *ibid.*

¹²⁹ *ibid.*

¹³⁰ See Karatayev, Marat; Clark, Michele L.: Actual Energy Resources in Kazakhstan and the Future of Renewable Sources: Overview, Energy Procedia 59, 2014, P. 101, in: http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade_Kazakhstan.pdf (18.03.2016).

for private households and/or small agricultural enterprises. The cost of one turbine with a capacity of 10 kW (conventional size for the energy supply of a household) ranges from US\$22,000 to US\$29,000.¹³¹

Solar Power

Currently, solar power accounts for less than 1% of total energy production. Nevertheless, the use of solar energy is a cost-effective option, especially in the south of Kazakhstan, in order to optimize and decentralize the energy supply. The level of solar insolation here is between 2,200 and 3,000 hours of sunlight per year, which allows producing between 1,300–1,800 kW per square meter of solar panel area yearly.¹³² For comparison: in Germany, one solar panel produces only about 1,000 kW/m² per year. Currently, three large solar power plants are located near the cities of Astana and Almaty. In addition, six large plants are being built in the Zhambyl region.

Obstacles to the development of RES

In the past, the use of renewable energy has often not been profitable. This was primarily due to the high requirements for the characteristics of storage batteries and low feed-in tariffs. The devaluation of the national currency in recent years has also significantly affected the profitability of investments in renewable energy sources, as the systems are mainly imported. A further aggravating factor is the fact that the data available on the advantages of various energy sources is scarce and thus hinders well-founded investment decisions.

To prevent these problems in the future the Kazakh government developed a draft law on renewable energy sources at the beginning of 2016. It has been approved by the new Parliament after the elections in March 2016 and provides for the following reforms:

- Creation of a national development model for the regional expansion of renewable energies sources

¹³¹ See Kaushik, Chel: *Renewable Energy for Sustainable Agriculture*, Springer Verlag / EDP Sciences, 2011, P. 97, in: <https://hal.archives-ouvertes.fr/hal-00930477/document> (18.03.2016).

¹³² See Karatayev, Marat; Clark, Michele L.: *Actual Energy Resources in Kazakhstan and the Future of Renewable Sources: Overview*, *Energy Procedia* 59, 2014, P. 101, in: http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade_Kazakhstan.pdf (18.03.2016).

- Dollar indexation of feed-in tariffs
- Removal of pre-set energy storage specifications
- Establishment of the Ministry of Energy as a key institution
- Reimbursement of 50–80% of capital costs for the purchase of locally produced energy systems.¹³³

Despite the law, renewable energy projects were not able to gain acceleration right away in Kazakhstan. With the adoption of the tendering model for energy volumes based on the German model, there has been increasing momentum in the market since the end of 2017. For example, a solar park of 100 MW was opened by a German operator in the Karaganda region in February 2019 and a solar park with 150 MW is currently under construction in the region surrounding Kapschagai.

In addition, the Kazakhstan Government was able to use the EXPO-2017, held in Astana, as a platform to present the best practices in the field of renewable energy, as well as support research and technological development of the “green energy” industry, give the public an opportunity to see the benefits of renewable energy, and accelerate know-how transfer between all relevant stakeholders.¹³⁴ Many initiatives, for example in cities such as Astana and regions like Karaganda, were launched only after the completion of the EXPO-2017 exhibition.

Making renewable energies marketable through fossil fuels

The fall in prices on global commodity markets, especially for mineral oil and gas, has pushed the Kazakh economy into crisis. Although the price of black gold rose again to US\$50–55 per barrel during 2016, this, however, only mitigated the crisis, but did not end it. As a result, the country is beginning to recognize that for too long the sale of fossil fuels and other mineral resources has been the mainstay of its economy. The government has lost precious time.

¹³³ See Kashkinbekov, Arman: Interview with the Deputy Managing Director of the Kazakhstan Association of Renewable Energy Sources, 02/13/2016.

¹³⁴ See Sospanova: Concept of Kazakhstan’s Transition to a Green Economy, 21st OSCE Economic and Environmental Forum, 2013, P. 3, in: <http://www.osce.org/eea/104851?download=true> (18.03.2016).

In Kazakhstan, the political will to restructure the country's economy is now being articulated more clearly. Such a transformation can succeed if the course is now set correctly. Undoubtedly, the country has great potential.

The energy sector plays a crucial role in the economic transformation of Kazakhstan. For example, the expansion of renewable energies can increase energy security and reduce the environmentally harmful use of coal. In addition, renewable energy sources are better than fossil fuels and can be part of a decentralized energy supply that will contribute to both rural development and the emergence of industrial structures outside densely populated centers.

However, fossil fuels cannot be neglected over the next years. The Government's efforts to transform the economy can only be successful if supported by revenues from oil and gas exports and the local production of essential oil products for the construction, automotive, and food industries. In the field of energy, this means that the revenues from fossil resources must be used to enable renewable energies to become marketable.

Finally, the topic of renewable energy sources allows us to return to the primary sector of the economy, namely agriculture, which has great potential in Kazakhstan. While in Germany the cultivation of energy crops (for example, corn and rapeseed) is being increasingly criticized (keyword: monocultures), their cultivation in Kazakhstan, which is eight times larger than Germany, is possible with a much smaller share of debate and discussion. It is therefore advisable for Kazakhstan to consider the issue of biomass as an export business - especially in relation to Germany, where biomass is the second strongest energy source in the renewable energy sector. And the New Silk Road would make its transportation hassle-free.

Tax Policy in Kazakhstan

Rakhim Oshakbayev

1. Assessment of the tax burden level in Kazakhstan

The tax legislation of the Republic of Kazakhstan is based on the Constitution, consists of the Tax Code and other regulatory legal acts, the adoption of which is provided for by the Tax Code.

The Constitution contains general norms of tax legislation relating to the tax powers of state authorities and establishing the obligation to pay taxes and other mandatory payments.

Tax Code regulates legal relations associated with the introduction, calculation, collection of taxes and duties, as well as resulting relations between the taxpayer and the state represented by the competent state authorities.

The tax legislation of the Republic of Kazakhstan is based on the principles of taxation. The principles of taxation include the following principles:

- The principle of mandatory taxation.
- The principle of taxation certainty.
- The principle of fair taxation.
- The principle of unity of the tax system.
- The principle of publicity of the tax legislation of the Republic of Kazakhstan.

In the Republic of Kazakhstan, at an extended meeting of the Government held on May 6, 2015, the President of Kazakhstan Nursultan Nazarbayev outlined 100 concrete steps to implement five institutional reforms.

In terms of taxation, five concrete steps have been laid down:

- Step 39. Integration of the customs and tax systems. For tax purposes, the importer will be monitored from the moment goods enter the territory of Kazakhstan until they are sold.
- Step 42. Introduction of the universal tax return from January 1, 2017 for civil servants with the subsequent phased transition for all citizens.

- Step 43. Creating a network of centres to receive and process tax returns. The centres will have access to a single repository of taxpayers' electronic documents.
- Step 44. Improving the mechanisms for collecting indirect taxes. Detailed consideration of the introduction of sales tax instead of value added tax.
- Step 45. Optimization of existing tax regimes with the obligatory tax accounting of income and expenses.

At the same time, the Head of State in his Address dated November 30, 2015 "Kazakhstan in a New Global Reality: Growth, Reform, Development" clearly stated: *"Raising taxes is not a way out of this situation. This will only mean additional pressure on the business."*

However, in order to cover the state budget deficit, the Government has set a course for the tax burden increase that is inconsistent with the business interests. It is planned to lower the minimum threshold for VAT registration.

According to the Paying Taxes 2018 Report of PwC and the World Bank, Kazakhstan is ranked 60th in the world in terms of tax burden. And the overall tax burden amounts only to 29.2% (of commercial profit). The time to pay taxes amounts to 178 hours / year, and the number of tax payments is only seven.¹

Table 1. Tax revenues

Tax revenues	2016	2017	Year-on-year change	Year-on-year change (%)
Total tax revenues to the state budget	6,023,263	6,810,851	+787,589	+13
Corporate income tax	1,437,365	1,538,785	+101,421	+7
Individual income tax	691,778	750,212	+58,434	+8
Social tax	530,440	576,607	+46,167	+9
Value added tax	1,495,682	1,664,699	+169,017	+11
Excise taxes	205,231	255,994	+50,763	+25
Export customs duty on crude oil	638,977	854,530	+215,554	+34

¹ Paying Taxes 2018, PwC, <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2018.html> (12.12.2018).

2. The increase in the tax burden on the payroll fund is one of the reasons for tax evasion

Today, there are 30 types of taxes and other obligatory payments in Kazakhstan.

- Ten types of taxes: corporate income tax, individual income tax, social tax, value-added tax (VAT), excise taxes, taxes of subsoil users, export rental tax, property tax, land tax, single land tax, transport tax, gambling tax, and fixed tax.
- Ten payments: for using licenses to engage in certain types of activities; for the use of land; for the use of water resources from surface sources; for environmental emissions; for the wildlife use; for forest use; for the use of protected areas; for the radio frequency spectrum use; for the provision of long-distance communication and/or international telephone exchange, as well as cellular communications; for placement of outdoor (visual) advertising.
- Seven fees: license fee; registration fee; fee for permits for banking and insurance markets participants; for issuing permits to television and broadcasting organizations for the radio frequency spectrum use; for the passage of vehicles on the territory of the Republic of Kazakhstan; for certificates in the field of civil aviation; for permission to attract foreign labour force.

At the same time, the declared tax burden does not take into account tax costs associated with corruption rent and high legal risks.

In addition, high transaction costs of the business in fulfilling the complicated requirements of tax legislation should be noted.

A high level of actual tax burden, primarily the burden on the payroll fund, together with the need to pay corrupt rent will lead to total tax evasion in the private sector.

The increase in the tax burden on the payroll fund is accompanied with the growth of the extra-budgetary funds number, payments to these funds are made bypassing tax and budgetary procedures. Today, contributions to the Unified Pension Savings Fund, the State Social Insurance Fund, the Autonomous Cluster Fund (1% of the income of subsoil users), National Chamber of Entrepreneurs, self-regulatory organizations, and the operator of extended producer obligations are mandatory.

Also, Social Health Insurance Fund has been already created, contributions are being paid to it, but it is not possible to use them until 2020, as the introduction of the social health insurance system has been postponed until that date.

For reference:

1) Current burden on the salary fund (2018) ~ 32.5%:

- Individual income tax is 10%
- Mandatory pension contributions are 10%
- Social tax (+ contributions to the State Social Insurance Fund) is 11%
- Contributions to the Social Health Insurance Fund are 1.5%.

2) Forecasted burden on the payroll fund by 2020 ~ 38%:

- Individual income tax is 10%
- Mandatory pension contributions are 15%
- Social tax (+ contributions to the State Social Insurance Fund) is 9.5%
- Contributions to the Social Health Insurance Fund are 3%.

In 2017, KZT2.4 trillion of taxes and extra budgetary payments were collected from the payroll fund.

For comparison, there are only six types of taxes in Georgia: corporate income tax, VAT, excise tax, individual income tax (income tax), import tax, and property tax.

In addition, Georgia does not have taxes on salaries, social security, capital gains, wealth or inheritance. According to the Economic Liberty Act, the government is not allowed to increase the tax rates of the country (excluding excise tax) or the number of taxes without a national referendum.

3. The main taxpayers in Kazakhstan

47 Kazakhstani companies provide 50% of tax revenues to the budget and the National Fund. TALAP Centre for Applied Research has analyzed tax payments by Kazakhstani business. The data obtained indicate the concentration of capital in the oil and gas sector and the modest role of small and medium-sized businesses. And compared with 2016, the concentration of taxpayers has increased significantly. A year ago, 92 companies formed 50% of fees to the treasury.

In total, the list of taxpayers includes more than 200 thousand legal entities. Against the background of rising oil prices in 2017, tax payments of the oil sector increased, its companies transferred KZT3.2 trillion or 38% of the total volume to the country's budget.

Ten oil producing companies paid 33% of the total taxes in the country. Tengizchevroil LLP, which develops the Tengiz field in the Atyrau region, has become an absolute leader in tax payments. The company also ranks first in the country in terms of crude oil production.

In 2017, TCO paid KZT1.7 trillion or almost 20% of all tax revenues to the budget and the National Fund. This is comparable, for example, with all expenses of the state budget under the Education item.

Only the National Bank was able to compete in the amount of tax payments with oil workers who took the top lines of the rating. Having paid KZT262 billion (3.1% of all taxes), it took the second place. Mangistaumunaigas JSC took the third place. It is engaged in developing 15 oil and gas fields. The company paid KZT259 billion. The amounts are comparable with the expenditures planned for the development of culture and sports in Kazakhstan in 2018–2020.

The top ten taxpayers of the country look as follows:

1. Tengizchevroil LLP – KZT1.7 trillion.
2. Republican State Institution National Bank of the Republic of Kazakhstan – KZT262 billion.
3. Mangistaumunaigas JSC – KZT259 billion.
4. Karachaganak Petroleum Operating B. V. – KZT240 billion.
5. Ozenmunaygas JSC – KZT133.6 billion.
6. CNPC-Aktobemunaigas JSC – KZT117.4 billion.
7. Embamunaigas JSC – KZT107 billion.
8. Kazzinc LLP – KZT107 billion.
9. Transnational Company Kazchrome JSC – KZT84.5 billion.
10. Joint Venture Kazgermunai LLP – KZT70.9 billion.

In the event of a possible drop in hydrocarbon prices, the financial sector, metallurgical and mining enterprises, construction companies, as well as tobacco

companies can replace oil companies. In addition to the oil sector, the most taxes were paid by the representatives of such sectors as wholesale trade – KZT868 billion (10.2% of the total number of tax revenues), metallurgy (production + refining) – KZT587 billion (7%), financial services – KZT523 billion (6.2%). However, the amount of tax payments is much more modest here, and in the same wholesale trade, oil traders are leading in the first lines.

The largest taxpayers in the metallurgical industry were Kazzinc JSC – KZT107 billion, TNC Kazchrome JSC – KZT84 billion and Kazakhmys Corporation LLP, which paid KZT21 billion to the treasury.

Companies from the high-tech sectors of communications, chemistry, and engineering were not even included in the top twenty. For example, Kazakhtelecom took the 26th line among all taxpayers, having paid KZT30.5 billion, Kcell LLP took 31st line, having paid to the treasury KZT26.5 billion, and Kar-Tel LLP took 33^d line, having contributed to the state KZT23.3 billion.

4. The possibility of applying international experience in differentiated VAT

Currently, the Tax Code of Kazakhstan provides for VAT refunds for exports without differentiating the size of the refund. In order to improve further tax legislation in this area, the following options are proposed.

Firstly, based on the experience of the EU countries, it is proposed to introduce differentiated VAT rates in Kazakhstan as one of the types of incentive taxation.

This measure is fully consistent with the content of the National Export Strategy Program adopted by the Decree of the Government of the Republic of Kazakhstan dated August 26, 2017 No.511, which indicates that incentive taxation is one of the highly effective tools to support exporters.

A study of the EU countries experience revealed that sectorial tax benefits are most often provided in such areas as agriculture, mechanical engineering, production and sale of food and consumer goods, periodicals, production and sale of pharmacological goods, etc.

For example, in China, where a standard VAT rate is 16% and a reduced rate is 10% for certain categories of goods, VAT is refunded in full only with respect to the approved list of goods.

The VAT refund is incomplete (from 0% to 16%) for exported goods with relatively low added value, in other words, the exporter loses in the total difference in the full payment of indirect tax on production and its partial refund. And VAT is not refunded fully for small enterprises engaged in export. According to statistics for 2009, exporters could return about 58% of the payment of the VAT value.

This system has helped China to solve various economic issues: regulate trade surpluses, increase government revenues or stimulate the development of individual industries. During the period 2001–2010, total exports of machinery and equipment increased from 36 to 47%. At the same time, the export of mineral raw materials decreased from 10 to 5%. In addition, having increased the share of exports of manufacturing products from 4.7 to 14.8% during this period, China became the absolute leader in this type of goods.

In case of the introduction of VAT rates differentiated by industry in Kazakhstan, VAT refunds on exports will be equal to the amount of VAT paid earlier.

This measure will increase investors interest in investing in priority sectors of the economy, and, as a result, will lead to an increase in tax revenues, as well as to a gradual proportional increase in the share of other sectors in the gross domestic product in the context of the resources-based sector.

Secondly, based on the successful experience of China, it is proposed to introduce a differentiated amount of VAT refunds on exports depending on the degree of exported products processing.

In case of a further standard VAT rate of 12%, it is possible to consider introducing differentiated rates of VAT refunds in Kazakhstan in the future:

- Goods with high added value (high processing degree) is 12%
- Goods with low added value (low processing degree) is 0–12%.

It is necessary to establish and approve at the legislative level the procedure for classifying industrial products as products with a low / high processing degree based on the priority areas for the development of Kazakhstani economy.

For reference, the Russian Federation has Order No.31 of the Ministry of Industry and Trade dated February 2, 2009 “On the Procedure for Classifying Industrial Products as Products with a High Processing Degree.”

As is well known, the major part of Kazakhstan exports is attributed to commodities, which are goods with low added value. State policy in developing the competitive national economy of the Republic of Kazakhstan is aimed at diversifying the country's economy and at the same time at the comprehensive development of export potential.

The introduction of a mechanism for differentiating the amount of VAT refunds on exports depending on the degree of products processing is potentially an effective way to stimulate the development of priority economy sectors and increase their exports.

The reduction in the percentage of VAT refunds in relation to the export of low value-added goods (raw materials) is equivalent to an indirect state subsidy to high-tech manufacturing or processing industries.

The introduction of a mechanism for differentiating the amount of VAT refunds on exports depending on the processing degree entails benefits both in the short- and long-term outlook for the economy of Kazakhstan.

An immediate effect of the introduction of this mechanism may be an increase in the state budget due to non-payment / reduced rate of VAT refunds in relation to the export of low value-added products.

In the long term, an increase in the production of goods with a high processing degree is expected with a gradual replacement of unprocessed raw materials by more diversified types of products in the structure of Kazakhstan's export.

5. Tax preferences for the IT sector. Case Study: Belarus High-Tech Park

Belarus adopted the Decree on HTP 2.0 with new benefits for the High-Tech Park.

New tax incentives:

- Extension of existing tax benefits until 2049.
- Tax incentives for transactions with cryptocurrencies (zero rates of income tax, VAT, individual income tax).
- Exemption from VAT arising from a non-resident providing marketing, advertising, consulting, and some other services.

- The abolition of income tax for foreign organizations that do not work in Belarus through a permanent representative office in relation to a number of categories of income received from Belarusian sources (alienation of shares, data processing, advertising on the Internet, etc.).

In terms of tax preferences for the IT sector, Kazakhstan is inferior to Belarus:

Table 2. Tax preferences for the IT sector

Belarus High-Tech Park	Kazakhstan Information Technology Park
Income tax 0% *	CIT 0%**
Dividend tax and value added tax 12% (13% for individuals)	Dividend tax and value added tax 15% (5% for individuals)
Income tax for foreign organizations 5% (0%)	Income tax for foreign organizations 15%
VAT 0% (throughout the Republic of Belarus)	VAT 12% (0% for goods consumed in the SEZ)
Land tax 0% (at the time of construction)	Land tax 0%**
Real estate tax 0% (except rental)	Property tax 0%**
Employee Income Tax 9%	IIT 10%
–	Social tax 0% (if the payroll fund is more than 70% of all expenses)
Fixed size ~ 50 thousand tenge: pension insurance contributions are 29% social insurance contributions are 6% from the average salary in the country	Contribution to Unified Pension Saving Fund – 10% Contribution to State Social Security Fund – 3.5% Contribution to Social Health Insurance Fund – 1.5%
* Full extraterritoriality (for all residents)	** Limited extraterritoriality (for residents located on the territory of the SEZ)

In Belarus, HTP residents receive all benefits, regardless of their location. In Kazakhstan, benefits are granted only to residents located on the territory of the SEZ.

Based on the experience of the HTP, it is proposed to introduce tax benefits for Astana_Hub participants:

1. Full extraterritoriality – to provide benefits to all participants, regardless of location.
2. Zero CIT rate
3. Zero VAT rate on turnover from the sale of goods (works, services, property rights) throughout the Republic of Kazakhstan.
4. To reduce the load on the payroll fund:
 - Zero IIT
 - Zero social tax
 - Zero income tax rate for dividends and value growth (for non-residents – 5% / 0%).
5. To establish a separate tax unit in Astana-Hub.

Currently, the Tax Code version, which is in force until 2020, allows introduction of amendments to it to improve the status of taxpayers by any legislative acts that can be put into effect at any time.

Unified Aggregate Payment (UAP)

The UAP introduced since 2019 is a new tax and legal regime for micro-business with an income of around 2.8 million tenge per year. It will replace the current, very cumbersome regime when taxi drivers, housekeepers, plumbers, nannies, and others theoretically should register as an individual entrepreneur or obtain a patent and pay 4–5 types of taxes and contributions from their small incomes, which make up about 15–20% of their income: tax from a simplified declaration or individual income tax, contributions to the Unified Pension Saving Fund, the State Social Security Fund, the Social Health Insurance Fund.

The UAP has a fixed amount of 2,525 tenge per month in cities and 1,226 tenge per month in villages. It amounts to about thirty thousand tenge per year for the city and fifteen thousand for the village. This may be 0.5–1% of

the income of this category. Moreover, to use this regime, it is enough to credit money to personal account at any time. No registration, no tax returns or audits are needed. Payment should be as simple as the mobile phone topping up through a terminal, a mobile application or a bank.

The unemployed or people without income, for example, housewives are not obliged to pay the UAP. It is assigned only for self-employed entrepreneurs with income.

The paid UAP will be split automatically and directed in a certain proportion simultaneously to the pension account, personal accounts in the State Social Security Fund and the Social Health Insurance Fund, as well as to the budget as tax payment.

Thus, a person immediately gets access to the entire system of social, medical, and pension benefits, the cost of which is ten times higher than the amount of a fixed payment. In addition, all activities will be considered legal – the payer of the UAP has fully fulfilled all tax obligations.

First, the UAP regime is brought to the attention of 1.4 million Kazakhstan people, who are considered informally employed. 800 thousand people of them are actually employed, have salaries, but do not have employment contracts, and do not make any deductions.

Another 600 thousand people are the so-called self-employed. They can be taxi drivers, housekeepers, tutors, nannies, plumbers, electricians, etc. These people are engaged in entrepreneurial activities, but do not register as IE, do not receive a patent, and do not pay taxes at all.

Anti-corruption Policy in Kazakhstan: State and Prospects

Baurzhan Uakpayev

Corruption – a global problem

The world in recent years, more than ever, is subject to the globalization of economic and political processes, country and regional competition is intensifying. In these conditions, systemic development of an effective anti-corruption state policy is indispensable. Often it becomes the determining factor in the stability of the political regime and public administration, enhancing country's competitiveness, improving the business environment and the quality of life of citizens.

There are many examples in modern world history, when massive corruption among the political elite, the implementation of economically weak corrupt projects, as well as corruption decisions and actions led to significant slowdown in the economic development rates, lower world ratings, poor investment attractiveness, limited competition, and increased social inequality, as well as additional costs from the state, business, and population that often ultimately resulted for such countries in the crisis – political, economic, and social.

The data of international and rating organizations, legal statistics, and individual industry studies indicate significant financial and material losses caused by corruption to the global economy, the economies of regional unions, and individual states.

Thus, according to the UN estimates, the annual volume of bribes is estimated at \$1 trillion. At the same time, the global economy is losing another \$2.6 trillion due to corruption. These funds make up more than 5% of global GDP.¹

According to the United Nations Development Program, corruption-related losses in developing countries are ten times greater than official development assistance.²

¹ <http://www.un.org/ru/events/anticorruptionday/> (21.01.2019).

² [http://www.un.org/ru/events/anticorruptionday/\(21.01.2019\).](http://www.un.org/ru/events/anticorruptionday/(21.01.2019).)

According to the IMF, every year the world economy loses from \$1.5 trillion to \$2 trillion due to bribery, which is comparable to 2% of global GDP.³

At the same time, experts estimate real losses to be several times larger, since other direct and indirect consequences of corruption for the economies of the world are much wider and deeper than just the quantitative component of losses on confirmed bribe facts.

According to a study by the European Anti-Fraud Office OLAF, corruption losses in the EU amount to €323 billion per year, of which the European Commission officially recognized the amount of annual corruption damage of at least €120 billion, which is approximately comparable to the annual EU budget or GDP at PPP of such a rich state like Qatar.⁴

According to experts, these calculations do not reflect the real losses from corruption in the EU.

According to a study on the extent of corruption in the EU conducted in 2016 at the request of the European Parliament, the annual losses of the EU from corruption were estimated at €911 billion, or 6.8% of the total GDP of all Member States, which is almost eight times higher than previous calculations officially recognized by the European Commission.⁵

The shadow economy and corruption in Kazakhstan

The approximate scales of financial and material losses from corruption and the shadow economy in Kazakhstan can be inferred from the legal statistics, and official information of the authorized state bodies and international financial institutions.

According to representatives of the General Prosecutor's Office of the Republic of Kazakhstan, the share of shadow enterprises in Kazakhstan is 40%. One

³ <http://www.imf.org/en/News/Articles/2017/09/18/sp091817-addressing-corruption-with-clarity> (21.01.2019).

⁴ See: Source: <http://новости-мира.гу-ан.info/новости/евросоюз-погубит-коррупция-коррупция-достигла-колоссальных-масштабов/> (21.01.2019).

⁵ See: <https://www.kommersant.ru/doc/2932523> (21.01.2019).

fifth hides up to 20% of profits from tax authorities,⁶ which creates favorable conditions for expanding the corruption field in the business environment.

The share of the unobserved economy in GDP in 2016, according to the calculations of the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, amounted to 25.8%. In 2015, this indicator was estimated at 27.5%, in 2013 it was 28%. These official figures indicate a trend towards a decrease in the shadow economy in Kazakhstan.⁷

At the same time, according to the experts of the International Monetary Fund, more than a third of the Kazakhstan economy is in the shadow – 38.88%.⁸

The presence of a large share of the shadow economy causes significant losses to the country's budget and creates favorable conditions for the development of various corruption schemes and offenses.

Important indicators of the approximate amount of losses from corruption are the annual amount of damage from corruption.

According to the Agency of the Republic of Kazakhstan for Civil Service Affairs and Anti-Corruption (hereinafter – ACSAAC), from 2001 to 2016, material damage from corruption violations in Kazakhstan amounted to 240 billion tenge, 44% of which was compensated.

According to the information of the Anti-Corruption Service of Kazakhstan, for 12 months of 2017, damage amounted to 15.8 billion tenge, of which 14 billion tenge or 88% was compensated, property for 5.1 billion tenge was arrested to secure the damage caused.⁹

Over six months of 2018, the amount of damage caused by corruption-related crimes amounted to 9.7 billion tenge, of which 8.5 billion tenge or 88% was

⁶ From the speech of Azamat Dyusembekov, the Head of the Public Interest Protection Service of the General Prosecutor's Office of the Republic of Kazakhstan, at the forum of the Atameken National Chamber of Entrepreneurs of the Republic of Kazakhstan "The rule of law is a guarantee of sustainable development of the economy of Kazakhstan," Astana, June 20, 2018.

⁷ See: Source: <http://finprom.kz/ru/article/v-kazahstane-pochti-26-ekonomiki-nahoditsya-v-teni-rost-doli-nenablyudaemogo-proizvodstva-tovarov-i-uslug-v-torgovle-i-transportnoj-sfere> (21.01.2019).

⁸ <http://www.imf.org/en/publications/wp/issues/2018/01/25/shadow-economies-around-the-world-what-did-we-learn-over-the-last-20-years-45583> (21.01.2019).

⁹ <http://kyzmet.gov.kz/ru/pages/informaciya-antikorrupcionnoy-sluzhby-o-vyyavlennyh-korrupcionnyh-prestupleniyah-za-12> (21.01.2019).

compensated; property worth 4.6 billion tenge was arrested to secure the damage caused.¹⁰

Given figures show visible qualitative improvement of the Anti-Corruption Service's work to compensate the established loss (almost 90%).

It should be noted that an increase in the annual quantitative indicators of the damage caused and its compensation may not always indicate an increase in corruption crime in the country, since the dynamics of the level of detection and prosecution for corruption offenses increases every year.

Given the latent nature of corruption crime and the limited nature of the detection and evidence of such crimes, it can be argued that the real losses from corruption in Kazakhstan significantly exceed the amount of damage revealed for identified and proven corruption offenses.

Today, the following aspects are still beyond detection and accounting: the direct losses of the state from unpaid proceeds of corruption and the shadow economy, losses from corruption in the private sector, indirect losses of the state from low image international ratings, and indirect business losses due to existing administrative barriers and restrictions on the competitive environment in the field of public procurement, procurement in the quasi-public sector entities, implementation of public projects, as well as indirect financial and material losses incurred by the legal entities and individuals, when receiving public services rendered with violation of the requirements of the current legislation of the Republic of Kazakhstan.

Moreover, indirect losses from corruption offenses can be many times higher than direct losses.

The uncertainty of real direct and indirect losses from corruption raises the issue of initiating and conducting special studies in the country to determine a wider range of financial, material, quantitative, qualitative, institutional, and social losses from corruption.

When forming the subject and source base of such studies, domestic experts should take into account not only the data of authorized state bodies, but also the opinions of international and independent experts, the positions of

¹⁰ <http://kyzmet.gov.kz/ru/pages/informaciya-antikorrupcionnoy-sluzhby-o-vyyavlennyh-korrupcionnyh-prestupleniyah-za-1-oe> (21.01.2019).

domestic non-governmental and other public organizations, as well as data of international financial and rating organizations that indicate a wide extent of corruption in the Republic of Kazakhstan both vertically and horizontally, as representatives of all levels of the government, business representatives, and ordinary citizens are involved in the sphere of corruption relations.

Kazakhstan in International Rankings and the Extent of Corruption

Taking into account the data of legal statistics and indicators of the country in a number of international ratings, the level of corruption extent in the republic can be attributed to the category of serious factors that negatively affect the competitiveness of the country, as well as the effectiveness of economic, investment, and social projects.

The weakening of Kazakhstan's position at the end of 2017 in a number of indices in international ratings, albeit slightly, but affected the decline in the state's competitive advantages.

Thus, according to the Global Competitiveness Index 2017–2018 by the World Economic Forum, Kazakhstan ranked 57th out of 137 countries with a score of 4.35, compared with the result of 2016 (53rd out of 138 countries with a score of 4.41) worsened its position by four points. The corruption is indicated among the main problematic factors for doing business in the Republic of Kazakhstan, along with the lack of access to financing and insufficient education of personnel.

In the Doing Business-2018 ranking, Kazakhstan, ranked 36th (among 190 countries), also lost one position compared to 2016.

Experts note a weakening of Kazakhstan's position on such indicators as "Obtaining construction permits" (drop from 22nd to 52nd), "Resolving insolvency" (39th against 37th), "Getting loans" (77th against 75th), "International Trade" (123rd instead of 119th).¹¹

With the weakening of positions on the above indicators, Kazakhstan has positive results for a number of other indicators of the Doing Business-2018 rating.

¹¹ https://forbes.kz/process/gonka_reform_1516946644/ (21.01.2019).

In particular, the country was the first in the “Protection of minority investors” indicator, the republic is in the top ten countries for the second year (sixth position) in the “Contract performance” indicator, and the country ranked 17th in the “Registration of property” indicator.

It should be noted that international ratings also indicate existing shortcomings and gaps in the legal sphere, public administration, judicial and law enforcement systems, the organizational and managerial sphere, as well as the absence of effective mechanisms for involving citizens in the decision-making process, and external control over the activities of state bodies.

For example, in accordance with the World Bank’s study “The Quality of Public Administration” (World Bank Policy Research: Governance Matters 1996–2013), the Republic of Kazakhstan has low ratings in six public administration quality indices, among which the lowest are the ratings for two indices: taking in to account public opinion and accountability of state bodies (14.22) and corruption control (20.1).

Despite the fact that many experts question the methodology of this study due to the possible subjectivity of expert and image assessments, the political bias of a number of approaches and the varying number of countries participating in the rating, these indices still have credibility and are widespread in the world.

Table 1. Kazakhstan in Governance Quality Index

No.	Governance Quality Index (Kazakhstan)	Rating from 0 to 100
1.	Taking into account public opinion and accountability of state bodies	14.22
2.	Political stability and lack of violence	34.6
3.	Efficient Government performance	35.41
4.	Quality of legislation	36.84
5.	The Rule of Law	30.81
6.	Corruption control	20.1

The above ratings actualize the adoption by the Republic of Kazakhstan of effective, comprehensive, and systemic measures of organizational, legal, institutional, and informational nature, taking into account the best world

practices and international standards in the field of combating corruption and public administration, which will require close cooperation not only with representatives of the World Bank and the OECD Anti-Corruption Networks for Eastern Europe and Central Asia, CIS Interstate Anti-Corruption Council, but also other international organizations.

Against the deteriorating position of Kazakhstan in the ranking of the Global Competitiveness Index and the Doing Business-2018, as well as the low country ratings of the World Bank for public administration quality, it is worth noting that Kazakhstan has improved its position and performance in a number of other international ratings.

Pursuant to the results of 2017, according to the UN Global E-Government Development Index, Kazakhstan improved its position by five points, rising to 28th position (from 193 countries) in 2017 from 33rd (from 174 countries) in 2016, which is a positive assessment of the work of the government and state bodies in such areas as transparency, accountability, and openness of state bodies, reduction of administrative barriers for business entities, ensuring the right to access information and receive high-quality public services.

According to the results of 2017, there are also positive trends in improving the performance of Kazakhstan in the World Competitiveness Ranking of the Institute for Management Development and the Rule of Law index.

In the World Competitiveness Ranking of the Institute for Management Development Kazakhstan in 2017, having improved the indicator by 15 positions compared to 2016 (47), ranked 32nd. Having made the largest breakthrough in the ranking, Kazakhstan is now higher than countries such as Spain (34), Poland (38), Italy (44), Turkey (47), etc.

In terms of corruption in this rating, Kazakhstan showed a significant progress (19th in 2017, 31st in 2016).

In the rule of law index, having gained 0.51 points in 2017 among 113 countries of the world, Kazakhstan ranked 64th and improved by nine positions compared to 2016 results (73rd), which is the best indicator among post-Soviet countries (Belarus (65), Ukraine (77), Russia (89), and Uzbekistan (91)). Only Estonia (12) and Georgia (38) ranked higher than Kazakhstan in the ranking.

One of the key factors in achieving such results is an improvement in the "Absence of corruption" indicator by 0.02 points (0.45) compared to 2016 (0.43).

In addition, over the past three years, there has been a slight, but positive trend in improving the corruption perception index.

In particular, according to the results of a study held in 2017 by the International Non-governmental Organization Transparency International, Kazakhstan in a corruption perception index scored 31 points and ranked 22nd among 180 countries of the world, increasing the country's CPI by two points and nine positions in the general list of countries compared with indicators of 2016.

Raising the rating indicator and overcoming the threshold of the CPI of 30 points allowed Kazakhstan to leave the category of the most corrupt countries in the world, which is the best indicator of the country in the history of participation in this rating.

According to the experts of Transparency International, main positive changes in the CPI rating were defined by the adoption by the Republic of Kazakhstan of additional legal, organizational, and institutional measures aimed at preventing corruption.

The positive trends in improving the situation in terms of perception of corruption by Kazakhstan society are evidenced by the results of the global study "Transparency International Global Corruption Barometer", where Kazakhstan participated for the second time in 2016.

If we talk about the direct experience of citizens in dealing with corruption, we can note a decrease in its level by 10.9%. In 2016, 29% of respondents said they paid bribes, and in 2013, this indicator amounted to 39.9%.¹²

To the question, "Has the level of corruption decreased over the past four years?" 37% of respondents agreed with this statement in 2016, 32% said they did not notice progress in the fight against corruption, 22% of the respondents found it difficult to answer. At the same time, only 19% of respondents said they noticed positive changes in the fight against corruption in 2013.¹³

¹² Kovalyova, N.: People and Corruption: Kazakhstan (Barometer of Global Corruption 2016). <http://tikazakhstan.org/lyudi-i-korruptsiya-kazahstan-barometr-mirovoj-korruptsii-2016/> (21.01.2019).

¹³ *ibid.*

Undoubtedly, these indicators are evidence of positive changes in the state's fight against the spread of corruption in society.

Data of sociological measurements of the extent of corruption prevalence, which were obtained during a series of sociological studies in 2017, are also of interest. They were included in the National Anti-Corruption Report.

They show positive trends in creating general intolerance to corruption, as well as support and positive assessments by Kazakhstani society of anti-corruption measures taken in the country.

For example, according to the results of the sociological study "Determining the Perception of Corruption" conducted by PREKO Consulting in 2017, the number of people who have a negative attitude to corruption increased by 20.7% (from 60.7% in 2016 to 81.4% in 2017), the number of people who assess the level of corruption in the country as medium and high decreased (from 72.7% in 2016 to 70.1% in 2017). 55.5% of the population surveyed said they were ready to provide personal input in reducing corruption, while this figure was 53.1% in 2016. Over the past two years, a general proportion of citizens who experience corruption in government bodies decreased by 18.3%.

According to the results of the sociological study "The Sociological Measurement of Corruption: Causes, Forms, Distribution Level" conducted in 2017 by the Center for the Study of Interethnic and Interfaith Relations, 80% of respondents said that they did not have to give money or gifts. At the same time, 83% of respondents attribute the reduction in corruption over the past ten years to administrative reforms and an improvement of anti-corruption culture.

Corruption Statistics

The high degree and widespread corruption, as well as the annual growth trend of committed corruption offenses in Kazakhstan can be traced based on the analysis of legal statistics and data from the Anti-corruption Agency.

According to ACSAAC, from 2001 to 2017, 10,931 officials were held accountable for corruption, of which two former Prime Ministers, nine Ministers, Chairmen and Vice-chairmen of agencies, 15 Akims of regions and cities, eight heads of national companies, eight representatives of the generalship and leaders of the security block.

In the period 2007–2013, 11,261 corruption crimes were detected in the Republic of Kazakhstan. At the same time, the trend of annual growth of this indicator was clearly observed: if the number of such crimes amounted to 1,330 in 2007, then according to the results of 2013 it amounted to 1,847, i.e. there was an increase of 39%. Similarly, almost twice as many officials who committed corruption crimes were identified: if in 2007 their number was 633, then in 2013 it amounted to 1,121.¹⁴

This trend continued in 2014–2016.

In 2017, the situation is improving. According to the results of 2017, 2,473 criminal offenses were registered in Kazakhstan, which is 18% less than in 2016 (2,933 in 2016), of which 74.2% are facts of corruption – 1,835. Most of the recorded crimes are bribery – 40% (988), theft – 33% (808), and abuse of power – 11% (261).¹⁵

87% of the total number of criminal cases finished by the investigation, while in 2016 this figure was 79%. At the same time, the number of people sent to court increased from 27% to 38%. Among 1,146 people involved in corruption, 828 were transferred to the court, which is 13% more than the same indicator in 2016.¹⁶

In 2017, 19 heads of central government bodies and their subordinate organizations, 98 regional and 152 municipal and regional authorities were exposed.¹⁷

According to the estimates of the ACSAAC, the largest number of corruption cases is among employees of local administrations of all levels, employees of Internal Affairs Agencies, and employees of the quasi-public sector. At the same time, education, agriculture, construction, and healthcare continue to be among the areas with high corruption risks.

According to the ACSAAC, there is also an increase in corruption offenses in the quasi-public sector, which have grown one and a half times in 2017 compared

¹⁴ The strategic plan of the Agency of the Republic of Kazakhstan for Civil Service Affairs and the fight against corruption for 2014–2018. // Appendix to the Order of the Head of the Administration of the President of the Republic of Kazakhstan dated March 31, 2015 No. 01–38.8, Astana, 2015.

¹⁵ <http://kyzmet.gov.kz/ru/pages/informaciya-antikorrupcionnoy-sluzhby-o-vyavleniyh-korrupcionnyh-prestupleniyah-za-12> (21.01.2019).

¹⁶ National Anti-Corruption Report. Source: http://kyzmet.gov.kz/sites/default/files/pages/nac-doklad_rus-compressed.pdf (21.01.2019).

¹⁷ *ibid.*

to 2016. Out of all registered corruption crimes in this area, 55% is committed as part of procurement, the volume of which is from three to five times higher the volume of public procurement.

Anti-corruption Strategy: Main Results of the First Stage

2017 was the final year of the first stage of the Anti-corruption Strategy (2015–2018).

In general, evaluating its results, we can draw the following conclusions:

First, objectives of the Strategy were started to be fulfilled at a fairly high pace, which allowed us to formally achieve the expected intermediate goals (63 out of 64 measures of the Plan were completed, one measure was removed),

Second, the transformation of the conceptual approach to anti-corruption policy in Kazakhstan with an emphasis on preventive mechanisms and appropriate legal framework created the prerequisites to achieve better results in combating corruption at the second stage of the Strategy designed for 2018–2020,

Third, there is a tendency to increase public confidence in state institutions and state anti-corruption policy, as well as increase in the anti-corruption activity of civil society,

Fourth, conditions have been created to reduce the level of corruption among the employees of public administration,

Fifth, the degree of openness, transparency, and accountability of the activities of state bodies has noticeably increased,

Sixth, corruption risks were eliminated or minimized to a significant extent in the organizational and managerial area and regulatory legal acts relating to the activities of central and local executive bodies and quasi-public sector entities,

Seventh, the repressiveness of criminal legislation on 25 economic crimes has been reduced due to the amendments to the country's Criminal Code. As a result, 2017 showed 2.5 times fewer registered criminal cases against business entities than 2016.

Eighth, the level of petty corruption was reduced more than by 2/3,

Among the practical results in the most susceptible to corruption sectors and areas, the following main results should be highlighted:¹⁸

In the field of taxation:

- A number of grounds for unscheduled inspections reduced by 62% (from 32 to 12),
- A differentiated approach to tax administration was introduced for different categories of taxpayers,

In the field of education:

- The risks of abuse by officials and preschool organizations have been reduced; conditions have been created to increase the competition among kindergartens for the provision of better services,
- Transparency of spending budgetary funds in educational institutions has been ensured and conditions for financial offences and illegal “requisitions” in schools have been minimized,

In the field of healthcare:

- A system of state regulation of prices for all medicines (phased) and an obligation for pharmaceutical manufacturers to register in the online system the price of medicines and its documentary justification have been introduced,
- A European system for inspecting drug manufacturers has been introduced,
- A phased transition to electronic procurement of medicines and medical devices has been introduced,
- Conditions for unreasonable prescription of drugs have been excluded,
- 28 unreasonable sanitary rules have been canceled, reporting documentation forms have been reduced by 22%, primary medical documentation forms have been decreased by 30%,
- 22 (56%) out of 39 state services have been fully automated, 14 state functions have been transferred to the competitive environment,
- Conditions have been created to remove barriers to the medical business,

¹⁸ National Anti-Corruption Report. Source: http://kyzmet.gov.kz/sites/default/files/pages/nac-doklad_rus-compressed.pdf (21.01.2019).

In the field of agriculture:

- Public services on issuing permits for the movement of meat products and subsidizing fertilizers are fully transferred to the electronic format, the hectare procedure for subsidies for grain crops is excluded with the transition to credit financing of final products,
- Conditions have been created for transparency and openness of decision-making procedures in the field of subsidizing and allocation of agricultural land,
- Conditions have been excluded for the theft of budget funds by artificially increasing the sown area,

In the field of land relations:

- In 2018, a transition was made to an automated format for obtaining public services on making and issuing certificates of private ownership of a land plot of permanent and temporary land use,
- A transparency in land allocation was ensured: a unified waiting list for land plots for individual housing construction with the automation of the whole process is created, free access to information about land plots is open on the web portal of the automated information system of the state land cadastre of the Republic of Kazakhstan,

In the field of road construction:

- An electronic document filing system has been introduced for procurement in the road construction,
- Equal conditions for suppliers have been created in procurement in the road construction,
- Conditions have been created to establish centralized control over the quality of road construction and repair works, restrictions have been placed on admission of non-core specialists to technical supervision, a mandatory condition for the accreditation of expert organizations and the availability of certified experts in the field of road construction has been introduced,
- A national center for the quality of road assets is being created,

In the field of environment protection:

- The period for obtaining an expert opinion has been reduced by several months,
- Conditions have been created to ensure the transparency of environmental audits,

In the field of quasi-public sector:

- Conditions have been created for constant monitoring of budget expenditures, corruption risks were significantly reduced,

In the field of investment:

- The Astana International Financial Center was established (2015), since 2018, an independent court has been introduced on the principles of English law and based on the standards of leading world financial centers,

In the field of the law enforcement:

- Stricter requirements for candidates and law enforcement officers are applied, police accountability to local executive bodies has been ensured,
- The function of "general supervision" by the prosecution bodies is excluded,
- Law Enforcement Service Centers have been established that provide more than 50 state services.

Despite the significant positive results obtained as part of the first stage of the Anti-corruption Strategy, attention should be paid to the following problem areas that need to be resolved.

Taking into account the short period of formation of unified anti-corruption monitoring system, as well as the lack of domestic practice on this issue, it can be said that the resources and capabilities of anti-corruption monitoring as an important anti-corruption tool have not yet been fully utilized.

The analysis of the emerging practice in the organization and conducting of anti-corruption monitoring showed that the activities in this area are fragmented, not systemic, and not comprehensive today.

An "external audit" of the level of corruption, the effectiveness of anti-corruption policies, and the activities of government bodies to combat corruption carried out by non-governmental and public structures is fragmented and unsystematic today.

Today, we should talk rather about conducting an “internal audit” of the state of corruption and assessing the anti-corruption activities of state bodies conducted exclusively by state bodies.

Cases and confirmed facts of direct participation in the anti-corruption monitoring of other anti-corruption actors are insignificant up to date.

Therefore, it seems doubtful that only state bodies or the authorized anti-corruption body and its territorial units can conduct comprehensive and high-quality monitoring, without relying on relevant information from other anti-corruption actors and the results of anti-corruption monitoring conducted by them.

It should be borne in mind that anti-corruption monitoring is ineffective without a comprehensive analysis of all areas of public relations involving the largest number of anti-corruption actors, including civil society institutions, and independent expert organizations.

As international practice shows, in the field of anti-corruption monitoring, both approaches in quantitative and qualitative measurements of corruption and corruption factors, distinguished by the subject of monitoring, have both advantages and disadvantages, and cannot be considered as a universal and comprehensive monitoring tool.

Given the best international practices, in my opinion, it is necessary first to create legal conditions for their mutual complementation.

To date, such legal conditions have not yet been created at the level of legislation of the Republic of Kazakhstan.

Moreover, attention should be paid to problems associated with the quality of departmental and regional anti-corruption plans, which should become key tools for integration of national anti-corruption policy tasks into the policies of government bodies at all levels.

According to the results of the analysis, as a rule, departmental and regional anti-corruption plans structurally and meaningfully represent a wide variety of approaches to anti-corruption planning and do not rely on programs of the appropriate level, although they often go beyond the scope of the measures defined by the Anti-corruption Strategy and the Action Plan.

The lack of combining anti-corruption planning with anti-corruption programming plays a negative role, since initially anti-corruption plans are developed without reference to clearly defined goals and the tasks arising from them.

Moreover, all plans lack target indicators that would allow us to evaluate the effectiveness of planned activities implementation. This is especially true for those elements of plans that involve multiple activities, as this allows recognizing these points of the plan as completed despite the intensity of work.

Often, anti-corruption plans contain activities with vague forms, vague details of the performed work, and vague methods of their execution.

Initially, the vague statement of measures allows the state body to provide a certain set of information about the performed work in the report on this measure, but at the same time, the problem stays unsolved at the system level.

The weak use of such anti-corruption measures as anti-corruption monitoring and analysis of corruption risks is observed.

The insufficient elaboration of departmental anti-corruption plans or their complete absence, most likely, is explained not only by the formal approach, but also by the lack of appropriate methodological support for this process, as well as trained personnel – specialists in anti-corruption planning in state bodies.

In terms of anti-corruption culture formation, the report reflects only quantitative indicators of media publications, events, information campaigns, etc. At the same time, this approach does not allow us to identify the degree of effectiveness of the methods used in strengthening anti-corruption consciousness, as well as raising public awareness about the anti-corruption activities of the state and in increasing citizens' trust in government bodies accordingly.

In this regard, there is a need to introduce on a systematic basis procedures to evaluate the effectiveness of outreach activities through regular sociological measurements of public opinion, both in the general republican and regional contexts.

Prevention, warning, and resolution of conflicts of interest also raise issues.

The effectiveness of such an institution of ethical control and monitoring as an ethics commissioner in a state body is significantly complicated by the fact that the principle of its appointment and duties make it dependent on

the leadership of the state body and does not allow achieving fully required results in matters of ethical control.

In addition, the potential of third-party scientific and expert organizations in anti-corruption monitoring and analysis of corruption risks is unjustifiably weakly involved, which again turns these tools more into self-assessment mechanisms of state bodies than into mechanisms of an impartial analysis of the problems existing in this area.

There are certain issues in the process of conducting an internal analysis of corruption risks by state bodies, as well as monitoring the implementation of recommendations on anti-corruption monitoring (external and internal) conducted and corruption risk analysis (internal and external). Such work is often carried out formally without the involvement of independent experts. The relevant reports are not freely available, which generally eliminates such anti-corruption measures.

As a serious gap one should highlight the lack of proper resolution of the issue of forming comprehensive and effective system of external evaluation of the law enforcement bodies' activity in the country, including in the field of anticorruption, this does not contribute to the increased openness and transparency of their activity, and increased trust and support by the population.

Today, law enforcement agencies are not subject to an external assessment, and existing internal assessments (within the law enforcement bodies) are inaccessible to Kazakhstani society.

Regarding the law enforcement practice in the field of access to information, it should be noted that government bodies have not yet adapted to new requirements for the implementation of various forms of publicity of their activities, in particular with regard to the constant updating of open data about their work and the timely provision of answers to requests.

These and other issues that affect the effectiveness of measures taken in the field of anti-corruption need to be resolved already today.

Kazakhstan Anti-corruption Policy: New Approaches and Trends

Taking into account the factor of a high degree of vulnerability of the economy to corruption, issues of its prevention are one of the priority areas of state policy for the Republic of Kazakhstan.

As international and domestic practices show, the more systematically and comprehensively the work is done to combat corruption in the prevention and warning segment, the more obvious is the positive result of economic and investment projects carried out in the country.

In recent years, Kazakhstan has clearly identified a trend towards revising the conceptual foundations of state policy in the field of combating corruption and changing the paradigm of confrontation from the formula "fight" to the formula "counteraction", as well as the active involvement of civil society in this process.

The constant attraction of the best foreign practices, as well as the resources and technical assistance of international anti-corruption organizations, has become a significant help in the continuous modernization of the anti-corruption policy of Kazakhstan.

In particular, the active deployment of international best anti-corruption practices in the domestic legislation and participation in international anti-corruption forums and organizations is important in improving the anti-corruption state policy and domestic legislation, as well as in the formation of institutional, organizational, and other mechanisms to eradicate and minimize the conditions for corruption.

For example, the Republic of Kazakhstan has been a member of the OECD Anti-Corruption Network since 2004 and is actively involved in its activities.

By 2018, four rounds of monitoring of anti-corruption reforms have already been held in Kazakhstan.

As part of the fourth round of monitoring, 22 new recommendations were provided. At the same time, seven previous recommendations were still recognized as "valid" due to their partial implementation.

It should be noted that the important result of testing new approaches to the creation of the state anti-corruption policy was the adoption and implementation of the new Anti-corruption Strategy of the Republic of Kazakhstan for 2015–2025, where the main focus was on the elimination of the prerequisites for corruption, and not on the fight with its consequences.

As a result of the first stage of the Anti-corruption Strategy in 2018, a National Anti-Corruption Report was prepared, where the main results of anti-corruption

activities in the Republic of Kazakhstan for the period from 2015 to 2017 were summarized, as well as new guidelines and directions were identified, including in the anti-corruption system planning.

Among the new approaches and trends of the second stage of the Anti-corruption Strategy, it is necessary to highlight the clear establishment of target indicators, as well as quantitative and qualitative indicators that provide an opportunity to assess the effectiveness and achievability of goals.

To reduce the level of perception of corruption to 65% will be the main target indicator in the field of fighting against corruption.

Such an approach will make it possible to build a new system of external assessment of the effectiveness and efficiency of anti-corruption measures taken, where the opinion of Kazakhstan people will become decisive.

The next innovative measure of the second stage of the Anti-corruption Strategy implementation will be the widespread use of digital technologies and technological support of anti-corruption measures.

Basically, they will touch upon such areas and directions as health care, education, agriculture, transport, taxation, legal proceedings, data access, public services, which will eliminate or minimize existing corruption risks and administrative barriers, improve the quality and reduce the time for the provision of public services.

To strengthen the preventive direction in the anti-corruption, a new format will also be introduced to minimize the causes and conditions of the spread of corruption based on project management using the principle of "region"- "center".¹⁹

To this end, the Astana-Adaldyk Alany Project was launched in the pilot mode within the activities of the Akimat of Astana in 2018.

Within the framework of the pilot project, according to the National Anti-Corruption Report, measures will be taken to optimize the structure of state bodies, increase salaries, automate and promote public services, ensure the openness of state bodies and organizations and include new public control mechanisms, monitor the quality and purchase prices of goods and public

¹⁹ National Anti-Corruption Report. Source: http://kyzmet.gov.kz/sites/default/files/pages/nac-doklad_rus-compressed.pdf (21.01.2019).

procurement services, analysis of the effectiveness of existing information systems and information anti-corruption work.²⁰

As a new trend in the system of external assessment of anti-corruption activities of the government and state bodies, it is also worth highlighting the preparation and publication by the representatives of the civil sector and the Transparency Kazakhstan Public Fund of an alternative Report on Combating Corruption in Kazakhstan (a view of civil society), which presented positions, assessments, opinions of domestic experts about the level of effectiveness of the work carried out, existing problems, as well as recommendations to eliminate or minimize corruption risks.

Such initiatives of the non-governmental sector will significantly strengthen the system of external evaluation of the anti-corruption activity of the state and its institutions that is emerging in Kazakhstan.

As the immediate prospects for improving the anti-corruption state policy, five areas should be marked:

First, to optimize control and oversight bodies and the functions of state bodies (in 2018–2020) by reducing state functions by 40%, state civil servants by 35–40%, and increasing the salaries of civil servants two or more times,

Second, to implement digital technologies and technological support of anti-corruption measures,

Third, to implement international standards of the UN and the OECD Convention,

Fourth, the country's entry into The Group of States against Corruption (GRECO),

Fifth, active cooperation within the framework of the OECD Anti-Corruption Network, the CIS Interstate Anti-Corruption Council, and other international organizations and institutions.

The adoption of these measures will undoubtedly require a balanced and integrated approach, when making decisions at different levels, such as legislative, informational, technical, financial, educational, and informational.

²⁰ National Anti-Corruption Report. Source: http://kyzmet.gov.kz/sites/default/files/pages/nac-doklad_rus-compressed.pdf (21.01.2019).

Support and Development of Small and Medium Businesses in the Republic of Kazakhstan

Rakhim Oshakbayev

1. Overview of the government support policy for small and medium-sized businesses

The development of government support for small and medium-sized businesses is the main source of employment, investment attraction, foundation for building a competitive economy, and one of the main priorities of the Ministry of National Economy of the Republic of Kazakhstan.

The work in this direction is carried out on three system blocks:

- Improving state regulation and business climate,
- Increasing the availability of financing and improving support measures,
- Removal of industry barriers.

A corresponding draft law has been prepared in the area of Improving State Regulation and Business Climate. It provides for the reform of state control and supervision, the reduction of burdensome reporting for entrepreneurs, the reduction of business costs, and the restriction of exclusive rights of market entities that impede the development of competition, and improvement of the position of Kazakhstan in the Doing Business rating of the World Bank.

The next important area is increasing the availability of business financing. The main support tools are the Unified Business Support and Development Program “Business Roadmap 2020”, the Program for the Development of Productive Employment and Mass Entrepreneurship, as well as credit lines of international financial institutions.

In 2017, as part of the Unified Business Support and Development Program “Business Roadmap 2020”, support measures covered more than 192 thousand entrepreneurs, which is 10% more compared to 2016.

Also, according to the results of 2017, 3,351 projects for 286.6 billion tenge were supported due to interest rates subsidizing and loans guarantee.

276 state grants in the amount of 490 million tenge were issued, the missing infrastructure was connected to 25 projects of entrepreneurs in the amount of 12.1 billion tenge, 74.8 thousand start-ups and existing entrepreneurs were covered by training programs and services.

At the end of 2017, program participants manufactured products for the amount of 3.5 trillion tenge, created more than 17.3 thousand jobs, and paid taxes for 217 billion tenge.

At the same time, support measures under the Program for the Development of Productive Employment and Mass Entrepreneurship aimed at the unemployed and self-employed people became an addition to the existing support tools of "Business Roadmap 2020".

In 2017, projects worth 10.1 billion tenge were financed, approved, and considered under the Program for the Development of Productive Employment and Mass Entrepreneurship.

It should be noted that taking into account additional funds allocated by local executive bodies, 172 business projects received bank guarantees for 967 million tenge. 15,000 unemployed and self-employed people were trained, of which over 3,300 startups were funded.

At the same time, the Ministry jointly with the Ministries for Investment and Development, Agriculture, and Atameken National Chamber of Entrepreneurs, works to create a "One-stop shop" on government support measures within the framework of the Digital Kazakhstan program.

The next important area is the Removing industry barriers block.

According to the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, the number of operating businesses in 2017 amounted to 1,145,994 units, which is 3.6% more compared to 2016.

In addition to state support programs, the Ministry of National Economy is actively working to attract credit lines from international financial institutions for subsequent lending to business projects (ADB, EBRD).

In the framework of this work in 2016–2017, 186.8 billion tenge was attracted, of which 134.8 billion tenge are funds from the Asian Development Bank, 52 billion tenge are funds from the European Bank for Reconstruction and Development.

Due to attracted funds, 13.5 thousand borrowers were financed for 163.1 billion tenge, more than 4,400 jobs were created.

In addition, it is planned to extend the “Business Roadmap 2020” program until 2025, and it is planned to provide for at least an additional 30 billion tenge annually.

It is expected that over three years at least 22 thousand new jobs will be created additionally, which will ensure the receipt of 224 billion tenge of taxes and production for 3 trillion tenge.

In 2017, the Ministry of Investment and Development of the Republic of Kazakhstan concluded 42 investment contracts with investors to implement investment projects that envisage investments for the total amount of 367 billion tenge and the provision of investment preferences (which is 24% more in quantitative terms and 22.7% more in terms of the investment amount compared to 2016).

The main share in the investments structure by the priority economic activities accounts for “The supply of electricity, gas, steam, and air conditioning” – 40%, “Metallurgical industry” – 21.5%, “Education” – 9%, “Manufacture of other non-metallic mineral products” – 9%, “Crop production and livestock farming, hunting and services delivery in these areas” – 5.4%, and “Food production” – 3.8%.

In the regional context, the main share of investments is in the Almaty region – 24.5%, East Kazakhstan region – 15.1%, South Kazakhstan region – 14.5%, Aktobe region – 8.4%, Karaganda region – 8.4%, Akmola region – 6%.

2. The Republic of Kazakhstan in international rankings

In 2017, according to the Doing Business rating, Kazakhstan ranked 36th leaving behind Belarus (38th), Armenia (47th), and Kyrgyzstan (77th).

The higher the ranking position, the better the regulatory climate in doing business. A country’s index is an average of ten indicators, each of which has equal weight.

Kazakhstan was the 1st among 190 countries in the rating on the Protection of minority investors indicator. For the second year, the country is among the top ten countries in the Contract Execution indicator (6th rank). According to the Registration of ownership indicator, the country ranked 17th.

According to the Resolving insolvency indicator, Kazakhstan ranked 39th, Registration of enterprises – 41st, Taxation – 50th, Obtaining construction permits – 52nd, Connection to electric grids – 70th, Getting loans – 77th, and International Trade – 123rd.

According to the Open Budget Index, Kazakhstan ranks 53rd among 102 countries. Kazakhstan significantly lags behind countries such as New Zealand, Sweden, Uganda, Turkey, Guatemala, and the Dominican Republic. Among the CIS countries, it lags behind Russia, Ukraine, and Kyrgyzstan. Kazakhstan is located at the level of Ghana, Nepal, and Senegal, and is ahead of India, Mongolia, Pakistan, and Azerbaijan.

Kazakhstan ranked 64th in the Rule of Law Index in the global ranking Rule of Law 2017–2018 compiled by the international organization World Justice Project. Compared to last year's rating, Kazakhstan is nine places higher and is between Indonesia (63rd) and Belarus (65th).

The top three countries in this ranking are Denmark, Norway, and Finland among 113 countries. Among some former Soviet republics, Ukraine ranks 77th, followed by Moldova. Kyrgyzstan ranked 82nd, Russia – 89th, and Uzbekistan – 91st.

According to the PwC Paying Taxes 2018 report, Kazakhstan is 60th in the world in terms of tax burden. Moreover, the overall tax burden is only 29.2% (of business profit). It takes 178 hours per year to pay taxes, and the number of tax payments is only seven.

3. The introduction of the Unified Aggregate Payment as a way to bring small businesses out of the shadows

In September 2018, the Ministry of Labour and Social Protection of the Population submitted to the Parliament a bill introducing the Unified Aggregate Payment (UAP) starting from 2019.

The UAP is a new tax and legal regime for micro-business with income in the range of 2.8 million tenge per year. This regime is proposed to be introduced on January 1, 2019. The size of the UAP will be one MCI (2,525 tenge in 2019) in the cities of republican and regional significance, and the capital, and – 0.5 MCI (1,263 tenge in 2019) in other settlements.

That is almost 30 thousand tenge per year for the urban population and 15 thousand tenge for the rural population, which may be 0.5–1% of the income

of this category. The UAP will not be paid by the unemployed or people without income, for example, housewives. Only self-employed entrepreneurs who have incomes (taxi drivers, housekeepers, plumbers, baby-sitters, etc.).

At present, persons classified as self-employed must register as an individual entrepreneur or obtain a patent and pay 4–5 types of taxes and contributions from received income, which make up about 15–20% of their income: tax from a simplified declaration or individual income tax, contributions to the Unified Pension Saving Fund, the State Social Insurance Fund, and the Social Health Insurance Fund.

From 2019, it is necessary to credit money to personal account to start using the UAP regime. There is no need to register, fill in, and systematically file tax returns.

The paid UAP will be automatically distributed and go simultaneously to the pension account, to personal accounts in the Social Health Insurance Fund and the State Social Insurance Fund, as well as to the budget as tax payment in a certain proportion.

Thus, the self-employed who paid the UAP gain access to a system of social, medical, and pension benefits, the cost of which is ten times higher than the amount of the fixed payment.

In addition, the activity will be considered as legal, the payer of the UAP fully meets its tax obligations towards the state.

It is assumed that the most financially competent self-employed entrepreneurs who will appreciate the benefits of an unlimited connection to the state at a fixed rate will switch to the UAP. The risk of cases when women without a permanent job look for ways to provide fictitious employment certificates to receive payments related to maternity leave is reduced.

Payment of the UAP allows conditional taxi drivers to open credit cards at banks at 0%, since their activities are legalized, as they have pension contributions.

Moreover, it will be possible to conclude labour contracts with employers, where it will be possible to include legal obligations on payment, and have legal grounds to sue in case of fraud or violation of labour legislation.

The UAP regime could affect nearly 1.4 million Kazakhstani citizens, who are considered informally employed. Virtually, 800 thousand people of them are hired, have wages, but do not have employment contracts, and do not make any contributions.

Another 600 thousand people are the so-called self-employed. It can be taxi drivers, housekeepers, tutors, baby-sitters, plumbers, electricians, etc. These people are engaged in entrepreneurial activities, but do not register as IE, do not receive a patent, and do not pay taxes.

It is estimated that the budget will greatly lose from this new unprecedented tax regime. The government has estimated that in the first year about 150 thousand entrepreneurs would switch to this regime, who are now safely paying under the patent or simplified declaration special regime.

A major shift in priorities has occurred in public policy. The key goal is to cover with social support as many people as possible. It includes five social initiatives, mortgage, increase in the number of grants, etc. The UAP initiative is of the same category.

It is planned to connect an additional 1.4 million people to the systems of social, pension, and medical support, which will entail a significant increase in costs for these areas.

The state tries to get its fellow citizens out of the gray zone of the economy not with the help of fines and raids, but with the help of economic incentives.

In this regard, the UAP can become quite unique and, possibly, a breakthrough reform, which will create new opportunities for millions of self-employed Kazakhstani people.

4. Platforms for the protection of the legal rights and interests of small and medium-sized businesses in Kazakhstan

In Kazakhstan, there are platforms for entrepreneurs at the level of the Head of State (Foreign Investors' Council) and government (Council for the Improvement of the Investment Climate), as well as the Investment Ombudsman (Minister for Investment and Development of the Republic of Kazakhstan).

The Atameken National Chamber of Entrepreneurs of the Republic of Kazakhstan, the largest business association of the country, was established in 2013. Its purpose is to protect the rights, legitimate interests of the country's entrepreneurs (non-profit organization).

These platforms are designed for the interaction between the country's business communities and investors with the state authorities of the Republic of Kazakhstan to resolve controversial and problem issues that arise during investment projects implementation. In addition, "One stop-shop" was created under the Ministry of Investment and Development of the Republic of Kazakhstan to interact with foreign investors.

According to the Entrepreneurial Code of the Republic of Kazakhstan, when concluding contracts with foreign investors, the following types of preferences are provided:

- Exemption from customs duties (Article 287 of the Entrepreneurial Code of the Republic of Kazakhstan),
- State in-kind grants (Article 288 of the Entrepreneurial Code of the Republic of Kazakhstan),
- Guarantees of stability in case of changes in the legislation of the Republic of Kazakhstan (Article 289 of the Entrepreneurial Code of the Republic of Kazakhstan),
- Tax preferences (Article 290 of the Entrepreneurial Code of the Republic of Kazakhstan).

In addition, Kazakhstan has Special economic zones with preferences in the form of the following:

- Exemption from customs duties,
- Land tax – 0%,
- Tax on the land use – 0%,
- Property tax – 0%,
- Corporate income tax – 0%.

12.6 thousand enterprises with foreign ownership operate on the territory of the Republic of Kazakhstan. Gross inflow of foreign direct investment in the Republic of Kazakhstan amounted to a little more than \$20 billion in 2017.

At the same time, this indicator is lower than the 2012 indicator by \$8.9 billion or 28%, and FDI inflows in the Republic of Kazakhstan start to decrease from the same year.

In addition, the Astana International Financial Center was officially launched in 2018. The main strategic directions of the AIFC development are the capital markets, asset management, private welfare management, Islamic financing, and financial technology.

The Astana Financial Services Authority has been launched under the AIFC, which licenses a wide range of financial services, including investment and asset management, private banking, fund management and administration, custody services, Islamic finance, and representative offices.

A special jurisdiction has been introduced within the AIFC with its own law based on the principles of English Law and the standards of the world's leading financial centers such as London, New York, Hong Kong, Singapore, and Dubai. The AIFC Independent Court, which will consider commercial and civil disputes, and the International Arbitration Center have been set up.

AIX high-tech exchange operates on the basis of the AIFC and meets the best international standards. AIX's strategic partners include the Shanghai Stock Exchange and NASDAQ.

An "Expat Center" has been established. Its work will simplify the involvement of international experts in Astana.

AIFC is a financial hub for Central Asian countries, the republics of Transcaucasia, the EAEU, the Middle East, the Western China, Mongolia, and European countries. AIFC will be located on the territory of EXPO-2017 and use modern infrastructure and advanced technologies.

In addition, the Republic of Kazakhstan is a full member of the WTO, the Eurasian Economic Union, and an Enhanced Partnership Agreement has been signed with the European Union.

5. Access to information and Open Government (Open budget, etc.) for business

The following measures are taken to create an open government in the Republic of Kazakhstan:

- The State Program “Information Kazakhstan 2020” is being implemented
- Plan of the nation “100 Concrete Steps to Implement Five Institutional Reforms”. Formation of an accountable state:
 - 94th step. Implementation of an “Open Government”.
 - 96th step. Online availability of statistical databases of central government agencies.
 - 98th step. Mechanisms for citizens participation in the discussion of related draft budgets.

For this purpose, the following resources have been created: Open data (data.egov.kz), Open budget (budget.egov.kz), Open regulatory legal acts (legalacts.egov.kz), Open dialogue (dialog.egov.kz), Assessment of the effectiveness of government bodies (effectiveness.egov.kz).

The Open Government Partnership brings together governments and non-governmental organizations to implement national action plans to increase transparency and accountability of the state.

Today, the Open Government Partnership includes 79 countries, including post-Soviet countries: Armenia, Georgia, Moldova, and Ukraine.

The partnership holds annual summits. Over the past years, Georgia has made significant progress in cooperation with the Partnership, as evidenced by the country’s chairmanship in the organization and the 2018 summit in Tbilisi.

Kazakhstan already meets all the basic criteria (budget transparency, access to information, declaring the assets of government representatives, and citizens’ engagement). To join the partnership, it is enough to send a Letter of Intent to participate.

Given the desire of the Government of the Republic of Kazakhstan for openness and voluntary membership, it is proposed to begin the process of joining the Open Government Partnership.

It should be noted that Kazakhstan has not joined the Open Government Partnership initiative, and such intentions have not been announced to date. At the same time, Kazakhstan is on the List of states eligible to participate in OGP.

Political Risk Management in Kazakhstan

Dossym Satpayev

Political Risk Management and Political Communication Infrastructure

A large number of internal and external factors influences any system including political. They can affect the system in different ways, including creating risk zones, in which there is a state of uncertainty in terms of achieving certain political goals and objectives. According to some experts, risk is the impact of uncertainty on goals. Another point of view emphasizes, "a risk is an accidental or unpredictable deviation of events from the expected scenario."¹

Political risk management includes actions that should reduce uncertainty and the random factor, when implementing the domestic and foreign policies of any state. That is, we can agree with the point of view that risk management is a part of the decision-making process and is based on the use of different communication mechanisms. Indeed, any uncertainty is primarily associated with a lack of communication channels and a lack of information that interfere with the prediction of various events, as well as their consequences for the authorities and society. As practice shows, the level of uncertainty is higher in those political systems that are more closed from a communication point of view. This means that political risk management is more actively applied in the countries with developed political infrastructure for this. It consists of a large number of different political actors who not only have the opportunity for direct or indirect informational influence on the government, but they are also participants in the political process. They participate in the identification of risks, their analysis, and classification, as well as in monitoring the situation after the adoption of certain political decisions and participate in the development of measures to amend the current policy in order to minimize political risks.

In the financial sector, "tail-risks generally mean events that are unlikely, but if they occur, can have a very strong impact on the market."²

¹ Medeu, Alikhan: Investment Risk Management in the Oil and Gas Sector of Kazakhstan, Almaty, 2002. P. 13.

² Lyssenko, Yegor: Task Risks to Save. Private Banking&Wealth Management, July 4, 2011, in: <http://pbwm.ru/articles/riskovat-chtoby-sohranit> (04.07.2011).

A similar definition applies to tail-risks in the field of politics and geopolitics. For example, the collapse of the Soviet Union not only destroyed the bipolar system, but also led to numerous unpredictable consequences of a different nature in certain regions of the world.

According to the theory of systems' self-organization, any "... development is multivariate and alternative, both in prospect and in retrospect."³ Here, the "black swans" of the Lebanese mathematician, trader, and philosopher Nassim Nicholas Taleb are quite relevant. Indeed, now the past does not allow us to predict the future. Thus, everything is possible and nothing can be excluded.

All this suggests that the future of the political system of Kazakhstan depends not only on obvious real threats, but also on a large number of risks, whose consequences are difficult to predict, but which can have a serious negative impact from the medium-term and long-term perspective.

It should be noted that the need for political risk management was recognized at the official level only recently in Kazakhstan. This was due to the peculiarities of the political development of Kazakhstan and the official slogan: "The economy first, then politics." By the way, this explains that the first attempts to introduce risk management in Kazakhstan began precisely in the financial sector of the country since 2009, and not in the political system. The reason was the occurrence of serious problems amid the onset of the financial and economic crisis in the country, which required prompt action by the state to maintain social and economic stability. As Kairat Kelimbetov, the Chairman of the Board of the Sovereign Wealth Fund Samruk-Kazyna, stated in 2009: "... in 2004–2007, the risk management of our banks failed. By the way, as well as it did throughout the system. It is in those financial institutions that gave loans. Failed in those banks that issued loans here. It failed in the rating agencies, which then assigned insane ratings, in audit companies, which wrote good reports. In financial supervision, it failed too. Id est, it was a failure of the whole system, which was called corporate governance and was supposed to prevent the development of such a situation."⁴

³ Vasilkova, Valeria: Order and Chaos in the Development of Social Systems. Books in black and white, October 9, 2016, in: <http://bwbooks.net/index.php?id1=4&category=filosofiya&author=vasilkova-vv&book=1999&page=11> (09.10.2016).

⁴ Kelimbetov, Kairat: Risk Management of Kazakhstan Banks Failed..., Kursiv, August 19, 2009, in: http://bnews.kz/ru/news/ekonomika_i_biznes/623485-2009_08_19-623485 (09.10.2016).

As for the political area, it was only in 2011 that the Kazakhstan authorities began to use risk management more frequently in the activities of state structures through various instruments. Although the first attempts were made back in 2006, but only at the local level, without a systematic approach. The problem was the specifics of the political system of Kazakhstan, where risk management was not considered as an important element in the process of development and adoption of certain political decisions.

The Political System of Kazakhstan. Characteristics

1. Power is highly personified

From a tactical point of view, there is strength in this, since this model has long been able to maintain stability within the elite. However, this is also a great weakness from a strategic point of view, since there are no strong political institutions in the country that could not only play the role of collective successors and guarantee stable transit, but also try to modernize the inherited system.

2. There are clear elements of corporatism

The existing model of government is based on ‘informal corporatism’, which is primarily expressed in the fact that the state interacts only with those structures that are monopolists in the field of representing certain interests. Moreover, the state takes part in the creation of such monopolies in the field of politics, finance, information, NGOs, etc.

Society is becoming more complex in terms of its organization. In response, the state is trying to expand its presence in different segments of society, hiding behind various goals – from ensuring security to the fight against fake news. Naturally, this leads to an increase in the functions of the bureaucratic apparatus. When forming “state capitalism” in Kazakhstan, the public administration system was complicated significantly at the central and regional levels. This is due to the fact that in addition to traditional departmental pressure groups, a large number of other players associated with the state have appeared in the country. These are national companies and quasi-public structures, consisting of their patron-client pyramids (including a large number of

contractors, subcontractors, and other affiliated business structures), where the main motive for uniting all its participants is again access to the distribution of resources. These pyramids conflict primarily because of the financial and economic differences of their bosses. Some of them splash out into the public areas, others remain inside the “black box”. However, being at the mobilization stage of its development, when the umbrella structure of regulatory bodies was built in all areas, from politics to economics, the authorities cannot influence the process of fragmentation and atomization of the public field, which began long ago. As a result, this field undergoes an interesting transformation from a classical civil society to its various local modifications.

3. Oligarchic pluralism

A significant problem is that Kazakhstan's intra-elite groups are formed not on the basis of any political ideology that allows them to be identified somehow, but around “gray cardinals”. Therefore, many influential elite groups in our country are traditionally sorted only by the names of their bosses, and not on the basis of ideological orientation. Although this is natural for any political system where political competition of different ideological structures is absent. Over the years after the USSR collapse, the Kazakhstan elite was not able to build an ideological structure that would combine power and society.

4. Deprofessionalisation of nomenclature and competent incompetence

Deprofessionalisation occurs at four interconnected levels.

Firstly, the modern state apparatus unites representatives of various specialties. In some cases, this professional synergy works quite successfully under the control of the public within the framework of clear laws, rules, and regulations that do not change based on the political situation to the detriment of efficiency and transparency. In other cases, a situation arises when the work of an official, on the contrary, kills a person's previous professional skills, replacing them only with nomenclature “instincts” for survival.

Secondly, the existence of nomenclature “wormholes” distorts the very essence of public service, which should be aimed at fulfilling a social contract between citizens and the authorities, when the former pay taxes and remain loyal to

the system in exchange for efficient allocation of resources and accountability from officials, as hired “managers”, and not representatives of the managerial caste. Meanwhile, any attempt to introduce the “Pareto 20/80 rule” in Kazakhstan, where 20% of employees can fulfill 80% of the work, usually comes up against “the first Parkinson’s law,” which states that an official seeks to multiply subordinates, not rivals.

Thirdly, teams migrate permanently. This is quite natural in the conditions of the patron-client system. In 2015, the President of Kazakhstan stated that the command movements of officials are a relic of the USSR: “We acquired this from the Soviet Union and still cannot get out of this. This creates the conditions for corruption, breeds nepotism, and reduces human resources. If one minister changes, a whole group follows him. Someone is a relative, someone is an in-law. This is the source of all corruption. It should not be.”⁵ It is interesting that in 2016, at the first session of the Parliament of the Republic of Kazakhstan of the sixth convocation, the Head of State said that the practice of team relocations was stopped: “With the relocation of the first leader, a whole group of people moved with him – that was. If for three months of last year (2015 – author’s note) 1,722 officials were transferred, then this year witnessed 90 only.”⁶ Nevertheless, realities say the opposite. In the conditions of “nomenclature fragmentation”, which gives rise to mutual distrust, working with random people, even if he is a professional, but not from the team of the “boss”, is still an exception, not a system rule. As a result, the continuity suffers, when implementing already adopted decisions at any level of government.

Fourth, the change of generations in the administrative apparatus. Now, the number of civil servants in Kazakhstan is slightly less than 100 thousand people, whose average age is 39 years. On the one hand, this is a natural process. But two problems arise here: 1) the emergence of young managers (often with a foreign education) in senior government positions who have never had work experience in the “field”, in the lower ranks of the bureaucratic apparatus. As a result, this is accompanied by a certain generational conflict, since the difference between the “young” and the “old” is that the first is not just

⁵ Nazarbayev called the command relocation of officials as the remnant of the USSR, March 11, 2015. <https://www.nur.kz/359233-nazarbaev-nazval-perezhitkom-sssr-komandnye-peremeshheniya-chinovnikov.html> (01.03.2015).

⁶ Nazarbayev: The practice of command relocations ceased in Kazakhstan, March 25, 2016. https://forbes.kz/news/2016/03/21/newsid_108528 (25.03.2016).

ambitious and “hungry”, but more often is much less experienced in real government; 2) the appearance at the middle and lower levels of the bureaucratic apparatus of representatives of the young generation of bureaucrats who received not very high-quality local education in a situation where competition of diplomas is more important than competition of knowledge, competition of show-off, and not competition of professionalism, competition of networking in the elite, and not competition of abilities. Therefore, an important point is not only who exactly will take the place of the “old guard”, but also what value system they will bring with them.

Fifth, most professions suppose the existence of more or less clear criteria for determining the experience and skill of a person, which cannot be said about bureaucracy as a professional layer. In contrast to the same business, where profitability and profit are one of important criteria for the effective work of management and ordinary managers, it is difficult to determine indicators of such efficiency in the state apparatus. All this, as well as the desire to distribute, rather than build, often attracts those who are not very competitive outside the state apparatus to the public service. Although in Singapore, the experience of which is often referred to in Kazakhstan, there is such a thing as a “political entrepreneur”: “... the government needs ‘political entrepreneurs’, i.e. people who innovate in politics, believing that this will be beneficial for the well-being of people. However, the risk is that people may not agree that a new policy is a good idea. In this case, they may refuse to support the government. Risk management in this area is to formulate a good policy, convey it to people, and implement it effectively and skillfully.”⁷

Here a key problem arises, which is that the archaic and ossified state apparatus of the 20th century clearly does not fit the high dynamics of changes in the 21st century. Society develops faster than nomenclature. As a result, the mass of accumulated requirements and installations from below does not correspond to the quality of their processing and reaction from above. Definitely, there have been many attempts to improve the current situation over the past decades. Offhand, I can mention only a few of them. These are regular administrative reforms, the systematic reduction of the state apparatus, the development of official ethics rules for civil servants, the introduction of

⁷ Panchenko, Tatyana: How to make a ‘political entrepreneur’ out of a civil servant? May 22, 2018. https://forbes.kz/process/education/kak_sdelat_iz_gosslujaschego_politicheskogo_predprinimatelja/ (22.05.2018).

an annual system for evaluating the performance of central state and local executive authorities, the formation of a register of state functions, the experimental election of grassroots akims (mayors), the creation of electronic government, etc. However, officials did all this by themselves, which initially came down to simulating heavy activity. Moreover, existing state machine has not kept pace with the rapid economic, political, informational, cultural, and demographic changes that have occurred in Kazakhstan over the past few years.

5. Criminalization of consciousness

The low quality of public administration is associated with the vigorous activity of “shadow” pressure groups within the elite, which take part in corrupt mechanisms of resource allocation, which negatively affects the state development programs. In turn, this leads to the preservation of the social polarization of the society and to a decrease in the legitimacy of power both in the center and in regions. In the development of many social systems, there are crisis periods when the previous institutions of power are either no longer working or very weak, and the traditional value system is devalued, which automatically strengthens the “shadow” and informal centers of power. In turn, this creates favorable conditions for the criminalization of consciousness, since, according to experts, there is a sociocultural crisis of the institutions of socialization, as well as a disorganization of the mechanisms of reproduction of social relations, including from the point of view of increasing the legal and political culture. The resulting vacuum is often filled with a surrogate, distorted worldview, which, from an objective point of view, is often just an attempt of a disoriented society to adapt to sharp changes in the external social, economic, and political environment.

The negative consequences of corruption at different levels of government in Kazakhstan include the following:

- The decrease in public confidence in the authorities in the center and in the regions,
- The growth of protest moods associated with many unresolved social problems on the spot by corrupt officials.

6. The crisis of intermediaries

For a long time, Kazakhstan had formal and ineffective political institutions, while preserving the political monopoly on the part of the ruling elite. After all, being called Kazakhstan “political institutions”, they are not. There are parties, but there is no party system. There is a Parliament, but there is no independent representative branch of government. There are courts, but no rule of law. There are citizens and formally the “third sector”, but there is no civil society. Informal pressure groups play the dominant role. The American political scientist S. Frederick Starr calls quite appropriately these groups “power brokers” in the book “Clans, Authoritarian Rulers, and Parliaments in Central Asia.”⁸

Thus, Kazakhstan lacks the institution of “gatekeepers”, which are at the center of the process of articulating and aggregating social interests in the form of political parties, active trade unions or NGOs expressing the differentiated interests of civil society, due to the absence of the structured and full-fledged civil society with equal relations with the political system. This is due to the fact that Kazakhstani political system belongs to the so-called hybrid form of authoritarianism, where, on the one hand, there are formal and non-functioning democratic institutions with parallel retaining of the political monopoly for power by the ruling elite. Here we are talking about the quality of governance, with which the state has the opportunity to ensure the effective functioning and reproduction of political, economic, social, and other institutions. But instead, we see the presence of such a dangerous moment as the dominance of fake political institutions.

Even the redistribution of powers between the branches of power in early 2017 quite predictably showed that such measures only create the illusion of reform in the super-presidential system. As it was stated, the main goal of constitutional amendments was to increase the responsibility of the Government and Parliament. Moreover, it was emphasized that the new law significantly enhanced the role of the Parliament in state affairs, making it more independent, including from the point of view of courage to take responsibility during the period of political and economic force majeure. But everything remained as it was before. As a result, the Parliament, as it was a club

⁸ Starr, S. Frederick: Central Asia-Caucasus Institute and Silk Road Studies Program, USA, 2006. P. 26.

of silent people in times of crisis, it remained that way. The Government and Parliament often showed their managerial impotence and poor effectiveness in terms of responding to crises, since initially the problem was not how to transfer powers, it was who shall receive it.

A similar situation was with other fake structures. For example, we have a legally consolidated party system *de jure* consisting functionally of several party formations, most likely related to quasi-parties, but their influence on the political life of the republic is minimal *de facto*. By the way, ideological blur is peculiar not only for the elite, but also for many pro-presidential political parties that resemble eggs painted in different colors. As they say, six of one and half a dozen of the other. There is also an explanation for this. If there is an excessive influence of “shadow” pressure groups in power, political parties are usually weak and unpopular. And a great danger lies therein. Usually the main task of capable and competitive political parties is to turn the many private interests of individual social strata and interest groups into a collective political interest. But we are talking about electoral parties that prove their right to exist only in conditions of fair, competitive and regular elections. In Kazakhstan, unfortunately, the artificial limiters of the party field prevail than the objective laws of expanding political participation through party channels.

On the example of *maslikhats* (local representative bodies), it is possible to see one of the “delayed-action mines” leading to vertical deformation. In particular, this is evidenced by amendments and additions to the Law “On Elections in the Republic of Kazakhstan”, as a result of which *maslikhats* like the lower house of the Parliament (*Majilis*), will be formed on the basis of only party representation within the framework of a proportional election system. It is clear that two minuses do not give a plus. The marriage union of parties associated with power and *maslikhats*, which even before this initiative often resembled a certain “appendix” under the local executive branch represented by *akimats*, will be fruitless from the beginning.

Thus, a system, where they tried to create a supercentralized form of government, cannot have full-fledged decentralization either vertically or horizontally. As a result, there are not so many communication channels between the decision-making center and the environment in order to have a normal circulation of information. The main sources of information and the communication network have long been inside the political system itself, which should

include most of the Kazakhstan pressure groups. Acting within the political system, they have a close relationship with the economic subsystem, the role of which has increased significantly in the context of converting power into property. Now, based on the cybernetic model of communication proposed by K. Deutsch, there is a communication in the political system of Kazakhstan through the use of informal contacts, which is mainly characteristic for traditional societies. A mediator in this type of communication is a person who owns the "Know How" + "Know who" technology (knowing who can be useful).

However, here a paradoxical situation arises the stronger the attempt to strengthen control over the management system, the less manageable it is. After all, the effectiveness of any political system is determined by the presence of so-called basic institutions that ensure social reproduction and the process of socialization, that is, the inclusion of people in politics. If everything depends only on the balance of forces within the elite, which are crowded around the main decision-making center, then, focusing only on their particular interests, these groups play an antisocial and antisystemic character. Moreover, they even try to replace one or another state institution. The danger is in the fact that with a low level of political and legal culture, both among the main part of the population and in the ruling elite, any struggle for power can be a priori waged outside any legal framework, taking the form of a zero-sum conflict. In such a conflict, the victory of one side should automatically lead to the loss of the other, up to its complete elimination. However, not a single political institution artificially created by the authorities is capable to act competently in emergency and crisis conditions, be it pro-presidential political parties, state-owned media or non-governmental organizations affiliated with the government. That is, a big risk for the government is that it does not have a single effective mediator in resolving conflict situations at the regional or republican level.

Even worse, the authorities have finally lost their strategic initiative in various fields, whether it is the prevention of extremism or working with public opinion in the course of making next governmental decisions. Habitually, the state apparatus does everything in the wake of already occurred events. Post factum. They did not learn to play with forecasts, as owning a strategic initiative assumes the possession of strategic information, which is formed from a large number of different information flows going to decision-making

centers without distortion and smoothing. But the classic 'feedback loop' mechanism has long been broken. This led to the fact that at all levels of selection and filtering of information coming from the environment, it was distorted, virtualized towards making events, processes, and results positive, or external information simply did not reach the decision-making center. To the greatest extent, this happened at the level of effectors (lower levels of the state apparatus) directly in contact with the population. Different levels of the bureaucratic apparatus cease to work synchronously, since the gap between central and local authorities leads to the fact that the managerial signal from the center too slowly reaches the lower levels. In turn, information that does not always adequately reflect the current state of things, including from the point of view of emerging conflicts goes in the opposite direction. That is, there is a malfunction of the 'feedback loop'. The circulation of political information has been disrupted. Ultimately, all this led to the fact that the center began to use incorrect information about the surrounding reality, leading to an inadequate response to demands coming from outside, creating a delay effect and hindering the functioning of the mechanism for anticipating conflict situations.

Key Political Risks in Kazakhstan

1. Political uncertainty regarding the mechanism of transit of power and possible consequences

In 2014, Standard & Poor's rating agency provided an assessment of the current state of the financial and economic situation in Kazakhstan. However, the most interesting part of this presentation was not economics, but politics. According to the agency's analysts: "... the uncertainty associated with the high centralization of the process of developing and implementing political decisions, as well as the ambiguity regarding the nature of the transfer of presidential power create a high political risk."⁹

The topic of power transit is not new. We raised it many times, including in our book "The Twilight Zone or Transitional Traps" published in 2013. Even then, it was clear that there was no point in 'catching flies', discussing only those

⁹ Ramazanov, Nigmat: Banking Sector Risks, in: Business Kazakhstan, September 19, 2014. P. 3.

schemes of transfer of power that could be implemented under the first President. It is much more difficult to understand what is the destiny of the system, when its creator leaves the political scene, since with this option there are much more “black swans” and no less “dark horses” that can appear both on the power Olympus and on the public field. One thing is clear, whoever plays the role of a successor, he will inherit very inefficient bureaucratic apparatus, which even under the current President shows failures in many areas. Main enemy of any successor, even collective, will be the traditional collective irresponsibility of the existing state apparatus, which will be much more difficult to modernize than to neutralize individual representatives of the elite.

In the conditions of the Kazakhstan political system, the “bifurcation point” is not the departure of the incumbent President from politics, but the beginning of a change in his system. It does not even matter how and to whom the power will be transferred. After the first President, any political force will sooner or later modify the political and economic system for itself, even if it declares the continuity of its policy. Additional source of conflict over power is the lack of legitimacy among the main players, and an attempt on their part to obtain it. The problem of Kazakhstan is that none of the existing political players, after passing the bifurcation point, will automatically acquire legitimacy that would allow him to preserve or reform this political system. Representatives of the elite are equated in their claims to power. Incidentally, this applies to members of the presidential family. It turns out that the elite were initially trapped in the “successor – anti-successor” confrontation.

Thus, the main struggle for legitimacy and strategic political initiative in the ‘twilight zone’ will be between three groups:

The first is the status quo group (the elite, part of the bureaucratic apparatus and part of society). Their main task is to stretch the conflict-free existence of the existing system as much as possible.

The second group is the reformers (supporters of the soft transformation of the system). This may also include a part of the elite and the bureaucratic apparatus, as well as a constructive part of society. At the same time, reformers will seek support in that part of the opposition field, which also stands for an evolutionary model of transit.

Third players are radical groups that will advocate for the rapid destruction of the existing system to clear the field to strengthen their legitimacy. These include not only extremist and terrorist organizations, but also part of the country's political and business elite.

In addition, there are two political traps: 1) it is difficult to manage a political system that was created for a particular politician who has a certain charisma as the supreme arbiter in inter-elite clashes; 2) a conservation policy for the sake of conservation will eventually create the effect of a "steam boiler".

One of the attempts to create a collective successor is to strengthen the legal status and increase the political weight of the Security Council of the Republic of Kazakhstan, where the first President will head this structure for life under the Law "On the Security Council of the Republic of Kazakhstan." It is noteworthy that the membership of the Security Council has also been legislated. The Security Council will consist of 12 people representing all key government bodies. In addition to the President, the Council will include the Chairmen of two Chambers of the Parliament, the Prime Minister, the Secretary of State, the Head of the Presidential Administration, the Secretary of the Security Council, the Prosecutor General, the Chairman of the National Security Committee, the Minister of Foreign Affairs, the Minister of Defense, and the Minister of the Internal Affairs.

Moreover, the new bill proposes to change the status of the Security Council from an advisory body to a constitutional body, which should coordinate the implementation of a unified state policy in such areas as national security and defense of the Republic of Kazakhstan, internal political stability, protecting the constitutional system and national interests of Kazakhstan in the international arena. Thus, the decisions of this body and its Chairman will be binding on all branches of government and officials. In addition, the bill provides that the Security Council annually hears the report of the Government on the results and main lines of activity for the reporting period in the field of ensuring national security, as well as the first heads of state bodies on the implementation of state policy in the field of ensuring national security and the country's defense. The functions of the Security Council also included the control over the implementation of the laws of the Republic of Kazakhstan in the field of national security and defense, as well as the discussion of candidates recommended for the appointment of the first heads of central and local executive

bodies of oblasts, cities, and state bodies directly subordinate and accountable to the President of the country. All this suggests that the Security Council is supposed to be made one of the mechanisms to ensure stability during the transit of power.

Definitely, from a tactical point of view, the Security Council of the Republic of Kazakhstan maybe does not look bad, as one of the guarantors of security during the transfer of power under the current President and in the short term after his departure from the political scene. But this is not the political institution that can provide the country not just stability, but the basis for reformatting the existing political and economic system in the direction of increasing its competitiveness. All this suggests that when it comes to the transit of power, one should always have big picture thinking and understand that any form of continuity initially involves the inheritance of a large number of problems that, for one reason or another, was not solved under the current government. That is, the continuity in preserving the social, political, and economic mines of delayed action will not lead to anything good. Apparently, new President of Uzbekistan Shavkat Mirziyoyev was well aware of this, and it took him just over a year to get rid of the most influential representatives of the old guard and begin a cardinal change in the country's foreign and domestic economic policy. As for Kazakhstan, one of the risks of turning the Security Council of the Republic of Kazakhstan into a collective successor is that the lobby of the security forces and "hawks" may outweigh the position of the reformers. There are supporters of the hard line in power. This is clearly seen in the powerful sweep of the public political and media field from any form of systemic opposition over the past few years. Most likely, as we approach the transit of power, the positions of the "security agencies" will only strengthen. It is possible that in the future it is this group that will nominate one of the representatives of power structures as the main guarantor of maintaining the situation under control and combating destabilization.

However, even in this case, attempts to compare the strengthening of the positions of the Security Council of the Republic of Kazakhstan led by the President with the Iranian model or the Soviet Politburo are hardly true. There are two main differences. Firstly, Iran after the Islamic Revolution of 1979, as well as the USSR built their political and economic systems in isolation and confrontation with the West. As a result, a classic version of the mobilization system

was created, where the search and fight against internal and external enemies became a part of state ideology. By the way, among Kazakhstan's neighbors, Russia is now following this path. Secondly, the heart of the Iranian and Soviet political systems includes some ideological values, which united power and society for some period. In Iran, it was a clear religious self-identification. And, it was the Marxism-Leninism ideology in the Soviet Union. Kazakhstan has not such binding values, as it is seen from the growing threat of "ideological separatism" within Kazakhstan society. By the way, this threat will also be inherited by any successor. Although even in Iran and the USSR, eventually it was possible to observe the decomposition of these values, which led to the collapse of the Soviet Union, and in Iran, we see now an increase in protest from the part of society, which also requires liberalization of the country's domestic and foreign policies.

Another problem of the Security Council of the Republic of Kazakhstan as a collective successor is that it will include people representing different elite groups or their coalitions, while some of them, as mentioned above, will have equal rights in their claims to power. This is not the most reliable way of long-term continuity of power. We can agree with some political scientists that the main task of all post-Soviet states is the transformation of stability, which depends on one person, to stability, which would be based on political institutions. All this suggests that from the point of view of strategic gain and not tactical games, it is necessary to strengthen more than one political institution in the person of the Security Council. The entire state apparatus requires a deep reform, as well as the creation of a political infrastructure where Parliament, political parties, NGOs, trade unions, SMEs, local governments, social movements, and other players who could act as modernization drivers, as well as guarantors not for a stagnation, but a stability for the political and economic development of the country.

2. The radicalization of a part of the protest moods

Characteristic features of the expansion of the protest field are:

- An increase in the number of new protest groups,
- An emergence of new political players, in addition to the traditional opposition expressing the interests of protest groups,

- A change in hierarchical social status.

If it comes to the worst, some existing elite groups will try to take advantage of the protest mood in society, which for a long time assured the public of their own loyalty to the existing political system. However, this will be possible only during the period of achievement, in the language of synergetic, the “bifurcation point”, which will be associated with a change of power and the implementation of the “successor project”. A serious danger lies in the fact that the weakening of the influence of registered and legally operating opposition parties may lead to the fact that part of the protest mood will move into a more radical sphere, including those related to extremist activity. By weakening actively the intra-systemic opposition, which was trying to act in the legal field, the government almost lost sight of the emergence of the anti-systemic opposition from among local radical groups.

3. The threat of interethnic conflict

- Maintaining social stratification,
- Domestic nationalism.

4. The threat of separatism (risk point – transit period)

- Imbalances in regional development,
- Consequence of interethnic conflicts,
- The result of the activities of third countries.

5. Uncontrolled internal migration

In Article 6 of the Law of the Republic of Kazakhstan “On the National Security of the Republic of Kazakhstan”, uncontrolled migration processes were classified as the main threats to the national security of the Republic of Kazakhstan. Major migration flows go to Almaty, Astana, Atyrau and other large cities of the republic. One of the results of this migration is marginalization including of a part of youth.

6. Urbanization and the transformation of the religious field

Some experts note a serious transformation of the religious field, including due to the urbanization, which leads to the destruction of religious traditions. For example, some persons believe that traditional Kazakh culture was strongly associated with the village in the countryside. However, the urbanization of the Kazakh ethnic group occurs rapidly in recent years. This leads to the emergence of new urban Kazakh culture, where the role and place of Islam will also change. The role of mosques is growing as one of forms of communication, including among young people. However, extremist elements connect to this communication as well. Uncontrolled destructive urbanization, which leads to the marginalization of the city and the emergence of “suicide bomber’s belts”, creates a favorable social and economic and psychological environment for extremist ideas to be spread.

7. Reduction of small and medium-sized businesses

This process automatically reduces the middle class and increases the threat of radicalization of public moods, which will be spurred by internal migration.

8. Information separatism

The danger lies in the active fragmentation of Kazakhstan society against the background of the absence of pivotal ideological “anchors” in the country that would hold a significant part of society around itself. Moreover, the “watershed” between ethnic, social, political, demographic groups runs along different lines – from the problem of the state language to the interpretation of historical events. Serious passions boil and conflicts of different value orientations occur under externally more or less calm veil of Kazakhstan society. This leads to the effect of “ideological separatism”, when different social, political, demographic, ethnic, religious, and other groups have their own often confrontational ideas about “their Kazakhstan” within a country. A serious danger to the Kazakh authorities lies in the fact that many citizens of the country have fallen into the trap of “vague self-identification”. Hence, the debates arise about what should be laid in the foundation of Kazakhstan national identity – ethnic, religious or civil self-identification.

A side risk of “ideological separatism” is that Kazakhstan, as a subject of international relations, has long been in the whirlpool of information wars waged by transnational media structures and geopolitical players. The serious split of Kazakhstan society regarding the situation in Ukraine was also an indicator of the serious influence of Russian and Western media to form public opinion within Kazakhstan. The events around Ukraine showed well how quickly Kazakhstani people become victims of someone’s information war, with the weakness of own Kazakhstan media players, which are incapable to broadcast objective information. Indeed, Otto Von Bismarck once said, “People never lie so much as during a war, after a hunt, and before an election.”

The result is a clear loss of strategic initiative in working with the information field. As a result, different, formal, and informal communication channels work with public consciousness and opinion such as foreign media, on-line (migration of citizens to an alternative informational reality, where the state’s positions are rather weak), hearing and alternative ideological centers (including radical ones).

Table 1. SWOT analysis of the political system of Kazakhstan

Strength	Weakness
1. Political loyalty to the President and his support from the main part of the political and business elite of the Republic of Kazakhstan.	1. Lack of certainty about the mechanism and timing of the succession of power.
2. The fragmentation and atomization of the protest field. Existing protest moods in the country have not yet reached their critical mass.	2. There is a large number of competing elite groups in Kazakhstan. It is difficult to maintain constant intra-elite balance of power. The president is losing the role of the Chief Arbitrator.
3. Purposeful transfer of social energy into the economic sphere. Promotion of political apathy.	3. The vertical of power is adapted only to linear solutions. A gradual deformation of the vertical itself occurs due to a gap emerges between different levels of government.
4. The legitimacy of the current government in the eyes of major geopolitical players (USA, Russia, China, the EU, etc.).	4. The absence of another effective political institution in Kazakhstan, except for the presidential power, which concentrated in its hands the main levers of government.

<p>5. The energy significance of Kazakhstan in the eyes of the international community. The deal “oil and gas in exchange for loyalty to Kazakhstan.”</p>	<p>5. The dominance of the shadow political sphere over public policy. Hence, the prevalence of narrow group interests over state tasks.</p>
<p>6. Active use of the effect of “positive economic and political contrast of Kazakhstan” against the background of other countries of Central Asia.</p>	<p>6. The inefficiency of public administration, which is reflected in the failure of many state development programs, especially at the regional level.</p>
<p>7. Low level of external threats.</p>	<p>7. Monotony of the political field and limited opportunities for political participation. Therefore, such an important actor as the electorate is absent.</p>
<p>8. The president has individual contracts with various social groups. The highest winners are high-ranking officials.</p> <p>Some state employees are also ready to support the government in exchange for the growth of their incomes. Big business stands for the president, since he is the main guarantor of their property. The middle class only wants the stability and the ability to make money, which the authorities promise it. Such “contracts” exist in relation to other social groups as well.</p>	<p>8. The imbalance between economic development and political conservatism. Lack of real economic and political competition.</p>
<p>9. Awareness of the need to improve the efficiency of the state apparatus as a tool in implementing government programs. An attempt to implement some measures within the framework of administrative reform to improve the quality of public services.</p>	<p>9. The lack of a clear and feasible strategy for the further political development of the country among the ruling elite and the opposition.</p>
	<p>10. “Syndrome of temporary worker” in government institutions. A high level of corruption, posing a threat to the national security of the country.</p>
	<p>11. The reduction of “social elevators” for joining the elite. All fruits hanging below are harvested.</p>
	<p>12. The increase in social stratification and the slow growth of the middle class.</p>

	13. The effect of delayed socialization. Low level of political, legal and religious culture among the population.
	14. Political and economic euphoria of the elite. Inadequate perception of existing problems.
	15. The presence of new conflict zones in society (interethnic, migration to cities, etc.).
Opportunity	Threat
1. The establishment of a presidential and parliamentary system as one of the models for transforming power towards increasing its stability.	1. Increasing the level of political risks in the event of the unexpected resignation of the first President from his post until the creation of an effective mechanism of succession of power.
2. The presence of a financial “airbag” in the form of the National Fund, as a basis to increase the country’s economic competitiveness.	2. Being centralized, the system cannot be quickly and efficiently decentralized.
3. Improving the mechanism of public administration through the creation of working, rather than formal, institutions of local self-government and the introduction of elective lower-level akims with the participation of self-nominated people inclusively.	3. The absence of a legitimate right to power among the majority of shadow players around the President.
	4. The growth of social and political tension. An increase of marginal mass, especially in large cities. Exclusion is hopelessly stuck in poverty of a certain part of the population, including youth.
	5. The growth of terrorist risks.
	6. A catastrophic decline in the level of human capital, which accelerates the process of society marginalization.
	7. The risk of third-country intervention in case of a full-blown political crisis in the country.

As practice shows, a social explosion can occur at any time for any reason with a different composition of participants, the main thing is that favorable conditions are ripe for this. Moreover, the power itself often lays “detonators” to

the basis of these social explosions in most cases, when implementing inefficiently social and economic policies. However, as it was already mentioned above, the authorities do not have a single effective mediator in resolving conflicts at the regional or republican levels. For the appearance of mediators, it is required to reboot communications as well as the entire political system through political reforms. One of the goals of these reforms should be the foundation of an effective infrastructure for political communication at two levels:

- Inside the state apparatus itself.
- Between society, government, and business.

Numerous political institutions, ranging from electoral, competitive political parties to local governments, are important elements of such infrastructure. We are talking about political decentralization, both vertically and horizontally. Only a large number of alternative sources of information can lay the foundation for effective management of political risks by government agencies. But this is possible only in the case of a qualitative horizontal transformation, where, first of all, we are talking about the transformation of civil society in Kazakhstan.

Horizontal transformation

As some experts note, the official interpretation of the concept of “civil society” has always been too institutional, because it focused only on registered organizations, although besides them there were unregistered initiative groups of citizens that appeared to solve local problems. Here a key contradiction arises between the desire of the state to control all players in social, political, and economic life through registration and licensing mechanisms, and the nature of civil society itself, which tries to reduce state control on the contrary. Civil society is not a simple set of institutions with a certificate of registration. Moreover, it includes not only a large number of unregistered and initiative groups, but also strengthens their activities with certain common values and principles. When social networks emerged, such groups including volunteer movements gradually moved social activity from off-line to on-line. Here the key question arises, “Is it possible to say that proto-civil society of Kazakhstan in the form of a network community is reaching a higher level of development and we are witnessing a completely different form of civic activity, or do we only see the reincarnation of proto-civil society on social networks?” Most likely, it is both options.

On the one hand, we are testing completely different forms of social target mobilization that have different goals and composition of participants. Social networks create a “domino effect” from the point of view of a stormy public response to certain events in Kazakhstan. American political science calls this phenomenon “grass roots”. It means grassroots activity, which sometimes can affect the government. This form of population activity in Kazakhstan is a positive trend for several reasons.

Firstly, the level of political culture is rising, as people are involved to solve specific problems.

Secondly, many people begin to worry about problems that were previously on the periphery of their vital interests.

Thirdly, the culture of the volunteer movement grows fast, which is one of the foundations of the future civil society.

Fourth, any civic activity within the framework of the law is always better than clandestine asocial aggression in the form of the same extremist or terrorist activity. Social steam must be released to avoid an explosion of a steam boiler. In addition, the increasing role of social networks, including from the point of view of informing the authorities about various problems, is a sign of the so-called implied or indirect lobbying, which is one of the communication channels between society and the government.

Summary

Political risk management includes actions that should reduce uncertainty and decrease the random factor in the implementation of the domestic and foreign policies of any state. In Kazakhstan, the need for political risk management has been recently recognized at an official level. For a long time, risk management was not considered as an important tool of public administration. This was due to the specifics of the political development of Kazakhstan. The authorities do not have a single effective political mediator in resolving conflict situations at the regional or republican levels. Only the presence of a large number of alternative sources of information can lay the foundation for the effective management of political risks by government agencies. But this is possible only in the case of a qualitative transformation of the communication horizontal.

Prospects and Risks of the Eurasian Economic Union

Dr. Vyacheslav Dodonov

The Eurasian Economic Union that was established pursuant to the Treaty signed on May 29, 2014 by the leaders of Belarus, Kazakhstan, and Russia started its operation on January 1, 2015. Thus, the chronology of the EAEU's activities accounts three years, and the assessment of both the achievements and failures of the Union for such a short period cannot claim to be complete. Moreover, it is difficult to assess long-term trends, risks, and prospects based on the macroeconomic statistics of such a short period of the EAEU functioning.

Current assessments of the Union's activities are naturally contradictory, often they reflect personal attitude of a certain expert to this project instead of the actual situation. In this regard, the correct and objective analysis of the Member-States' economic development results within this integration association is of particular relevance. Moreover, due to the short period of the EAEU existence, for analytical purposes, it is legitimate to consider a longer period, including the stage of the Customs Union, which evolved into the Eurasian Economic Union.

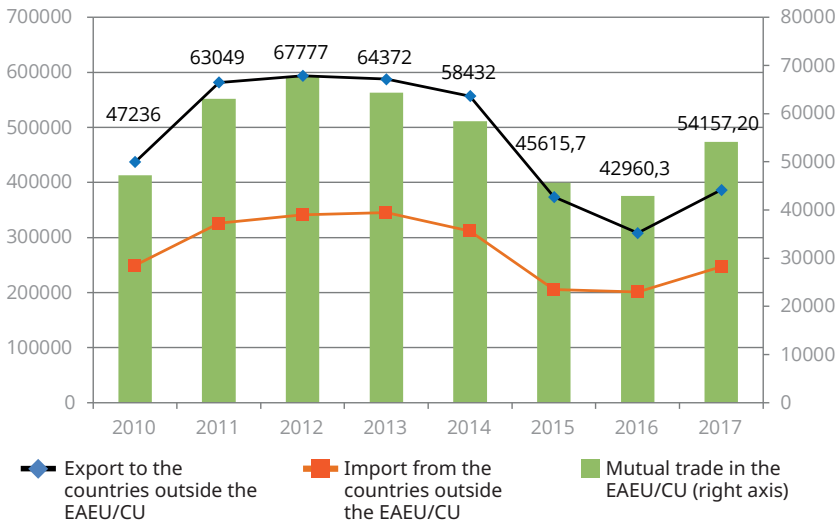
The Customs Union, which was formally launched in January 2010, actually became fully operational from the second half of 2011, as the technical transitional stages had ended by that time and customs control on the border of Kazakhstan and Russia was abolished; this completed the creation of a common customs space. Therefore, in my opinion, an assessment of the trends and outcomes of the common economic space functioning on the territory of the EAEU can be correct if started from 2012 – the first complete year when the Customs Union was fully functional.

When assessing the effectiveness of integration associations, the foreign trade turnover of the Union countries is the main indicator that is usually greatly emphasized, which is explained by the priority of the trade area in the economic integration and the fact that the Customs Union was aimed to boost trade and create a common goods market. The growth of mutual trade is usually interpreted as a sign of the union effectiveness, and its slowdown is viewed in the opposite way. In my opinion, the indicators of trade turnover within the EAEU and its dynamics cannot be a criterion for the integration

effectiveness in isolation from the more general context of the global trade conditions and the pricing environment of export goods.

As it is known, the main export goods for the largest economies of the EAEU, Russia and Kazakhstan, which account for 95% of the export of the Union countries, are various types of raw materials, primarily hydrocarbons. Prices of these raw materials are highly volatile, this determines significant changes in foreign trade volumes, both within the EAEU and with third countries (Figure 1). Therefore, both the growth in trade turnover until 2012 and its decline in 2014–2016 are explained not so much by the success or achievements of economic integration, but by the changes in the export cost parameters due to the volatility of oil prices.

Figure 1. The dynamics of the mutual trade of the Union countries versus foreign trade with third countries in 2010–2017, \$ million¹



Therefore, in this case, it is reasonable to judge about the success of integration processes not from the absolute parameters of mutual goods turnover

¹ Foreign and Mutual Trade in Goods of the Eurasian Economic Union. Eurasian Economic Commission, http://eec.eaeunion.org/en/act/integr_i_makroec/dep_stat/tradestat/time_series/Pages/default.aspx (15.04.2018).

growth or decline, but based on the comparative analysis of these parameters and similar indicators of foreign trade with third countries.

This comparison shows that trade activity within the EAEU (earlier – the Customs Union) grew more intensively during the period of general growth in foreign trade and decreased more slowly during its recession caused by the fall in world commodity markets. Thus, in 2010–2012, mutual trade between the countries of the Customs Union grew by 43% versus 36.3% of the growth in trade with the rest of the world (export to third countries increased by 36%, import grew by 37%). From the peak values of turnover reached in 2012, by 2016, the decline in mutual trade of the EAEU countries amounted to 36.6%, while exports to third countries fell by 48.1% and imports from third countries by 41%. Thus, the trade processes within the EAEU are marked by higher stability, resilience to external shocks, and also greater intensity, this indicates the positive influence of integration association on economic relations and shows the real effect of customs barriers removal and common market establishment.

Like foreign trade, a strong influence of external factors also manifests in other economic sectors of the EAEU countries; therefore, it is impossible to conclude about the influence of the Eurasian integration factor at the level of such aggregate macroeconomic indicators as changes in GDP, industrial production, investments, and parameters of the balance of payments. Moreover, due to the significant differences in the sizes of the EAEU countries' economies, the manifestation of this influence differs a lot in various countries. In countries with small economies, like Armenia or Kyrgyzstan, the effects of integration processes are felt much stronger, while the macroeconomic indicators of Russia, its GDP accounts for 87% of the total EAEU indicator, are much less influenced by the integration. Since the aggregate indicators representing the economic situation in the EAEU are actually determined by the state of the Russian economy, their trends reflect not so much the results of the implementation of integration projects as current problems or the successes of the Russian economy.

In this regard, to consider both the prospects and the risks of the EAEU further functioning, it is reasonable to distinguish two levels of this issue – development trends at the level of the Union as a whole (taking into account that this approach will reflect the situation derived from the Russian one) and at

the national level of individual states. Several main areas can be identified on both of these levels, one can expect more intensive development in these areas as a result of integration processes strengthening and outline the main risks groups caused by the same reason.

At the EAEU level as a whole, the most promising areas of economic development are as follows:

- to activate the main economic processes within the Union based on the creation of common markets for goods, services, labor, and capital, which will significantly increase the turnover of the main production factors, boost the competition level, reduce transaction costs of business processes within the EAEU,
- to enhance the efficiency of the business environment and improve the conditions of doing business through competition of jurisdictions between separate EAEU countries, which will foster the continuous modernization of the institutional, legal, and regulatory environment,
- to increase the investment attractiveness of productions focused on an expanding domestic market, boost foreign investment in non-resource based sectors, which will accelerate the modernization and diversification of the economy, and strengthen the position of local producers in the domestic and foreign markets,
- to enhance foreign trade turnover with third countries due to the special trade regimes arranged between them and the EAEU, and increase the interest of foreign trade partners in the larger common market of the Union.

The first of these areas in terms of mutual trade has been considered above, and it demonstrates the improvement of trade processes after the creation of the Customs Union and the EAEU. The remaining components of a common economic space with respect to the labour market, capital market, and services market have too little history to be analyzed.

The second area is also quite important, as it creates the basis for the development of business and the economy as a whole. The factor of competition between the jurisdictions, which is both a challenge and an opportunity for separate economies of the EAEU, was called one of the most important factors for economic progress already at the stage of the Customs Union creation,

and now it also stands out among the key advantages of the Eurasian integration. November 25, The Advisor to the President of the Russian Federation S. Glazyev, marking the success of this process, noted, “We are forming a common market with competition in the jurisdiction”.²

In the context of the Eurasian integration aspect, significant successes achieved by the EAEU countries in a number of international ratings on doing business assessment can be noted. Thus, Belarus, Kazakhstan, and Russia have rather high positions in the World Bank’s Doing Business 2017, being ranked 37th, 35th, and 40th respectively among 190 countries.³ In Doing Business 2010, Kazakhstan was ranked 74th, Belarus – 64th, and Russia – 116th.⁴ Certainly, this progress cannot be solely associated with the participation of these countries in the Customs Union, and subsequently in the EAEU, but it also cannot be denied that it took place during their membership in these integration associations that played certain role in improving the business climate.

The prospects of the third area, to increase the EAEU investment attractiveness and, on this basis, accelerate the non-resource sectors development that the economies of the Member-States need urgently, seem to be quite real according to both the global experience in regional integration and statistics of the EAEU countries. Based on global experience, in most cases when countries join close regional integration associations (customs unions and their closer forms), investment volume increases as investors expect more positive effect from the national producers’ participation in expanding common markets.

The statistics of the EAEU countries in this part was also generally favorable until 2014–2016, when it was undermined by the world commodity markets decline. In three founding countries of the EAEU, fixed assets investments grew from 2010 to 2014 and the growth was quite substantial, in dollar terms, in the EAEU in general, the level of 2013 exceeded the figure of 2009 by 1.6

² Glazyev Notes the Advantages of the EAEU Integration over Western Partnership Models. Interfax-Russia, 11/25/2016, <http://www.interfax-russia.ru/NorthWest/news.asp?id=786515&sec=1671> (02.12.2016).

³ Economy Rankings / Rankings. DOING BUSINESS Measuring Business Regulations, <http://www.doingbusiness.org/rankings> (02.12.2016).

⁴ Doing Business 2011. Improving Conditions for Entrepreneurs. © 2010 International Bank for Reconstruction and Development/World Bank. P.4, <http://russian.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/Overview/DB11-Overview-Russian.pdf> (02.12.2016).

times, having increased from \$301 to \$489 billion,⁵ then, in 2014–2016, this volume reduced significantly, primarily due to the strong devaluation of national currencies. Also, it can be noted that during the Customs Union and the EAEU functioning the role of foreign investments grew steadily. Thus, within the last three years, due to the loans from foreign banks, the share of fixed assets investments increased from 2.9% in 2014 to 5.1% for 9 months of 2017.⁶ So, the share of foreign funds in the structure of fixed assets investments grew from 3.9% to 6.0% (taking into account the funds of foreign investors that amount to 1%).

Finally, the fourth area of the economic development of the EAEU, which is associated with the prospects for the growth of foreign trade with third countries, has a high potential for implementation as well. It is determined by the factor of simplified access, on favourable terms, to the EAEU's large common market (although the main motivation for foreign partners is access to the Russian market). The signing of the Free Trade Agreement (FTA) between the EAEU and Vietnam in May 2015 laid the foundation to implement this potential. Currently, negotiations are ongoing at various stages on an FTA with Israel, on a preferential trade regime with Serbia, on free trade with Egypt, and a similar regime with India and Iran (the last two agreements are in the final stages of preparation).⁷ Interest in various formats of special trade regimes with the EAEU is shown by several dozen countries.

If we consider the risks that the EAEU faces and might face in the future, then the most likely ones are the following ones:

- Internal contradictions regarding economic interests,
- Increased competition in domestic markets and lobbying by national business of various protectionist measures against competitors from the EAEU countries that contradict the norms of the economic union,

⁵ Investments in Fixed Capital at Current Prices, in US Dollars / Investments. Eurasian Economic Commission, http://eec.eaeunion.org/en/act/integr_i_makroec/dep_stat/econstat/Pages/investments.aspx (02.05.2018).

⁶ The Structure of Investments in Fixed Assets by Sources of Financing / Investments. Eurasian Economic Commission, http://eec.eaeunion.org/en/act/integr_i_makroec/dep_stat/econstat/Pages/investments.aspx (02.05.2018).

⁷ Status of Negotiated Tracks on Free Trade. Eurasian Economic Commission, <http://www.eurasiancommission.org/en/act/trade/dotp/Pages/Status-of-negotiation-tracks-free-trade.aspx> (02.05.2018).

- Haste and/or insufficient preparation of steps to deepen integration processes that could lead to a deterioration of the business climate, damage the economic interests of individual countries and cause rejection of integration ideas among the business and the public,
- Actual failure to comply with the basic principles of the functioning of the economic union,
- Increasing the role of political factors in the EAEU activity and limiting the sovereignty of the member states.

These risks are caused by the realities of economic processes in the EAEU Member-States, some of which already show themselves at present, and should be taken into account in the activity of the Eurasian Economic Commission and other management bodies and institutions of the Union to harmonize the regulatory framework for its functioning.

Contradictions and a certain conflict of interests of countries are possible due to the similar structure of the economies of several EAEU countries, the priority of the same industries and the need to defend their interests both in the domestic market of the union and abroad, which creates the preconditions for increased competition. Such conflicts occur in various areas and include transport and logistics networks (including access to companies from other countries on equal terms), features of national tax systems, tariff regulation of national and foreign (the EAEU countries) business, etc. All these areas differentiate the features of doing business for national companies and companies from other countries of the union, which violates the common market regime and may discredit the idea of economic integration as having no advantage for real implementation, if this situation persists.

Increased competition in the markets of the Member-States is also a potentially rather destructive source of risk. A common market and the lack of mechanisms to protect national business from more efficient, large, financially, and technologically substantial competitors from other countries will lead local companies to lose their positions and, as a result, business communities and partly the population to be dissatisfied with the integration. The increased import of Russian products to Kazakhstan in 2014–2015 was an example of such case, which fell sharply in price against the devaluation of the ruble and the Kazakhstan business appealed massively to the Government with requirements to protect the domestic market.

Excessive haste in integration measures is rather a far-fetched problem, since actual integration is gradual and evolutionary, but the steady exaggeration of some potentially painful topics of this kind – first of all, the possibility of introducing a common currency – demonstrates the degree of concern about such steps by both business and the public of separate countries. There are other areas, where controversial initiatives can cause a strong negative effect without special economic need. For example, regular attempts by the Russian Ministry of Finance to reduce drastically the size of duty-free purchases via the Internet can potentially lead to spreading this norm to all the EAEU countries and cause the population will reject the integration. Interests of a particular group of beneficiaries are violated inevitably, when implementing almost any integration initiative, therefore, to prepare carefully new measures, take into account their consequences and ensure their smoothness, and minimize damage to interested parties are the key issues for the further development of the EAEU.

The withdrawal of certain economic relations from the declared regimes bears certain risks along with the costs of integration measures. For example, the problem of the Russian-Belarusian trade in oil and oil products has acquired a chronic status over the years the Customs Union has existed. In fact, this is an example of this kind of the withdrawal of a certain type of trade from the general commodity market regime. Undoubtedly, this problem has many aspects beyond the scope of this article, but this example illustrates the fact that the basic principles of the common economic space operate with limitations and exceptions within the EAEU. The risk of such a situation lies in the fact that the number of these seizures may constantly increase under the pressure of lobbying opportunities of large businesses, and the scope of the regimes of common markets may decrease based on separate precedents. This aspect will gradually lead to erosion of the economic basis of the EAEU and its incapacity, i. e. the evolution along the lines of the CIS, which has become an increasingly amorphous formation over the years.

Finally, one of the most discussed risks of the further development of the EAEU can be considered the growth of the political component both directly in the activities of the union and the influence of the policies of individual countries on the economic interests of other partners. The latter aspect appeared in 2014–2015 against a crisis in relations between Russia and Ukraine, as well as

the sanctioned confrontation between Russia and the West. Sanctions against Russia and its retaliatory measures against both Ukraine and Western countries have led to certain problems of other EAEU states. Difficulties arose in trade with Western countries in terms of the product range that came under Russian countermeasures, and the trade with Ukraine was difficult. If the problems in foreign trade with the West were more technical and gradually resolved, the actual blockade of the transit of Ukrainian goods through Russian territory led to negative consequences for businesses from Kazakhstan and Kyrgyzstan involved in trade with Ukraine. If Kazakhstan's imports from Ukraine amounted to \$2,249 million (4.6% of the total imports), and exports to this country was \$2,036 million (2.5%)⁸ in 2013, then imports decreased to \$827 million (2.7%), and exports amounted to \$1,176 million (2.5%)⁹ by the end of 2015. At the end of 2017, the share of Ukraine in Kazakhstan's foreign trade decreased even more: exports to this country fell to \$1,138 million (2.4% of total Kazakhstan exports); imports amounted to \$462 million (1.6%).¹⁰ Thus, the trade turnover decreased from \$4,285 million in 2013 to \$1,600 million in 2017, or 2.7 times in general. However, it should be noted, the major part of this decline in trade was not caused by Russian sanctions regarding the transit of Ukrainian goods, but by a drop in commodity prices, which led to a decrease in Kazakhstan's exports to Ukraine in particular (which retained the pre-crisis share in the total volume at the same level, while reducing absolute volumes), as well as the economic downturn in Ukraine. Nevertheless, Kazakhstan business suffered certain losses in connection with trade relations with Ukrainian counterparties, and this precedent did not contribute to improving the perception of the Eurasian integration.

In general, risks of a supranational level generated at the level of the EAEU can be compensated by the benefits manifested at the level of national economies. In relation to Kazakhstan, the results of the first years of stay in the Customs Union/EAEU are ambiguous, but generally positive.

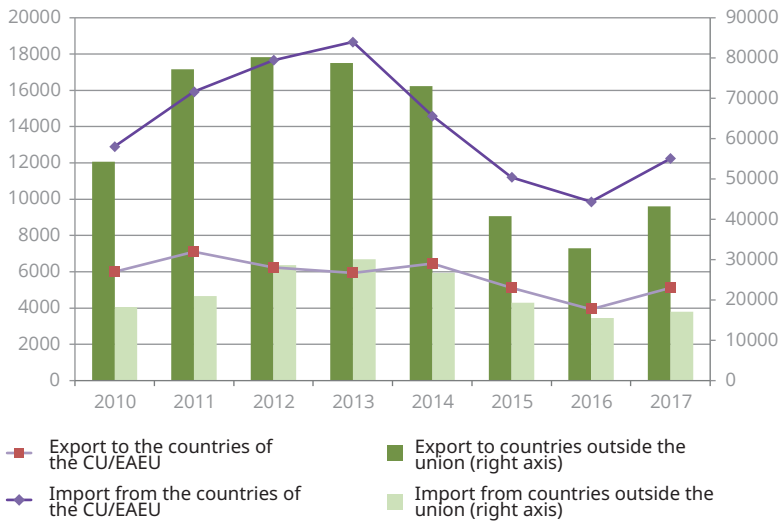
⁸ Social and economic development of the Republic of Kazakhstan in January 2014 (operational data). Astana: Statistics Agency of the Republic of Kazakhstan, 2014. P. 32.

⁹ Social and economic development of the Republic of Kazakhstan in January 2016 (operational data). Astana: Statistics Agency of the Ministry of the National Economy of the Republic of Kazakhstan, 2016. P. 34.

¹⁰ Social and economic development of the Republic of Kazakhstan, January 2018, Brief Statistical Bulletin. Astana, 2018. P. 22.

The ambiguity is manifested primarily in the mutual trade between Kazakhstan and partner countries of the union. The indicators of this trade in comparison with trade of the rest of the world demonstrate insignificant progress on the one hand, but significantly greater stability during the period of commodity price falling in 2014–2015 on the other hand (Figure 2). In 2010 to 2016, Kazakhstan exports to third countries experienced first half growth, and then another 2.5 times decline, while exports to the countries of the union changed moderately. Imports from the EAEU countries grew although intensively, but more slowly compared to imports from third countries, and it declined to lower levels.

Figure 2. Comparative dynamics of the parameters of Kazakhstan's foreign trade with the EAEU countries and third countries in 2010–2015, \$ million¹¹



Generally, for the eight-year period Kazakhstan's trade turnover with third countries decreased by 16.8%, while with the EAEU countries decreased by 8.1%, which can be considered as a positive result of staying in the economic union in terms of foreign trade. Critics of Kazakhstan's participation in the

¹¹ Gross inflow of direct investment in Kazakhstan from foreign direct investors by types of economic activity of residents / Statistics of direct investment in the direction of investment. National Bank of the Republic of Kazakhstan, an official website, <http://www.nationalbank.kz/?docid=680&switch=russian> (05.04.2018).

Customs Union often draw attention to the fact that during this period the trade deficit of Kazakhstan and the countries of the Union (primarily Russia) grew, and this trend did occur from 2010 to 2013, this figure almost doubled from \$6.9 to \$12.7 billion, noticeably more intensive than the turnover growth. However, at the end of 2017, the trade deficit between Kazakhstan and the EAEU countries fell to the level of 2010 and amounted to \$7.1 billion. This was due to a sharp drop in imports after the devaluation of the tenge in 2015 and indicates that Kazakhstan's foreign trade turnover is often stronger influenced by internal factors, not membership in the EAEU.

In addition to foreign trade, investment is a critical area of international economic cooperation for Kazakhstan. Being a priority of all major development programs over the years, the modernization of the economy is impossible without attracting large-scale foreign investments, which are directed mainly to the mining industry and exploration. In this regard, the participation in an integration association with a large common market gives Kazakhstan a chance to reverse the trend and start attracting investments in the manufacturing industry to diversify the structure of the economy, attracting investors with the prospect of entering the large common market of the EAEU.

During the participation of Kazakhstan in the Customs Union and the EAEU, the volume of foreign direct investment (FDI) in the manufacturing industry has grown significantly compared to previous years. From 2011 to 2017 (during the existence of the Customs Union, the CES, and the EAEU), the total gross FDI inflow in this area amounted to \$27.2 billion, while from 2005 to 2010 it was \$8.3 billion.¹² The FDI inflow into the manufacturing industry grew at this time faster than the FDI inflow in general and even outstripped the flow of investments in extractive industries, which have always been the main object of investing funds of foreign investors. If in 2005 investments in the manufacturing industry accounted for only 4.4% of the total annual FDI inflows, then since 2011 this indicator has not dropped below 10% and gradually increasing reached 25% in 2017.

¹² Gross inflow of foreign direct investment in the Republic of Kazakhstan from foreign direct investors by country / Statistics of direct investments in the direction of investment. National Bank of the Republic of Kazakhstan, an official website, <http://www.nationalbank.kz/?docid=680&switch=russian> (13.04.2018).

At the same time, the EAEU partners provided a significant part of this investment inflow into the manufacturing industry of Kazakhstan, the volume of FDI from both Russia and Belarus grew very intensively since 2010 and at rates that significantly outstripped the dynamics of the total FDI inflow (Table 1). Even given the fact that this inflow turned out to be abnormally low in 2015 due to the crisis in the commodity markets and the limited investment opportunities of the EAEU countries.

Table 1. Gross inflow of foreign direct investment in Kazakhstan in 2005–2017 from the countries of the Customs Union and the EAEU in comparison with the total volume of FDI, \$ million¹³

	Belarus	Russia	Total FDI
2005	1.3	226.8	7,916
2006	0.0	541.1	12,066
2007	4.7	827.6	19,418
2008	14.4	965.6	21,301
2009	27.0	663.6	21,437
2010	41.7	951.6	22,246
2011	85.8	1,000.1	26,467
2012	122.5	1,069.5	28,885
2013	165.0	1,299.2	24,098
2014	202.0	1,580.1	23,726
2015	79.5	527.7	14,752
2016	63.5	867.4	20,949
2017	81.4	1,230.8	20,765
2017/2005, times	62.6	5.4	2.6

In this regard, it can be noted that the investments of the key EAEU partner – Russia – unlike most other countries of the world are directed mainly to the manufacturing industry, i.e. to the priority type of activity for Kazakhstan, the development of which the national economy needs greatly. About a quarter

¹³ *ibid.*

of all Russian investments go to the manufacturing industry, and Russia takes the second place in terms of the volume of investments in this type of activity, while it occupies the sixth position in the total volume of investments in the Kazakhstan economy (Table 2).

Table 2. Country structure of foreign investment in Kazakhstan and investment in the manufacturing industry as of January 1, 2018¹⁴

	All investments	Investments in processing industry
Netherlands	72,459	6,740
USA	30,379	NA
UK	28,258	673
China	15,841	1,984
France	13,943	NA
Russian Federation	11,776	2,768
Japan	6,791	295
Hong-Kong (Xianggang)	4,928	697
Switzerland	4,249	2,578

The accelerated growth of Russian and Belarusian investments in the manufacturing industry of Kazakhstan occurred during the creation and existence of the Customs Union, the CES, and the EAEU and was obviously the result of this integration project. Currently (as of January 1, 2018), foreign investments in the Kazakhstan manufacturing industry have reached \$18,579 million,¹⁵ and Russia's share is 14.9%, making a significant contribution to modernize and diversify the economy. The expansion of foreign investment in the non-primary sector with a focus on the common EAEU market is characteristic not only for Kazakhstan and extends not only to investments from partner countries in the union, but also to investors from other states. At the Doing Business with the Eurasian Economic Union conference, American experts

¹⁴ External obligations of residents of Kazakhstan to 10 countries – large investors by type of economic activity / International Investment Position. National Bank of the Republic of Kazakhstan, an official website, <http://www.nationalbank.kz/?docid=679&switch=russian> (14.04.2018).

¹⁵ International Investment Position (IIP) of Kazakhstan by type of economic activity of residents / International Investment Position. National Bank of the Republic of Kazakhstan, an official website, <http://www.nationalbank.kz/?docid=679&switch=russian> (29.11.2016).

noted the attractiveness of Belarus also in the context of its membership in the EAEU: "American investors who look at projects in Belarus look at the entire Eurasian market," told David Baron, the Head of Belarus-US Business Council, RIA Novosti.¹⁶

Thus, the EAEU establishment has already brought positive results in terms of enhancing the investment process in the non-primary sector, and this direction can be considered as one of the most promising areas for further participation of Kazakhstan in the union. Other such areas, where the EAEU membership will be the key driver, include the following:

- Attracting strategic foreign investors to the country and creating large-scale high-tech industries focused on the EAEU common market,
- The growth of non-primary exports to the EAEU countries and the reduction on this basis of the economy's dependence on the volatility of world commodity markets,
- Reducing vulnerability to external shocks and increasing the ability to counter crises by strengthening the anti-crisis institutions of the EAEU and other supranational structures of the union,
- The access to the EAEU common markets of services, labor, and capital both for Kazakhstan suppliers of goods and services, and for consumers of relevant products, as well as for workers,
- Improving the quality and prices of goods and services offered on the domestic market of Kazakhstan by increasing competition with suppliers from the EAEU countries,
- Further intensification of trade and its positive impact on economic growth,
- The possibility of coordinated actions of the EAEU countries in the markets of third countries and in the world market in general, in order to increase the efficiency of foreign economic activity.

The membership of Kazakhstan in the EAEU carries not only positive prospects, but also certain risks, which were considered in general terms above for supranational level. In my opinion, the specific risks that may appear at the level of separate economy can include the following:

¹⁶ Experts: US investors go to Belarus with an eye on the Russian and EAEC market. RIA Novosti, 11/30/2016, <https://ria.ru/economy/20161130/1482465154.html> (06.12.2016).

- The loss of position by Kazakhstani business in the domestic market under pressure of competitors from other EAEU countries that have the best financial and technological capabilities,
- Skilled labor resources drain to the EAEU countries with better working conditions within the framework of the general labor market,
- A decrease in the share of Kazakhstan financial institutions and the excessive dependence of the financial sector on large Russian banks after the formation of the common financial market of the EAEU,
- The limitation of opportunities and tools for economic regulation in the case of a greater concentration of regulatory functions at the supranational level as integration in the EAEU intensifies.

The indicated risks are real, but at the same time, the degree of their implementation will depend on the specifics of filling the EAEU development process, as well as on how successfully Kazakhstan will defend its positions in the Union's governing bodies. In my opinion, the first years of the Eurasian integration demonstrate that many fears expressed at its launch were exaggerated, and the actual risks turned out to be quite moderate. In addition to risks, the EAEU membership also carries the possibility to resolve them within the framework of a consensus decision-making mechanism, developing mutually acceptable methods to overcome the differences of the parties, which would not have existed without the existence of supranational bodies of the union. Therefore, in my opinion, the balance of the pros and cons of the EAEU membership is developing positively, and the prospects for both the development of the union as a whole and Kazakhstan's membership in it appear favourable and will contribute to the modernization and development of the national economy.

Economic Relations of Kazakhstan and Germany: Status and Prospects

Dr. Yerbulat Seilekhanov

Rapid changes in the world cause not only new challenges, but also new chances and directions of economic cooperation. Largely, this can also be attributed to relations between Kazakhstan and Germany.

Currently, Germany is one of the leading trade partners of Kazakhstan among European countries. According to the National Bank of the Republic of Kazakhstan, the volume of bilateral trade in 2016 amounted to €3 billion 986 million, in 2017 it grew to €4 billion 856 million, i.e. more than by 20%. Specialists attribute the growth in trade volumes to the stabilization of the tenge and the growth in world oil prices, which gave Kazakhstan the chance to restore trade positions, which were shaken significantly in 2014–2015.

The main articles of Kazakhstan's exports to Germany are traditionally raw materials and metals. Oil accounts for 91% of total exports, the remainder comprise ferrous metals (2.4%), inorganic chemicals (2.2%), non-ferrous metals (1.7%), fish (0.7%), oil and vegetable crops (0.6%), etc.

Industrial products generally represent imports from Germany to Kazakhstan, where engineering products (49%) and pharmaceutical products (9.4%) occupy a leading place. In addition, Germany supplied vehicles, industrial plants, chemical products, plastic and steel products.

Investment cooperation is one of the important directions in the development of economic relations with Germany. According to the National Bank of the Republic of Kazakhstan, from January 2005 to January 2018, the gross inflow of direct investments from Germany to Kazakhstan amounted to \$4.231 billion (345.5 million in 2017, 249.8 million in 2016, and 319 million in 2015). At the same time, more than 90% of German investments in the economy of Kazakhstan are in the non-primary sector, in particular in the processing industry, the chemical industry, the production of building materials, the transportation, and the agribusiness complex.

In Kazakhstan, more than 1,450 economic structures with the participation of German capital are registered, including joint ventures, representative offices of German companies, and banks. More than 900 German enterprises actively

operate. Cooperation is carried out in the field of manufacturing, construction, transport, and communications, agriculture, services, and other sectors of the economy. Such well-known German concerns as Daimler, Volkswagen, MAN, Siemens, Bayer, BASF, Heidelberg Cement, Knauf, RWE, Bosch, METRO, etc. are represented in Kazakhstan.

Cooperation is developing dynamically in the field of transport logistics, where, thanks to the Chinese initiative of the New Silk Road (One Belt, One Road), the growth of container transportation from China to Europe via Kazakhstan is observed in the geometric progression.

It should not go without mention, the results of the official visit of the Federal President of Germany Frank-Walter Steinmeier to Astana on July 12, 2017, during which the parties signed a package of bilateral investment documents (21 projects) worth about \$1 billion in industries such as tourism, transport, energy, engineering, renewable energy, retail, and agriculture.

All this is evidence of the growing economic ties between Kazakhstan and Germany, which consider each other as key strategic partners in the regions of their location.

At the same time, an analysis of the prospects for trade and economic cooperation between two countries shows the presence of significant untapped potential that could be implemented successfully in the interests of Kazakhstan and Germany. What is this about?

Both countries have advantages that are still not fully utilized. In particular, Kazakhstan has a very favorable geoeconomic position in terms of mainland trade. The immediate neighbors of our country are China (1.5 billion people), Russia (147 million people), Central Asia (52 million people), from the Caspian Sea side – Azerbaijan (10 million people), and Iran (82 million people).

At the same time, Kazakhstan with 18 million inhabitants has an extensive railway and automobile network, as well as seaports in the Caspian Sea that connect us with these countries. From the perspective of transport logistics, this means that Kazakhstan is the most convenient place to organize hubs here with large storage capacities, which can reduce the distance and time for delivering goods to regional customers.

For the same reason, plus due to the relatively low cost of local labour, localization of production in Kazakhstan may be beneficial. If we add to this the presence of more than 5 thousand explored mineral deposits in the country amounting to more than \$46 trillion (according to estimates in 2005), over 220 million ha of agricultural land (of which about 30 million ha were free for use in 2017), a favorable investment climate and legal stability of investment legislation, as well as the international integration of Kazakhstan within the framework of the Eurasian Economic Union and the Shanghai Cooperation Organization, we have to admit that economic prospects of Kazakhstan can be quite impressive.

Undoubtedly, much of the above is known to German partners and partly already in use, because our country accounts for almost 82% of Germany's total trade turnover with Central Asia, amounting to approximately \$6 billion. However, if we take into account Germany's total export volume, which amounted to about \$1.3 trillion (!) last year, it becomes obvious that there are still reserves for the development of trade in our region and in the neighboring environment. Moreover, the domestic markets of most Central Asian countries are still far from full-fledged commodity saturation.

In this regard, the "discovery of Uzbekistan" is a very intriguing factor, which can become a driver of both reformatting the entire range of trade and economic relations in the region, and strengthening external (among other, investment) interest in Central Asia. For many foreign economic players, Uzbekistan both itself and even more in conjunction with Kazakhstan represents a very profitable area of capital investment. This country, which is rich in natural resources (gas and gold), has numerous hardworking people, the industry and the agriculture are well developed. Recently signed package of loan agreements between Tashkent and the EBRD for a total of about €1 billion indicates serious external interest in Uzbekistan.

Kazakhstan is also very interested in attracting foreign advanced technologies and management, which is reflected both in the investment legislation of the Republic of Kazakhstan and in the Agreement on Partnership in the Raw Material, Industrial, and Technological Spheres concluded with the Federal Republic of Germany in 2012. Our country strives to become a powerful industrial state with developed agriculture and a well-organized transport and logistics infrastructure. Therefore, the principle of "raw materials in exchange for technology" at the current stage is dominant in Kazakhstan's

foreign economic policy. In this regard, Germany, which has a unique range of highly competitive industries, certainly has something to offer Kazakhstan.

Astana considers the key areas of cooperation with Germany to be projects in the field of industrial development, chemical industry, energy and energy efficiency, construction, agriculture, and transport and transit sector. In addition, it is planned to strengthen cooperation to implement the Digital Kazakhstan State Program using the German platform Industry 4.0. Our country would welcome the participation of German business circles in the “second wave” of the privatization expected for the coming years.

The respective ministries and departments of two countries – the Kazakhstan-German Business Council, Kazinvest JSC, and the Eastern Committee of the German Economy – provide institutional support for the economic cooperation between Kazakhstan and Germany. At the same time, a number of niches remain within the framework of bilateral trade and economic relations, their completion would contribute to more complete and mutually beneficial satisfaction of the interests of our countries. In addition, for the successful development of cooperation, it seems necessary to urgently solve problems that impede the promotion of effective partnerships and confidence in the implementation of business projects of the business community of Kazakhstan and Germany (in particular, the settlement of issues related to German companies Oiler Hermes and G. Pappenburg).

First, I would like to draw attention to the advisability to introduce changes and additions to the cooperation paradigm. Without canceling the importance of the so-called “anchor investors” in the operational interaction of two economies, in my opinion, in modern conditions, it would be efficient to shift the center of gravity of cooperation to horizontal ties between medium and small enterprises. This would allow more flexible response to consumer demand, which changes from year to year at very dynamic pace, and, therefore, to ensure overall stability of trade volumes and investment partnerships between our countries. An important circumstance is also the fact that this format of cooperation is more in tune with the task of ensuring employment, since SME is the main supplier of labor vacancies to the labor market. This is very topical, since the transition to a new technological structure, based on the large-scale use of the successes of robotics and digitization (leading to job cuts accordingly), already puts efficient employment in the category of leading social problems in the near future.

The Minister of Labor and Social Affairs of Germany Hubertus Heil noted in the newspaper *Frankfurter Allgemeine Zeitung* (08/06/2018) that, according to German experts, automation will affect every fourth employee in Germany by 2030. Therefore, lifelong education should become an integral part of every profession to be ready for future changes in the labor market – 4.0. According to the German Minister, primarily the employer should be responsible for necessary qualifications of employees, and the government must create the necessary legal framework for this. We believe that Kazakhstan also needs to concern itself with such issues not to find itself on the economic curb. Therefore, training and lifelong education system for Industry 4.0 can be another field for expanding cooperation between Astana and Berlin.

From my experience in Germany, I know how it is difficult to establish connections at the international level precisely between small and medium enterprises. First, the lack of information about each other, the needs of one and the capabilities of other affect the process. There is also the problem of efficiency, since government agencies and central bodies of economic cooperation are aimed at priority issues of large companies for obvious reasons. In this regard, the demand to establish new cooperation platforms intended to develop economic cooperation through SMEs is obvious. As one of the possible solutions, it would be possible to propose to create an electronic catalog of enterprises with their type of activity, a brief description of production capacities, areas of cooperation, and legal details of interest. This would allow “getting acquainted” with their potential partners in the beginning to proceed to discuss cooperation issues. The second step could be the creation of an electronic “project exchange”, the site of which would propose specific projects (ideas) potential investors may be interested in. The creation of such platforms looks more rational in the regional context, because small and medium enterprises do not need centralization and cumbersome bureaucracy due to their specifics. The Chamber of Commerce and Industry of the Republic of Kazakhstan and the corresponding structures (associations of entrepreneurs) of Germany patronize and represent their interests.

It is worth noting here that, as a rule, SMEs do not have free working capital for investments abroad. Therefore, the banking sector, which provides loans for projects in this segment of the economy, should become necessary element of the SME cooperation system. In this direction, a promising platform

for activities could be the Astana International Financial Center, which opened on July 4 this year.

As you know, the AIFC has a number of advantages, thanks to which very attractive business climate has been created here. In addition to exclusive jurisdiction based on English law, tax benefits, free recruitment of foreign labor, non-cash payment options, the AIFC is characterized by the novelty of the securities market, including the issue of shares by new enterprises, and therefore has the opportunity to attract investment in the small and medium business as well. According to The AIFC Governor K. Kelimbetov, it is planned to register up to 500 companies on the Astana Stock Exchange (55 at the opening) by 2020. "We cooperate with all multilateral financial institutions, such as the World Bank, the IMF, the EBRD, the ADB, the Asian Infrastructure Investment Bank, and the New Development Bank of the SCO countries. All of them are AIFC strategic partners," he said.

An essential step to promote loan support schemes would be the speedy settlement of the issue on the German insurance company "Euler Hermes", which would allow renewing the credit line for Kazakhstan.¹

In my opinion, Kazakhstan's omission is weak interest in the opportunities of German *senior official* – older people who retired from senior positions. In fact, this is a "golden" reserve of intellectual and professional experience, its involvement in new business can enrich enormously all areas of production (and not only!) activities in Kazakhstan. They are well versed in the specifics of their industry, they know the German market (what is in demand that German companies can offer: services, goods, technologies) and have good networking, which is important in any country in the world. I am convinced that when organizing appropriate programs and creating favorable conditions for work and living in Kazakhstan, there will be those who wish to extend their life activity. At the same time, it is necessary to look into the future of relations between Kazakhstan and Germany. This means that the cooperation should also actively involve the youth of both countries. I believe that the International Center for IT Startups could provide good chances for this, but it would be even better if various technology parks, research laboratories, and universities in Kazakhstan joined the youth exchange.

¹ See P. 17, Footnote 23.

Incidentally, now only about 300 Kazakhstan students and undergraduates study in different specialties in Germany. Meanwhile, engineering education in Germany is considered one of the best in the world, and education in German is almost free of charge!

Given the needs of Kazakhstan in engineering personnel, I believe that with the strengthening of cooperation in the field of education, the number of Kazakhstan youth studying in Germany could increase by an order of magnitude, as well as the number of young specialists invited from Germany, if appropriate platforms are established for this purpose.

An important moment in the development of youth contacts, including in the economy, could be an increased involvement of representatives of the resettlement corps who moved from Kazakhstan to Germany (1 million people). Many of them still retain knowledge of the Russian language, they are familiar with the Kazakh mentality, which greatly facilitates the process of communication with the local population. In this regard, the German Youth Union, created under the auspices of the 'Vozrozhdeniye' (translator's note – Renaissance / Wiedergeburt) Kazakhstani society of Germans, can play a positive role in the development of bilateral contacts. The simplified procedure for obtaining German visas by citizens of Kazakhstan and long-term Kazakhstan visas by citizens of Germany would significantly facilitate the situation in the field of youth exchanges.²

It seems that primarily innovative people could be interested to implement projects in Kazakhstan, who seeks to put in force some kind of business idea in conditions of competitive "virgin lands". Projects in the field of the latest high technologies, such as 3D printing, online advertising, computer networks, and communications or in areas that are not yet represented (under-represented) in the line of sectorial occupations may be particularly attractive.

Definitely, large companies engaged in the field of transport and agricultural engineering, production of machine tools and equipment, chemical industry, energy and communications, processing of agricultural products also have room for activity... Simply stated, everything is in demand in Kazakhstan that can be used for processing and supply to the world markets of huge reserves of raw materials that our country is rich in.

² Currently, Kazakhstan has a visa-free regime for citizens of Germany for up to 30 days.

It is worth noting that in this regard, the good news for investors is the Convention on the Legal Status of the Caspian Sea was signed on August 12 at the summit of the “Caspian Five” in the city of Aktau, Kazakhstan. It took 26 years to prepare this document, during which five Summits of the Heads of the Caspian Littoral States and 52 meetings of working groups took place. Specialists note that the agreement is the main document that regulates from 60 to 70% of all issues relating to the Caspian Sea. This is enough to start exploring resources, attracting investments, and start using the resources of the Caspian Sea. Oil reserves in the region are estimated at 50 billion barrels of crude oil, natural gas reserves – 300 trillion cubic feet.³

This aspect continues to be the subject of further negotiations. The division of sea-bed is economically important for the use of large amounts of oil and gas stored under the Caspian Sea, influencing the direction of the pipelines proposed for construction.

Reuters points out that in the absence of an agreement on the division of the subsoil of the Caspian Sea, the question of developing oil and gas fields remains open. Reuters cites the opinion of expert Ashley Sherman of Wood Mackenzie, a consulting firm, that a significant increase in oil production due to new fields is not expected, since they are much smaller than the already explored giant fields. Therefore, the signing of the Convention as such is a milestone event for the region.

In turn, Kazakhstan, as a leading supplier of oil to Germany, makes a great contribution to the energy security of Europe. There are intentions to increase the contribution to ensure the energy needs of Germany in the context of large-scale investments and the introduction of advanced German technologies, primarily in the field of energy saving and alternative energy.

Germany has developed transport infrastructure in its ports in the Baltic and North Seas. Germany is actively involved in the container transportation by rail from China to Europe through our country and has great opportunities and innovations in the international transport and logistics.

³ According to British Petroleum (2014), the proven oil reserves of the five riparian states amount to about 30 billion tons or 19% of the worldwide proven oil reserves. Proven natural gas reserves are estimated at 145 trillion cubic metres or 45% of the world's proven natural gas reserves. Up to 75% of the volume of oil and 67% of gas is contained in offshore fields located within 160 kilometres of the coastline.

The Factor of One Belt, One Road Strategy in China's Policy towards Kazakhstan

Adil Kaukenov

The implementation of the Chinese One Belt, One Road Strategy started from the Silk Road Economic Belt Project, first voiced by the President Xi Jinping in September 2013 during a public speech at Nazarbayev University (Astana, Kazakhstan). Undoubtedly, this event was not an accident, but happened as a result of the political, economic, and historical preconditions at that time.

History of the Announcement

It should be noted that in the 2010s, Kazakhstan and China appeared in a new quality for themselves. China became a strong economic power with huge gold and foreign exchange reserves, investment potential, and rapidly growing rich population. Kazakhstan became the leading economy in Central Asia and the second state in the post-Soviet space after the Russian Federation. Over 20 years of cooperation, the economic interaction between Kazakhstan and China has undergone a major qualitative change. Commodity turnover between the states, which amounted to \$104 million in 1992, was expressed in the amount of \$20.4 billion in 2010. Over 20 years of diplomatic relations, China's investments in Kazakhstan rose to \$19 billion.

The main commodity groups in mutual trade have settled down by this period. The main articles of Kazakhstan's exports to China are the commodities: rolled ferrous and non-ferrous metals, scrap metal, oil, as well as leather, cotton, wool. Kazakhstan imports finished products from China, primarily, consumer goods, machinery, electrical equipment, transport engineering products, etc.¹

Deliveries of Chinese consumer goods have played and still continue to play a key role in saturating the consumer market in Kazakhstan. Initially, this was related to the fact that due to the collapse of the USSR, the processing industries of the Republic of Kazakhstan (and other post-Soviet countries – traditional trade partners of the country) practically ceased to function, and for this reason, Chinese products were in great demand in the Kazakhstan market. In

¹ Syroyezhkin, K. L.: Kazakhstan-China: From Cross-border Trade to Strategic Partnership, Almaty, 2010. P. 48.

addition, Kazakhstan began to receive additional income from the re-export of Chinese goods to neighboring countries, primarily, Uzbekistan and Russia.

Financial cooperation also strengthened. It became possible to exchange yuan in any city of Kazakhstan, and the Chinese payment system China Union Pay was spread throughout the country by 2010. Now, holders of China Union Pay cards can safely make purchases in most shopping centers in Kazakhstan, which is unprecedented for many CIS countries.

However, the integration associations in the post-Soviet space have become a new factor influencing Kazakh-Chinese economic cooperation. In 2011, the Customs Union was launched, which included Kazakhstan, Russia, and Belarus, and since 2015, it has completely transformed into the Eurasian Economic Union. The new union increased customs rates at the borders on the one hand, and united the economic space of Kazakhstan, Russia, and Belarus on the other hand.

This formed a new economic reality. On the one hand, high duties made the supply of Chinese goods less profitable, and on the other hand, prices for Chinese goods increased due to the salary growth in China. As a result, Belarusian, Russian, and Kazakhstan goods became cheaper than their Chinese counterparts, which forced China to seek new ways of cooperation.²

The “fifth generation” of Chinese leaders, headed by Chairman Xi Jinping, who took the reins of power in 2012, understood the need to respond adequately to new economic and political realities in one of regions, which is important to Chinese interests.

The key event was the arrival of Chairman Xi Jinping to Kazakhstan in September 2013, who chose the Central Asian region for one of his first foreign trips. Actually, it was during this visit that the Chinese leader announced a new strategy the Silk Road Economic Belt, which was a start for a new leap in deepening economic relations.

² 王志远. 从欧亚联盟看中亚国家的区域正整合. (Wang Zhiyuan. A Look at the Regional Integration of Central Asian States from the Eurasian Union perspective). - /中亚国家发展报告. 2013 /主编: 孙力, 吴宏伟 (Report of Central Asian Countries Development. 2013. /Edited by Sun Li, Wu Hongwei). - 北京.

The total amount of signed contracts during this visit of Xi Jinping amounted to about \$30 billion.³ The main deal was the entry of CNPC to the most promising oil production project in Kazakhstan – the Kashagan field. The Chinese company got the share of the American ConocoPhillips that left the project: they paid \$5 billion for 8.4%, bypassing the Indian ONGC in the competition (Exxon Mobil, Royal Dutch Shell, Eni, Total, KazMunaiGas, and Japanese Inpex also participate in the consortium). CNPC also lent \$3 billion to KazMunaiGas to develop the second phase of Kashagan.

Thus, the foundation was laid in the development of relations between Kazakhstan and China in the paradigm of the One Belt, One Road.

Content of the One Belt, One Road Strategy

In his keynote speech on the Silk Road Economic Belt, Xi Jinping noted the need to “apply new models of cooperation”, “jointly form the “economic strip” of the Great Silk Road. He offered five specific measures to ensure movement in this direction.⁴

Firstly, it is a constant exchange of views on various issues of the economic development strategy to develop measures and programs for economic integration. The main task is to “open a green signal” at the political and legal levels to merge regional economies.

Secondly, construction of a unified transport infrastructure from the Pacific Ocean to the Baltic Sea. China is ready to take part in the creation of a transnational transport infrastructure, form a transport network covering East, West, and South Asia.

Thirdly, strengthening of trade relations eliminating various barriers, increasing the speed of delivery of goods, and creating an appropriate logistics system.

Fourthly, strengthening of foreign exchange flows. Xi Jinping recalled that China is successfully trading with a number of countries (including Russia),

³ Interview with Ambassador Le Yucheng “Kazakhstan – China: Strategic Partnership” / *Kazhastanskaya Pravda*, September 17, 2013 <http://www.kazpravda.kz/news/politika/kazakhstan-kitai-strategicheskoe-partnerstvo/> (20.10.2016).

⁴ 习近平. 弘扬人民友谊共创美好未来(Xi Jinping. To Develop Friendship between Nations, to Create Jointly Beautiful Future. Lecture at Nazarbayev University, November 3, 2013). / *People's Daily*, September 8, 2013.

paying not in dollars, but in national currency. It was proposed to use this practice with Kazakhstan, which “will reduce cash costs, protect the financial system against risks, and also increase the international competitiveness of the economy.”

Fifthly, it is a strengthening of humanitarian and cultural exchange. Since personnel are required to develop relations, China offered about 25,000 educational grants for students and teachers from Central Asia. Naturally, the major part of these grants was allocated to Kazakhstan.

From an economic point of view, the infrastructure component of the One Belt, One Road Program is represented by several routes from the western regions of the PRC towards key centers of economic activity in Europe and South Asia, ranging in length from 8.5 to 11 thousand km. It is assumed that the Northern route will pass through the territory of Kazakhstan and the Trans-Siberian Railway. Maritime routes involve the Kazakh port of Aktau, as well as the ports of the Caspian Sea (Makhachkala, Baku), providing access to the Caucasian region, Turkey, and the Black Sea basin. Southern routes pass through the territory of Kyrgyzstan, Uzbekistan, Turkmenistan, and Iran, providing access to the Indian Ocean in the Persian Gulf.⁵

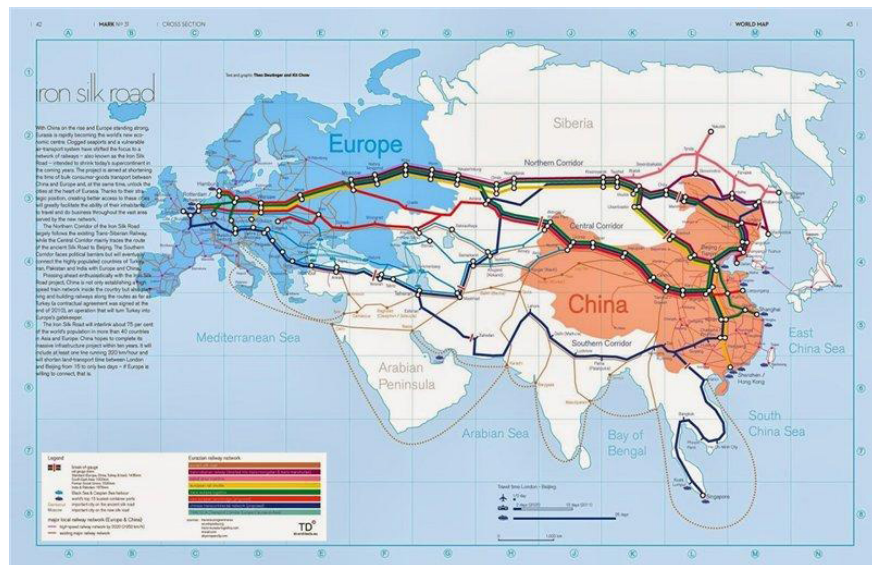
One Belt, One Road lays the foundation to ensure the accelerated development of the western regions of China by transferring productions there from the coastal regions, as well as developing related industries and services (logistics centers, terminals) both in the PRC and Central Asian countries.

One Belt, One Road is not just a transit and transport project, it is a comprehensive economic development plan for a number of states, which includes numerous projects for the development of infrastructure, industry, trade, and services, and will ensure a stable and safe environment for the development of not only Western areas of China, but also the entire center of Eurasia, fully unleashing its potential.⁶

⁵ 丝绸之路经济带发展报告. 2014. (Silk Road Economic Belt Development Report).

⁶ 丝绸之路经济带发展报告. 2014. /主编: 马莉莉, 任保平. (Report on the Silk Road Economic Belt Development. Edited by Ma Lily, Ren Baoping). - 北京: 中国经济出版社, 2014, 9. - P. 3, 67-69.

Figure 1. Iron Silk Road



In fact, Kazakhstan has included One Belt, One Road strategy in its economic development program. In particular, the new economic policy Nuryly Zhol announced by Nursultan Nazarbayev, the President of the Republic of Kazakhstan, in November 2014, is largely synchronized and based on plans for the development of the Silk Road Economic Belt.

As Nursultan Nazarbayev noted during his state visit to Beijing, “Since December 2014, we have been working to expand the horizons of cooperation in the field of industrialization and investment. In particular, 48 investment projects totaling more than \$30 billion were selected and a Memorandum on Industrialization and Investment Cooperation was signed between Kazakhstan and China.” Moreover, Kazakhstan announced its readiness to invest about \$4 billion in infrastructure development on its territory.

To create and effectively operate such an international corridor, regulatory framework requires to be improved. In particular, the work has already started with the domestic legislation of Kazakhstan on amendments and additions to the Civil Code, Budget Code, Tax Code, and Laws “On Transport in Kazakhstan”, “On Natural Monopolies and Regulated Markets”, “On Rail Transport”,

“On Roads”, “On Merchant Shipping”, “On Road Transport”, “On Inland Water Transport”, “On the Use of Kazakhstan’s Airspace and Aviation Activities” and others, which are contained in the Law “On Amendments and Additions in Certain Legislative Acts of the Republic of Kazakhstan on the Development of Road and Transport Infrastructure, Transport Logistics, and Air Transportation.”

A number of advantages of this strategy are noted, among which are:

a) The advantage of the development concept. It is understood that unlike Russian and American geopolitical projects, Chinese one is open to a large number of countries and brings significant benefits,

b) Geographical advantage, since Kazakhstan itself, due to its proximity, needs to develop transport and logistics infrastructure,

c) The advantage of traditions, since the Silk Road, due to historical analogies, is perceived positively by Kazakhstani people, despite the Sinophobic attitude encountered in the media,

d) The assistance from the countries of Transcaucasia that hope that China’s strategy in Central Asia can be implemented in the Caucasus. First, expectations on the “maritime branch” of the Silk Road Economic Belt through the port of Aktau are meant, to which good infrastructure has already been connected, and active construction of branches is underway to expand opportunities.

Baku is the next point of the “maritime branch” which should go to Tbilisi and then to Turkish Kars. There is a hitch in this direction. Largely, the August 2008 war influenced this. In addition, the Georgian press expresses dissatisfaction with the construction by prominent representatives of the elite. It is believed that the new road is beneficial primarily to Azerbaijan, as it will allow creating a promising route without the participation of Armenia. At the same time, Georgia not only provided its territory, but also took a big loan.

As the construction of this path is rather close to the final, Caucasian countries play a serious game to be included in the circle of Chinese economic opportunities and push their own political interests, which are traditionally controversial in the Caucasus.

e) Financial advantage, due to which China will be able to participate actively in transport projects, investing, thereby securing its share in the ownership.

In fact, it is not even the availability of finance is so important here, but the situation where Kazakhstan will depend on new financing flows repeatedly.

To date, a roadmap has been formed to expand the cooperation between Kazakhstan and China virtually in all areas of the economy, and a joint working group has been established to interface the Silk Road Economic Belt Project and Nurlı Zhol.

In addition, active work is underway to link the One Belt, One Road and the Eurasian Economic Union, which started after the signing of the "Joint Statement dated May 8, 2015 on Cooperation to Connect the Construction of the Eurasian Economic Union (EAEU) and the Silk Road Economic Belt Project."⁷ According to this document, the most interfacing priority areas are:

- To expand the trade and investment interaction.
- To implement large joint investment projects.
- To create jointly industrial parks, cross-border zones of economic cooperation.
- To strengthen the interconnection in logistics, transport infrastructure, and multimodal transports.
- To consider the long-term goal of moving towards a free trade zone between the EAEU and China.
- To contribute to increasing settlements in national currencies in the areas of trade, direct investment, and lending, create currency swaps, deepen the cooperation in the field of export lending, insurance, project and trade financing, bank cards.
- to strengthen the cooperation among various financial institutions, including mechanisms such as the Silk Road Fund, the Asian Infrastructure Investment Bank, and the SCO Interbank Consortium.

Interfacing the EAEU and the Silk Road Economic Belt should result in the simplified trade and better protection of mutual investments between the EAEU Member-States and the PRC. It is about facilitating trade procedures when transporting goods across the border, eliminating regulatory barriers, and collaborating in high-tech sectors such as information technology, medical and educational services, electronic commerce, and energy efficiency. However, the legal framework in these areas has yet to be developed.

⁷ Joint Statement of the Russian Federation and the People's Republic of China on Cooperation to Interface the Construction of the Eurasian Economic Union and the Silk Road Economic Belt.

Silk Road Projects

Given numerous statements and Memoranda⁸ of Intent, the One Belt, One Road Project implemented in Eurasia shall result in the following:

1. An established logistics infrastructure for the transportation of Caspian energy resources to one of the largest consumers – China and entire Asia-Pacific Region.
2. A transport corridor to export Chinese goods to Europe.
3. A land bridge with Iran, one of China's major energy partners, to diversify energy routes.
4. A diversification of land routes to Europe.

Therefore, a number of projects of special importance can be distinguished in the New Silk Road Program.

Lianyungang-Duisburg International Railway Corridor

This major project, from the Kazakhstan terminal in the Chinese port of Lianyungang to the German city of Duisburg, was launched in 2015.⁹ Passing through all China, the train connects to the Kazakhstan railway at the Alashankou station (XUAR of the PRC), and then through the territories of Kazakhstan, Russia, Belarus, and Poland it is connected with the German Duisburg.

The total travel time for the new route is about 16 days, which suggests that this route is more competitive than the historically famous Chinese Eastern Railway (CER), since it is 1,000 kilometers shorter.

It is planned that the logistics terminal in the port of Lianyungang will handle about 500 thousand containers by 2020.¹⁰ Since 2016, it was planned to form

⁸ 推动共建丝绸之路经济带和21世纪海上丝绸之路的愿景与行动. (Vision of Prospects and Actions to Promote the Joint Construction of the Silk Road Economic Belt and the Sea Silk Road of the 21st century). / Xinhua News Agency, March 28, 2015. – <http://news.xinhuanet.com/> (20.10.2016).

⁹ K. Masimov Launched the Dispatch of the First Container Train on the Lianyungang – Duisburg route, http://bnews.kz/ru/news/ekonomika_i_biznes/transport/kmasimov_dal_start_otpravke_pervogo_konteinernogo_poezda_po_marshrutu_lyanungan__duisburg-2015_12_14-1219083 (25.10.2016).

¹⁰ By the End of 2015, the Volume of Transit Traffic through the Port of Lianyungang Will Reach 250 Thousand Containers, <http://strategy2050.kz/ru/news/20535/> (18.07.2017).

three container trains per week increasing up to five per week. By 2020, container train arrangement in the direction of Kazakhstan and in transit to Europe, the countries of Central Asia, and the Caucasus, the Kazakh railway company KTZ (Kazakhstan Temir Zholy) forecasts to reach the figure of 1,827 container trains.

Now, the Lianyungang terminal, the Khorgos-Eastern Gate Free Economic Zone, and the port of Aktau form a new set system of logistics for cargo flows through Kazakhstan and all of Central Asia.

China – Western Europe Transcontinental Highway

According to experts, the road from the port of Lianyungang on the east coast of China to St. Petersburg and the borders with European countries will take about ten days (it takes 45 days using the sea corridor through the Suez Canal and 14 days by the Russian Trans-Siberian Railway). It was planned to be launched in 2017. The total length of the transcontinental corridor along the route St. Petersburg – Moscow – Nizhny Novgorod – Kazan – Orenburg – Aktobe – Kyzylorda – Shymkent – Taraz – Kordai – Almaty – Khorgos – Urumqi – Lanzhou – Zhengzhou – Lianyungang will be 8,445 km (the total length of the Russian part is 2,233 km, Kazakhstan – 2, 787 km, Chinese – 3,425 km). The highway is supposed to be equipped with the most modern equipment, including an intelligent system, and a number of logistics centers.

Beijing-London Railway

According to the plan, the high-speed line starts in Beijing, passes through all of China to Khorgos, then from the relatively recently commissioned branch in Kazakhstan to Khorgos-Zhetygen, it should go to the Zhezkazgan-Beineu branch which is under construction (it should be noted that Beineu is an important point for many promising routes), and further to the port of Aktau. The Chinese part has already been implemented. The Kazakhstani part is rapidly finishing and it should be noted that the leadership of Kazakhstan assigns high priority to these infrastructure facilities.

The next point is Baku, from where the branch should go to Tbilisi, and then to Turkish Kars. There is a hitch in this direction. Largely, the August 2008 war influenced this. In addition, the Georgian press expresses dissatisfaction with the construction by prominent representatives of the elite. It is believed

that the new road is beneficial primarily to Azerbaijan, as it will allow creating a promising route without the participation of Armenia. At the same time, Georgia not only provided its territory, but also took a big loan.

Then the railway goes to Turkey. To promote this project, China will invest \$30 billion in the construction of a high-speed railway, which should connect the westernmost and easternmost provinces of Turkey, Kars – Edirne. The agreement was reached during the historic visit of Recep Erdogan to China. The project is expected to end in 2023. When it is finished, it will be possible to cross all of Turkey in eight hours instead of 36 hours. The access to the developed European railway network will be available already through the Marmaray railway tunnel.

China – Kyrgyzstan – Uzbekistan Railway

The China-Kyrgyzstan-Uzbekistan railway is a highway designed to connect the Chinese railways with Uzbekistan and then through Afghanistan go to Iran and the Middle East, on the one hand, and join the previously mentioned Turkish railway project with access to European railway network on the other hand.

During a tour of Central Asia, Xi Jinping, being in Tashkent and Bishkek, recalled the long-term plans of his country to get a railway from the East China port of Lianyungang to Europe and the Middle East. The Kashgar-Andijan railway construction project has been going on since late 1996, when the first meeting of representatives of China, Uzbekistan, and Kyrgyzstan on research and the preparation of a preliminary feasibility study was held in Tashkent. Despite years of discussion of the project, the interest of the Chinese side remains unchanged. The planned route will significantly reduce the time for transporting goods, but more importantly, in this project, China initially insisted and ensured that the road would have a European rail gage of 1,435 mm, while the Soviet standard common to all post-Soviet states is 1,520 mm.

However, the complicated political relations between Uzbekistan and Kyrgyzstan also affected essentially economic project through Chinese-Kyrgyz-Uzbek railway connection. Years passed before the parties managed to reach the approval of the railway route. From the very beginning, Tashkent defended the way through the Irkeshtam-road crossing point of the Chinese-Kyrgyz border. However, preference was given to another transport junction of the border between China and Kyrgyzstan – the Torugart checkpoint. Now, the project

line of the railway with a length of about 268 km is as follows: Kashgar (China) – Torugart – Arpa valley – Fergana ridge – Uzgen – Kara-Suu (Osh oblast) – Andijan.

Tashkent has its own interest in the Kashgar-Andijan road. For example, Uz-Daewoo automobile plant is located in Uzbek Asaka (Andijan region), and about 80% of components are supplied from South Korea. The Trans-Eurasian Railway via Lianyungang Port on the east coast of China will connect to the Korean port of Busan, in particular.

China – Kyrgyzstan – Tajikistan – Afghanistan – Iran Railway

Dushanbe proposed this project as it would be a chance to get out of the communication deadlock, given the difficult relationships and frequent transport and energy disputes with Tashkent.

Despite great skepticism about this project, Iran showed interest in it when the Iranian Ambassador to Kyrgyzstan, Manuchehri Murodi, said during an interview with AKI-press that it doesn't matter for Iran whether the railway passes through Kyrgyzstan or Tajikistan, "the main thing is that the road is connected with Iran." He said that Iran could invest in the Kyrgyz section of the railway.

In addition, the Trans-Afghan railway project can be attributed to this block, to which China could connect in case of a success. On March 20, 2013, following a tripartite summit in Ashgabat, President of Turkmenistan Gurbanguly Berdimuhamedov, President of Tajikistan Emomali Rahmon, and President of Afghanistan Hamid Karzai signed a Memorandum of Understanding between Turkmenistan, Afghanistan and Tajikistan on a project for the construction of a Trans-Afghan railway.

However, due to the difficult military and political situation in Afghanistan, which is exacerbated by the uncertainty in terms of developments after the withdrawal of part of the American military contingent, the success of transport projects through Afghanistan or Pakistan is rather doubtful.

Sea port of Aktau

The transport and logistics hub should be another significant element of the New Silk Road for Kazakhstan, which will be established with the national carrier Kazakhstan Temir Zholy. To do this, it is proposed to expand the seaport

of Aktau in the west of Kazakhstan and build a logistics center in Aktobe, and these facilities should become the western gate of Kazakhstan to access the Caspian region and Europe.

Iran and China supported these plans of Kazakhstan and expressed their interest in creating a regional transport corridor that would connect the commercial and industrial zone of the port of Anzeli in Iran with the port of Aktau in Kazakhstan, and that, in turn, with the Chinese Xinjiang.

China – Kazakhstan – Turkmenistan – Iran Railway

A successfully constructed transport corridor connecting China and the Persian Gulf countries through the territory of Kazakhstan via the new Uzen-Bolashak railway lines allowed to increase the volume of traffic in 2013 to 19.4 million tons, which is 2.8 million tons, or 18% higher compared 2012. It was planned that after the completion of the construction of the Turkmen-Iranian section in the second half of 2014, we will be able to transport more than 1 million tons of cargo through the border, and up to 15 million tons by 2020.

Free Trade Zone

To implement a large-scale transport strategy, Kazakhstan and China successfully use not only the bilateral, but also the multilateral format of international relations, actively applying the mechanisms of the Shanghai Cooperation Organization (SCO).

In particular, the SCO adopted the “Agreement between the Governments of the SCO Member States on Creating Favorable Conditions for International Road Transportation” largely for the development of this project. This Agreement should seriously stimulate the capabilities of the transcontinental highway, streamlining the legal side of many issues regarding the movement of vehicles between the Member States.

At the Sixth Meeting of Ministers of Transport of the Member States of the Shanghai Cooperation Organization held on November 15, 2013 in Tashkent, an agreement was reached to pay special attention to the accelerated development of transport infrastructure, in particular, through the implementation of projects for the construction and commissioning of railway transport facilities.

It should be noted that the “Program of Cooperation between the Government of the Republic of Kazakhstan and the Government of the People’s Republic of China in the Non-oil sectors of the Economy” (Astana, August 18, 2007) defines the framework for regional economic cooperation within the SCO. Thus, Article 4 says that to create a platform for regional economic cooperation, the parties will intensify the work of the Commission of senior officials, working groups on cooperation in the fields of customs, technical regulation and metrology, electronic commerce, investment promotion, development of transit potential, energy, information and telecommunications within the framework of the Meeting of Ministers of the SCO Member States responsible for trade and economic activities will strengthen the role of the SCO Interbank Consortium and the SCO Business Council.

Another aspect of cooperation in the SCO Program determines the creation of favorable conditions to launch regional network projects in the field of transport and telecommunications, which also has a beneficial effect on the development of the One Belt, One Road Project.

Now, a new task is being set – building the legal basis for a free trade zone between the Eurasian Economic Union and the Shanghai Cooperation Organization.

In November 2015, President of Kazakhstan Nursultan Nazarbayev proposed to create a free trade zone (FTZ) between the EAEU and the SCO. The Russian and Chinese sides also supported this project, so 2016 laid the foundation for practical work on the formation of the free trade zone of the EAEU and the SCO states in the future.

According to officials, the countries of the Eurasian Economic Union and the Shanghai Cooperation Organization will work on a special agreement to establish a continental economic partnership in the form of a free trade zone.¹¹ The Ministers of Economy of the SCO member states are already working on a roadmap for preparing an agreement.

According to preliminary estimates, the creation of a free trade zone can give an economic effect equal to about 20% of the total GDP of the EAEU. Now the total trade turnover between the SCO and the EAEU is less than \$150 billion a year, while it can potentially be more than \$600 billion. Thus, the forecast growth potential is four times. All this is extremely interesting for the

¹¹ The EAEU and The SCO: Formula of the Future, <http://oko-planet.su/politik/politikmir/313211-eaes-i-shos-slagaemye-buduschego.html> (01.11.2016).

EAEU countries and for the SCO, therefore, if this initiative really finds support among key members of both associations, then the first results are possible in the form of easing customs rules by the end of 2017.

Any reduction in trade barriers, a free trade zone will lead to lower transaction costs and will contribute to increased trade between the participating countries. This will lead to a slight acceleration in economic growth.

According to experts, the EAEU-SCO FTZ definitely carries risks to increase competition with Chinese producers, but at the same time, it will provide an opportunity to enter the huge Chinese market. Accordingly, producers of raw materials and foodstuffs clearly benefit from the FTZ. The FTZ clearly stimulates the arrival of Chinese investors, which is also a big plus.

Silk Road Investments

Infrastructure projects of the One Belt, One Road Program imply an active investment policy. Moreover, Kazakhstan manages to attract actively Chinese investment in its economy. Thus, the accumulated foreign direct investment (*FDI*) from China to the countries of the Eurasian Union in 2009–2013 increased from \$11.02 billion to \$24.67 billion. At the same time, 91.5% of the total amount (\$22.57 billion) accounts for Kazakhstan.

Additionally, China expressed its willingness to invest in the creation of a wide variety of industries within the framework of One Belt, One Road. The listing in this case does not make sense, we only note that the range is extremely wide: from the electric power industry to the processing of oilseeds, from the production of oil and gas equipment to the production of cars.

From September 2013 to December 2015, two countries signed investment agreements for a huge amount of \$54 billion.

Kazakhstan pays special attention to plans for China to participate in the formation of a renewed Kazakhstan transport infrastructure, which, in particular, includes plans for China to build the Big Almaty Ring Road,¹² the road to

¹² Concession projects Construction and operation of highways "Big Almaty Ring Road (BAKAD)", Ministry for Investment and Development of the Republic of Kazakhstan, <http://roads.mid.gov.kz/ru/pages/koncessionnyy-proekt-stroitelstva-i-ekspluatatsii-avtomobilnoy-dorogi-bolshaya-almatinskaya> (25.09.2016).

the Chinese border to Alashankou Station, and a large-scale project to optimize Astana public transport.¹³

Over the past three years, several large Kazakh-Chinese projects have been launched. They are the new Altyntkol-Khorgos railway crossing, the Sarybulak-Zimunay and Bozoy-Shymkent gas pipelines, the Aktau bitumen plant, a project for the integrated coal processing to produce liquid fuel, and the production of potash fertilizers. In addition, China CNPC Corporation became one of the shareholders of the Kashagan project.

A number of large investment projects implemented jointly with China can be distinguished.

Construction of a plant for the production of primary aluminum.

Project goal: to construct a plant for the production of primary aluminum (Pavlodar).

Participants: Kazakhstan Aluminium Smelter JSC, Eximbank (China), Kazakhstan Development Bank JSC.

Cost: \$1 billion.

Construction of the Moinak hydro power plant.

Project goal: to construct a hydro power plant on the Charyn River with an installed capacity of 300 MW for delivery to the power system of the southern zone of the republic.

Participants: Development Bank of Kazakhstan JSC, State Development Bank of China, Moinak Hydroelectric Power Plant JSC.

Cost: \$361 million.

Current status: a contract has been concluded with the China International Water Management and Energy Corporation for the construction of a 'turn-key project'.

¹³ Chinese Companies Will Help Astana Build LRT Light Rail / Kazakhstanskaya Pravda, May 8, 2015, <http://www.kazpravda.kz/rubric/ekonomika/kitaieskie-kompanii-pomogut-astane-stroitelgkorelsovii-transport-lrt/> (25.09.2016).

Reconstruction and modernization of the Atyrau Oil Refinery (construction of a complex for the production of aromatic hydrocarbons).

Project goal: the project provides for the production of 496 thousand tons of paraxylene and 133.0 thousand tons of benzene to provide domestic raw materials for the country's petrochemical industry.

Participants: NC KazMunayGas JSC, Atyrau Oil Refinery LLP, Development Bank of Kazakhstan JSC, Eximbank (China).

Cost: \$1,110 million.

In October 2009, Atyrau Oil Refinery LLP and the Chinese company Sinopec Engineering signed a contract for the construction of a 'turnkey' complex.

Reconstruction and modernization of the Shymkent Oil Refinery.

Project goal: to restore the plant's design capacity to 6 million tons per year, increase oil refining depth up to 90%, improve the quality of oil products to Euro-4 standard.

Participants: Shymkent Oil Refinery JSC (shareholders: NC KazMunayGas JSC, CNPC (China).

Cost: \$1,616 million

Construction of a Gas Chemical Complex.

Project goal: construction of an integrated Gas Chemical Complex with a capacity of 800 thousand tons of polypropylene and 450 thousand tons of polyethylene per year.

Participants: United Chemical Company LLP, Sat&Company JSC, Development Bank of Kazakhstan JSC, Eximbank (China), LG Chem (South Korea).

Cost: \$6.3 billion (China provided a loan of \$1.3 billion for the implementation of the First Phase).

Production of road bitumen.

Project goal: to construct a heavy oil refinery with a capacity of 500 thousand tons of bitumen, 242 thousand tons of gasoline and diesel fractions and 234 thousand tons of vacuum gas oil.

Participants: Kazakhstan Petrochemical Industries JSC (KPI JSC), CITIC Group (China).

Cost: \$290 million.

Construction of the Beineu-Bozoy-Akbulak gas main pipeline.

Project goal: to satisfy the gas demand in the southern regions of the republic, eliminating dependence on imported gas and ensuring the country's energy security.

Participants: KazTransGas JSC, TAPLINE (China).

Cost: \$2,319 million.

In general, currently there are about 500 existing legal entities with Chinese participation in Kazakhstan.

For example, between 2014 and 2015, bilateral contracts totaling more than \$70 billion were signed. More than 250 intergovernmental and interdepartmental agreements were concluded in various fields.

In addition, in November 2015, it became known that China removed a number of serious barriers to import Kazakh agricultural products, which the Kazakh side has sought long ago. The process of simplified business visas is launched. Thus, China and Kazakhstan decided to hold a series of tourist events in 2017.

The Memorandum on the joint implementation of the meat cluster in the East Kazakhstan region shall be also noted. Within the framework of the cluster, it is planned to build a meat processing complex for the production of lamb and mutton with a total annual capacity of 17 thousand tons. It is planned to create a feedlot and a network of farms of free range animal husbandry. According to the document, the total investment of the Chinese side will be more than \$11 million.

However, there are restrictions for the supply of meat and meat products to the PRC, in connection with this, the Kazakh side is working to remove them, since the Kazakhstan market alone may not be enough for the cluster to fully operate. In addition, its location in Kazakhstan's neighboring region of China, and the formed transport infrastructure system will allow delivering meat to China at a cost-effective price.

Summary

Thus, One Belt, One Road became a powerful response of the “fifth generation” of Chinese leaders to the creation of the Eurasian Economic Union. Moreover, today the positive aspects of the Eurasian Economic Union for China outweigh its negative aspects associated with raising duties. Such a positive perception of the EAEU by China plays a positive role for Kazakhstan, since excessive competition of the great powers directly located in the region is fraught with risks of destabilization in case one of the parties starts to win or lose.

It is obvious that the development of the Silk Road Economic Belt will take place not only in the bilateral, but also in the multilateral format, where the SCO plays a special role. Chinese officials and experts emphasize that the economic integration program within the Eurasian Union coincides with the SCO Program overall spectrum of issues – from expanding trade and facilitating investment to plans to create an integration group.

One Belt, One Road formed a new element of Chinese policy in relation to Kazakhstan, as well as to all of Central Asia, reflected in the transfer of a number of Chinese industries to its territory. Accepting existing reality in the form of closing borders for a number of goods, China decided to transfer some industries to Kazakhstan. This “proactive” movement helps Beijing solve a whole range of issues. The establishment of a new form of economic relations in a promising market is the most important of them. With the growth of China's power, there is a structural change in its foreign policy and foreign economic model. If just recently China positioned itself as a developing country, then during the last visit of Foreign Minister Wang Yi to Africa, China already presented itself as a force that understands its responsibility for the world and regional system both in security and in the economy. From this point of view, the expansion of forms of cooperation with neighboring regions, the deployment of Chinese industries means the transition to a new level for regional Chinese policy.

In turn, Kazakhstan, in light of the instability of the world market, and especially oil and energy production/consumption, is badly in need of the development of any form of production and investment in infrastructure. Moreover, many Kazakhstan manufacturers could not rise precisely because of competition with Chinese industrialists. The coming of Chinese technology and production may provide a chance to accelerate the country's industrialization. Thus, One Belt, One Road has found its full understanding in Astana.

Renewable Energy in Kazakhstan: Challenges and Opportunities for Transition Economies

Arman Kashkinbekov

The development of renewable energy in developing countries or transition economies began just a few years ago after tremendous success in the United States and the European Union. Today, China is the world leader with the clear and already achieved goal of conquering the global renewable energy market. Industry information indicates a plateau in the US and the EU, which is currently focused on stability issues in regulation and power generation, while developing countries are gaining momentum very quickly.

Figure 1. Renewable Energy worldwide



Investments in developing countries several years ago exceeded the funds invested in developed countries, and they continue to grow. Meanwhile, renewable energy has exceeded the level of traditional investments in oil, gas, and coal due to one-time investments. While some countries are still arguing about the attractiveness of the new energy industry for end consumers, others are seizing strong leadership. In the United States, this work has intensified with the activities of the Obama administration that has developed and implemented the Million Solar Panels Program, which had broad public support. The largest solar power plant with a capacity of 500 MW was built and launched in California. In the future, an increase in the share of renewable

energy in the total amount of electricity generated is implied. The new government at the White House tries to reverse these positive trends in favor of coal mining.

In Germany, the share of renewable energy sources has already exceeded the threshold of 30%, and the national authorities are seriously thinking about introducing tougher administration of the industry by ensuring a constant energy flow from producing organizations and launching an auction system to reduce further tariff levels. Analytical estimates of €130 billion already spent for investment by the state inspire with respect and show the whole world the seriousness of this country's plans to switch to alternative energy sources.

Japan, having restricted available land resources, decided to build solar plants in the Pacific Ocean. Undoubtedly, the catastrophe at the Fukushima-1 Nuclear Power Plant also affected the government's bid for more efficient and environmentally friendly long-term energy sources.

In the Nordic countries such as Denmark and Sweden, government programs have been elaborated for the significant development of the renewable energy sector to achieve a 70–90 percent in the overall energy mix. Today Denmark already covers a large domestic demand from these energy sources and considers its export opportunities to neighboring countries.

Among the CIS countries, Ukraine is a leader by a long shot, which has headed for the rapid and full-scale introduction of renewable energy capacities throughout the country in a situation of uncertainty in gas supplies, which led to overcoming the milestone of one gigawatt of total installed capacity in 2016.

The experience of Spain is the most negative, where the government provided too much material support to renewable energy producers at the very start in the form of high tariffs, which led to great instability of the Spanish energy grids and the chaotic development of the industry.

Kazakhstan began its journey in 2013, when Parliament adopted the first law on support for renewable energy, creating a system of supporting tariff rates to initiate solar, wind, hydropower, and biomass projects. Another important step was the signing by the President of the Republic of Kazakhstan of a new Concept for the country's transition to a "Green Economy," where renewable energy has become the main vector of development. The existence of an independent Ministry of Ecology was a strong support for the development

of the renewable energy industry, which was later included in the Ministry of Energy that coordinates the management process in the field of oil, gas, coal, and uranium production.

Clear goals have been set to achieve the level of renewable energy in the overall energy mix, namely 3% by 2020, 10% by 2030, and 50% by 2050.

Figure 2. Map of Kazakhstan



Within the framework of Concept implementation, in 2014, the government approved feed-in tariff rates for producers: 34.61 tenge/kWh (excluding VAT) for solar plants; 22.68 tenge/kWh for wind farms; 16.71 tenge/kWh for small hydropower plants (HPP), where small HPPs mean plants with a capacity of up to 35 MW without dam construction, and 32.23 tenge/kWh for biogas plants.

Given the exchange rate of KZT to the USD at that time at KZT182 per \$1, the introduced tariffs were attractive for investors, which led to the launch of the first large and small projects in this area, as well as to the significant increase of interest in the industry from Kazakhstan and foreign investors.

Since then, several large industrial projects have been developed and launched, including a 50 MW solar power plant in Zhambyl Oblast with a capacity of 50 MW (south of the country), Yereymentau Wind Farm in Akmola Region (north of the country) with a capacity of 45 MW, a plant for the production of solar

panels in Astana, and a small solar power plant in the Kapshagai region. All this became possible with direct support and direct participation of the state through the involvement of national companies. International financial institutions such as the European Bank for Reconstruction and Development (EBRD), the Eurasian Development Bank (EDB), and the Green Energy Fund (GEF) provided the necessary assistance in financing. The next sustainable measure is the creation of an attractive investment regime for private business to enter the market and implement projects.

The situation in the renewable energy industry began to change significantly a year later. In 2016, when due to a sharp drop in world prices for commodities, primarily oil and gas, the country's budget experienced significant difficulties in terms of filling up. It also affected the exchange rate of the national currency against other major world currencies, mainly the US dollar. Tenge weakened by more than 40%, which resulted in the devaluation of the tenge from KZT182 for \$1 to KZT345 for \$1 or more.

Figure 3. Devaluation of the Tenge



This devaluation of the national currency had a sharp and direct impact on the investment attractiveness of the renewable energy sector for both foreign

and Kazakhstani investors, since it no longer guaranteed a quick return on investment, primarily, due to the need to purchase almost all equipment abroad for hard currency.

At the end of April 2016, the Head of State signed the Law on Amendments and Additions to Certain Legislative Acts Concerning the Transition of the Republic of Kazakhstan to the Green Economy (the Law), which included all the necessary amendments aimed at restoring interest in the renewable energy industry.

The main point was a relevant important article on indexation of feed-in tariffs existing since 2014 to the level of tenge devaluation, in addition to the previous indexation to the level of annual change in consumer price index.

In addition, the new version of the Law envisaged the elaboration of a unified National Plan for the development and deployment of new renewable energy capacities in Kazakhstan by regions, periods, and actual needs of the electric power industry. This document is the most important and expected by all market participants, it allows interested investors to clearly understand when, where, and what new energy-generating facilities the country needs.

It was decided to refrain from the idea of the mandatory introduction of batteries or storage units to stabilize the flow of electricity from renewable energy plants, given too small share of “green” energy in the total electricity generated in the Republic of Kazakhstan, which, according to the results of 2015, amounted to 0.6% only.

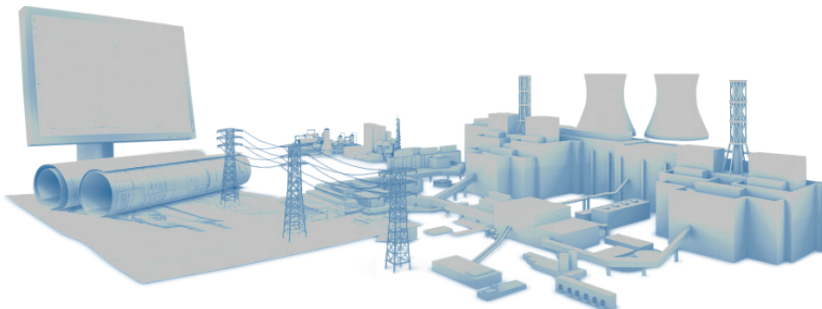
The Law also provides the authorized body, the Ministry of Energy of the Republic of Kazakhstan, shall develop and implement a standard contract for the connection to the grids of KEGOC national operator, clear and understandable rules for inclusion of energy-producing organizations in a single list of the Ministry. Earlier, a list was approved by an appropriate decree of the Government of the Republic of Kazakhstan, which should now be replaced by a new list of the Ministry of Energy. Its purpose is to avoid projects “on paper” and include real, economically feasible, and financially backed projects that have the highest percentage of practical implementation.

Figure 4



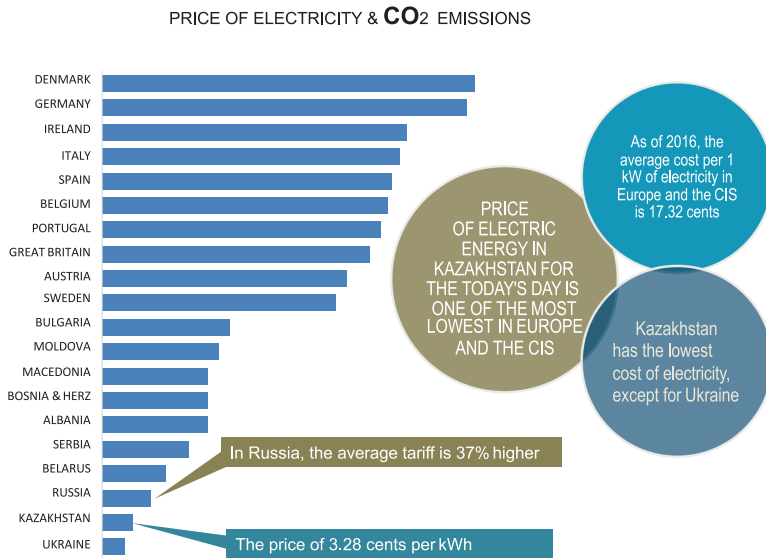
Here I should note that the rumors and fears of traditional energy managers about the instability of the assets of new RES are unreasonable, since the stations have practically no technical or operational problems for the entire period of operation. Kazakhstan is a country with power sector based on high coal production, where 75% of the electricity generated comes from traditional coal-fired power plants, built mainly during the Soviet era. About 45% of them have already completed their technical life cycle and should be immediately modernized, repaired or replaced. There are no nuclear power plants in Kazakhstan, as in many other countries in the world, which is one of the worst sources of energy on the Earth, using the example of energy.

Figure 5



At the same time, the price of electricity generated is one of the lowest in the world. Thus, according to international energy agencies, our country has the lowest tariff for end consumers in the world after Ukraine.

Figure 6. Price of Electricity and CO2 Emissions



The trick here is indirect subsidized tariffs for coal producers, which makes investments unattractive to them, which means that new traditional plants or their modernization will not be financed on a large scale, except for small repairs.

Kazakhstan has a huge and still unexplored potential for renewable energy sources, which is measured in TW/hours, and which is available for study and use. The main value of these new energy sources is related to their ability to provide the necessary set for the overall balance of electricity in the context of ensuring the country’s energy stability.

Figure 7. Global horizontal irradiation, Kazakhstan

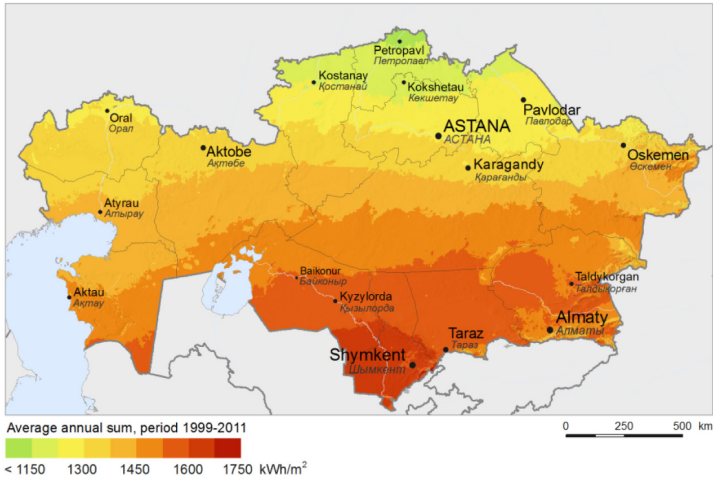
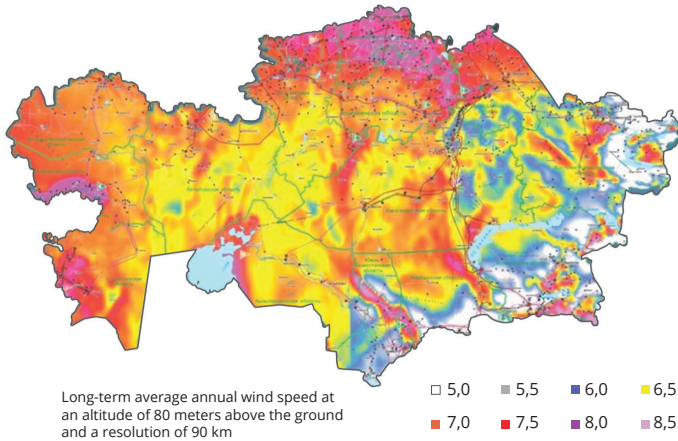


Figure 8. Wind Atlas of Kazakhstan



At the same time, the achieved one percent basic level allows us to study the existing international experience in the development of renewable energy sources and choose our own right path without causing much harm to traditional energy, which is crucial for industrial and economic growth.

On May and October of 2018, the Ministry of Energy of Kazakhstan, the main authorized body of the government, held two rounds of auctions for new projects on renewable energy sources. The ideas behind these initiatives to reduce existing tariffs in accordance with the latest international trends and involve the most advanced and resource-intensive international corporations in this industry were generally achieved. The declared investment volume amounted to about 1 billion US dollars.

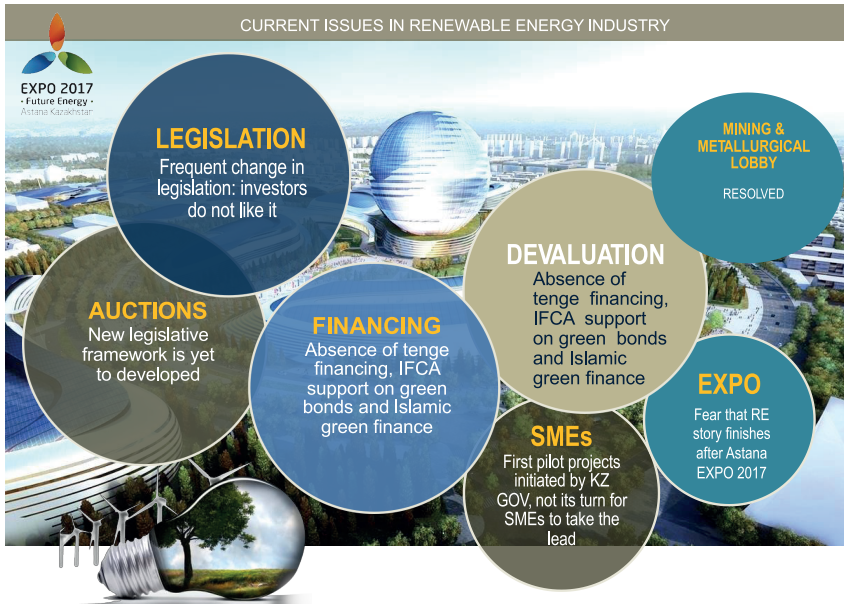
Figure 9



Despite this step, the main problems of investors remain the stability of the national currency and its fluctuations against the dollar, the stability of the regulation of the legislative framework, the large-scale financing in the national currency within the country, the mining and metallurgical anti-lobby, as well as the necessary support from local developers and manufacturers.

To date, according to the old system of fixed tariffs, more than 90 companies have signed PPA (Power Purchase Agreement) with the Settlement and Financial Center for the Support of Renewable Energy Sources. However, unfortunately, due to the mentioned risks, most projects are put up for sale to foreign investors.

Figure 10. Current issues on Renewable Energy Industry



At the same time, since the end of last year, the Kazakhstan's Ministry of Energy has initiated a new package of incentive measures, which includes an annual indexation of winning tariffs by 70% of the annual rate of devaluation of the national currency tenge and 30% of annual inflation or the CPI rate, which should fully cover possible risks of currency fluctuations. Another measure is to provide semi-state guarantees to the special body of the Settlement and Financial Center for the Support of Renewable Energy Sources to support its financial stability as a contractor for all existing and upcoming RES projects. A significant measure is the modernization of the existing PPA (Power Purchase Agreement) in accordance with international standards, which should make it more bankable (profitable) for international financial institutions and investment funds.

To increase the investment attractiveness of the industry, the following steps will be required:

Development of a state program to support the growth of renewable energy sources, which should include all best practices and recommendations from national and international experience.

The appointment of the newly created Center as the main intermediary between the Kazakhstan government, investors, and the business community, while the Ministry of Energy should focus on the development of policies, the necessary bills, and regulatory legal acts.

Full implementation of the country's obligations under the Paris Agreement in terms of reducing CO₂ emissions and introducing carbon capture technologies.

Further development of daily measures to stimulate small and medium investors and innovators, with particular attention to projects and technologies.

Implementation of a large-scale information campaign among the wide circles of the population of Kazakhstan with the aim of outreach and obtaining public support.

Closer collaboration with stakeholders, including international organizations such as IRENA, UN / UNDP / UN Environment Program, EBRD, ADB, Eurasian Development Bank, World Bank / IFC and others, to provide a wider range of financial and technical assistance to industrial developers.

Figure 11. After EXPO Measures

THE WAY FORWARD: AFTER EXPO MEASURES

- 1. Support of President of Kazakhstan's view.**
 - Remove subsidies to traditional energy, support RE.
 - Move to 30 most developed nations.
- 2. International Center for Green Technologies and Investment Projects.**
 - Ecology, CO2 emissions, RE devt, Paris agreement, waste treatment, green economy issues.
- 3. State RE Development Programme.**
 - Legislation, financing, local content, education, PR campaign, support of SMEs.
- 4. All EXPO Ideas & Recommendations.**
 - Legislation, financing, local content, education, PR campaign, support of SMEs.
- 5. Kazakhstan as an active player on global RE arena.**
 - Made in Kazakhstan solar panels, wind turbines, electrical equipment, professional labor force.

12

In 2017, Kazakhstan successfully held the international exhibition Future Energy EXPO-2017 in Astana, which attracted millions of tourists. Important conferences were held, including with the participation of Nobel Prize winners and Heads of State, as well as renewable energy source professionals who shared their views and recommendations.

As a main measure for subsequent activities in the field of renewable energy, a new International Center for Green Technologies and Investment Projects was established under the Government of the Republic of Kazakhstan, which focuses on the development of specific industry projects and technologies using One-stop shop approach.

The center will operate at three levels: national, regional, and international, starting with success stories within the country and gradually expanding it.

The Agricultural Sector of Kazakhstan: Problems and Development Prospects

Dr. Diethard Rudert, Dr. Madina Mussayeva
Kazakh-German Agricultural Policy Dialogue

General overview

Agricultural indicators for 2017

Table 1. Agricultural indicators for 2017

Share of the agricultural sector in gross domestic product (%)	5.7
Gross agricultural income (\$ bln)	11.5
Total agricultural area (mln ha)	222.3
Agricultural land (mln ha)	21.2
Pastoral land (mln ha)	187.5
Employment in agriculture (% to the total number of employees)	16
Labor productivity (\$/employee/year)	3,000
The average yield of grain crops (2008–2017, t/ha)	1.12
Average milk yield (kg/head/year)	2.279
Investments in the agricultural sector (\$ mln)	892.4

Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan, 2017.

Economic and political significance of the agricultural sector

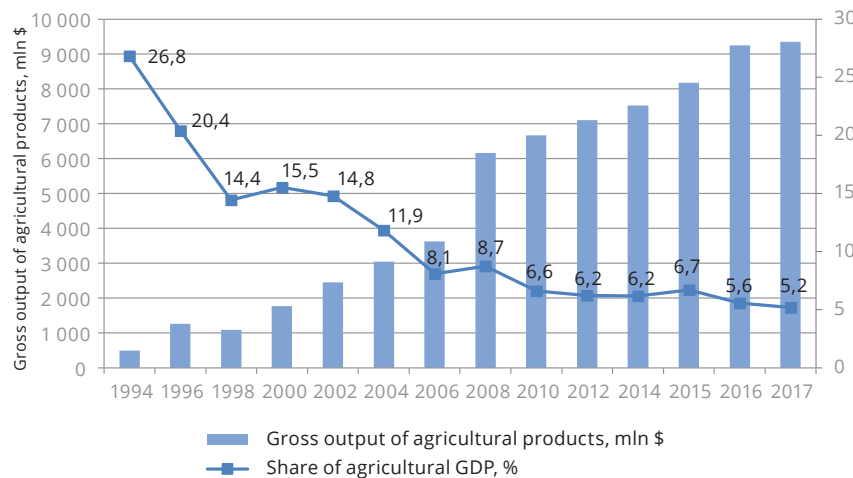
After extractive industry, agriculture is one of the key sectors of the Kazakhstan economy, although its share in gross domestic product is less than 6% (See Figure 1). Despite this, more than 15% of the economically active population is employed in the agricultural sector and over 40% of all the population of the country lives in rural areas. This indicates the important role of the agricultural sector in the social, economic and political stability in the country.

The natural and climatic conditions of Kazakhstan are characterized as sharply continental. Due to this fact, the production processes of the agricultural

sector are associated with unforeseen and often uncontrolled natural risks, including drought, wind erosion, spring, and autumn frosts. However, most agricultural practices remain obsolete, which leads to low productivity and rather high fluctuations in the production volumes of both crop and livestock products. For example, due to favorable weather conditions and a high yield of grain crops, the growth in gross agricultural output amounted to 27% in 2011. This was the highest growth compared with the last few decades, and the same indicator dropped to 18% in 2012. In subsequent years, the increase in gross production did not exceed 7–10% and the growth was 3% higher in 2017, compared to 2016.

To increase the efficiency of development of the country's agro-industrial complex, Kazakhstan adopted the State Program for the Development of the Agro-Industrial Complex in the Republic of Kazakhstan for 2017–2021. Intensively developing primary agricultural production and processing industry, the Government sets a goal to diversify the country's economy and reduce dependence on the extractive sector. At the same time, efforts are being made to diversify the agricultural sector to move away from mono-production of grain, as it happened earlier. In the economy, we are talking about increasing the production and export of food products. The social policy focuses on rural development and improvement of the living standards of the rural population.

Figure 1. Agricultural production and its share in the gross domestic product of Kazakhstan



Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, 2018.

Natural conditions of production

In Kazakhstan, the length from east to west is more than 3,000 km, from north to south is 2,000 km, while the country is located between 55th and 44th degrees of latitude, and its height above sea level varies from 132 m to almost 7,000 m. These indicators are enough to understand the degree of heterogeneity of the climatic zones in the republic. On the one hand, such conditions cause difficulties in agricultural production, and on the other hand, they provide good opportunities for cultivating different types of crops. Soil types sharply differ from each other and agricultural production systems vary significantly from region to region accordingly (See Table 2).

Table 2. Natural conditions of production and main areas of production¹

Region	Climate	Average annual rainfall, mm	Main type of soil	Main directions of production in crop production
Northern Regions				
North Kazakhstan	Continental with long winters	300–350	Black soil	Grain crops, oil-seeds, potato
Kostanay	Continental	250–300	Black soil	Grain crops, potato
Akmola	Extremely continental, drought-prone	265	Black soil predominating	Grain crops, sunflower
Pavlodar	Continental	220–300	Black soil	Grain crops, oil-seeds, potato
Eastern and Central Regions				
East Kazakhstan	Continental	Flat: 150 Mountains: 1 000–1 500	Black soil, brown soil	Vegetables, potato, sunflower, grain crops
Karaganda	Continental	150–400	Black soil, brown soil	Grain crops, oil-seeds, potato
Southern Regions				
Almaty	Continental	Flat: 350 Mountains: 500–700	Brown soil	Vegetables, potato, sunflower, feed crops
Zhambyl	Continental	150–320	Grey desert soil, brown soil	Potato, vegetables, grain crops
South Kazakhstan	Continental with mild winters	Flat: 150 Mountains: to 800	Grey desert soil, brown soil on the uplands	Grain crops, cotton, vegetables, potato, sunflower

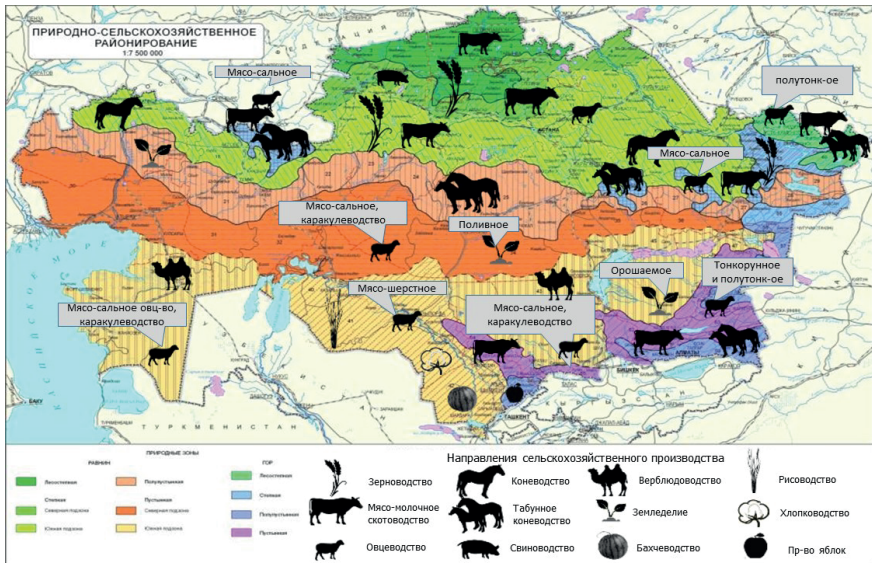
¹ The table does not indicate the production of crop products under coverage.

Region	Climate	Average annual rainfall, mm	Main type of soil	Main directions of production in crop production
Kyzylorda	Continental, extremely droughty	150–200	Brown soil, grey desert soil, sandy soil	Potato, vegetables, rice, maize
Western oblasts				
Aktobe	Extremely continental, drought-prone	240–250	Brown soil, desert soil	Grain crops, sunflower
Atyrau	Continental, droughty	100–200	Desert soil, brown steppe soil	Crop production (vegetable production mainly in closed ground)
West Kazakhstan	Extremely continental	200–330	Brown soil, saline soil	Grain crops, oilseeds
Mangistau	Continental, extremely droughty	100–150	Brown steppe soil	Grain crops

Source: Ministry of Agriculture of the Republic of Kazakhstan, 2018.

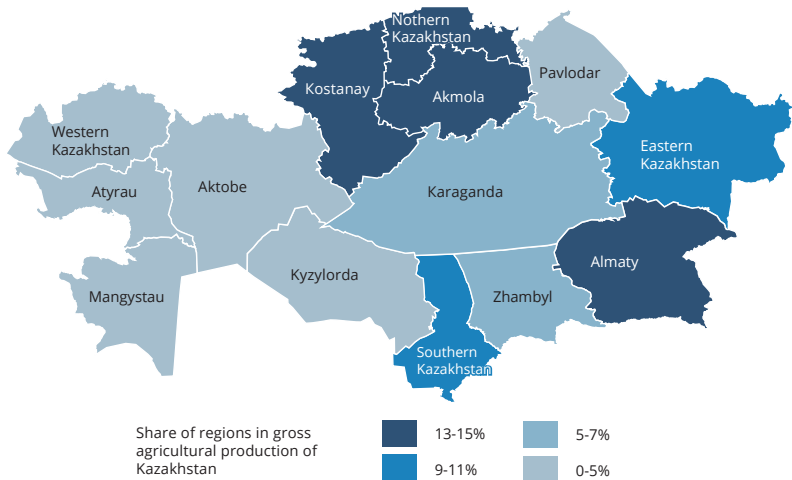
Due to the continental climate prevalence in Kazakhstan, characterized by hot summers and frosty winters with temperature differences from + 40 °C to –40 °C, as well as an average annual rainfall of 150 to 320 mm, the country mainly practices extensive cultivation of grain crops and extensive forms of keeping live-stock animals, mainly pasture (See Figure 2 and 3).

Figure 2. Map of the specialization of the regions of Kazakhstan



Source: Ministry of Agriculture of the Republic of Kazakhstan, 2017.

Figure 3. Agricultural production in the regions of Kazakhstan



Source: Ministry of Agriculture of the Republic of Kazakhstan, 2017.

In the northern regions, which are the main grain-growing regions of Kazakhstan, dry-land cultivation is practiced and the amount of rainfall is one of the main factors affecting the level of crop yield. In the southern regions, farming agriculture is based on irrigation. Production of vegetables, melons and gourds, fruit and berry crops, as well as soft wheat varieties are concentrated in the southern and southeastern regions of the country. Cotton and rice are cultivated only in two southern regions (Turkestan and Kyzylorda). Oilseeds are cultivated in both northern and southern regions.

Agricultural policy

The main objective of the agricultural policy of Kazakhstan is to increase the scale of agricultural production, in order to ensure the demand of the domestic market for high-quality food products. In addition, along with the replacement of existing imports, efforts are being made to increase exports. This is not only about the cultivation of grain as raw materials, but also about the export of processed products, as well as high-quality premium beef. Along with these production-oriented goals, the social and economic aspects of rural development are taken into account as well.

These goals and objectives were approved in the Agribusiness 2020 Program adopted in 2013. At the end of 2016, a number of changes were made to the program, among other things, the types and mechanisms of providing state support were revised.

First of all, measures to provide state subsidies are taken along with the creation of the necessary regulatory conditions (laws, rules, and technical regulations). However, the implementation of agricultural policy in Kazakhstan is not limited to this. Although Kazakhstan officially adheres to the principles of a market economy and demonstrates progress in this regard, the Ministry of Agriculture of the Republic of Kazakhstan makes great efforts to provide support to agricultural producers. To implement the agricultural policy, a wide network of institutions, institutes and non-profit joint-stock companies has been created, as a rule, with 100% state participation. The most important institution is KazAgro NMH JSC with a total of seven subsidiaries, the National Agrarian Scientific and Educational Center, which includes 23 research institutes, three agricultural universities and regional branches of research institutes both experimental and economics. Additionally, the

Ministry of Agriculture gives instructions to the Department of Agriculture of the Atameken National Chamber of Entrepreneurs to carry out tasks aimed at implementing the agricultural policy.

Agricultural policy issues are primarily regulated by the Law of the Republic of Kazakhstan "On Agricultural Cooperatives" and "On Production of Organic Products" adopted in 2015. The moratorium on amendments to the Land Code, announced by the President of the Republic of Kazakhstan in November 2016, put this important aspect of agricultural policy in the spotlight.

Land Code

Over the past 25 years, the issue of land reform has been raised several times. However, it has not been possible so far to find a satisfactory solution to such an important issue. In the early 90s, the right to use land for 99 years was fixed at the legislative level, which practically corresponds to the right to long-term leases. This condition was later revised and the lease term was reduced to 49 years. Eligible users (tenants) of land, as a rule, were former employees of collective farms. The land continued to be state-owned. The rent (this was, in fact, a kind of land tax) was always very low, about €2 per year. Such a low price was justified by the fact that at the initial stage of reforming collective farms, most people did not have the necessary financial means to buy land. Due to the general economic situation, investors also showed no interest.

Prior to the amendments to the Land Code, which were to enter into force on July 1, 2016, 98.8% of agricultural land was state-owned and leased to farmers for 49 years. Only 1.2% of land area was in private ownership.

These circumstances led to the fact that principles of a market economy did not act practically in the field of land ownership, and land greatly lost its importance as an economic factor. As well as changes introduced in 2003, which provided the opportunity to purchase land plots in private ownership, did not have any impact, since the purchase of land seemed unattractive and economically non-feasible due to the extremely low rent. In the course of the amendments, the acquisition of land should have become more attractive and accessible for previous tenants, who did not have sufficient funds as before. In addition, it was necessary to eliminate a number of bureaucratic obstacles and provide the opportunity to use land ownership as collateral,

when obtaining loans from banks. The goal was also to give unused land and thereby increase the level of agricultural production.

The main reasons for the announcement of the moratorium were amendments to the Land Code, which allowed foreign citizens and organizations with foreign participation to receive agricultural land for a period of 25 years. Previously the rental period was limited to ten years.

Along with the intention to increase tax rates for the use of land (leases), the provision of opportunities for the purchase and/or long-term lease of land to foreign citizens was a decisive point for the President to declare a moratorium. Prior to its announcement, a wave of protests uncharacteristic of the country swept through Kazakhstan. They were primarily associated with concerns about the sale of land to foreigners and possible speculation with the land.

Later, a commission was created that recommended in August 2016 to maintain a moratorium in the next five years and during this period to develop a new reliable solution to the land issue. Until then, the status of the legal settlement being in force in 2015 (49 years of lease granted to individuals and legal entities of the Republic of Kazakhstan) remained. Among other things, it was necessary to introduce a monitoring system to use more land that was not previously leased and develop a maximum land use limit. For enterprises with foreign participation, the maximum rental period is ten years.

Subsidies

Since 1992, many government measures to support agriculture have been introduced, which are hardly visible today. Initially, there were programs to stabilize the prices of capital goods and tax breaks (including exemption from value added tax). Later, land subsidies were added (See Table 3), livestock development benefits (Table 4), commodity subsidies (Table 5), and investment benefits in the form of leasing and low-interest loan systems. Direct investment payments were made as well.

Table 3. Land subsidies in tenge per hectare, 2015 (exchange rate €1 = KZT270, 08/30/2015)

Type of culture	Akmola oblast	Northern Kazakhstan oblast
Summer wheat	300	400
Other grain crops (barley, rye, buckwheat, millet)	650	2,500
Grain legumes	650	2,500
Oilseeds:		
– summer rape	8,500	5,200
– sunflower	7,000	5,200
– flax seed	3,500	400
– carthamus	3,500	–
– soybean	3,500	3,400
– mustard	3,500	4,400
– false flax (gold-of-pleasure)	3,500	4,400
Forage plants (annual and perennial grasses, seed grain for pasture improvement)	6,000	15,000
Silage corn	7,500	15,000
Potato and vegetables with drip irrigation	75,000	85,000
Field vegetables, melons and gourds	60,000	21,000
Glass-grown vegetables	3,736,620	3,860,000

Source: *Online Services of Regional Agricultural Departments, 2015.*

In 2015, the financial costs of state subsidies reached almost \$900 million. While large enterprises manage to benefit from such state subsidy programs as a rule, small enterprises and households often fail to do this fully or partially. Nevertheless, credit cooperatives and special programs for small loans exist.

Table 4. Subsidies for breeding livestock

Receiver	Subsidy object	Subsidy rates
Stud farm	Seed material	50%
Poultry factories	Chickens	50%
Poultry farmers	Breeding animal	100%
Horse breeders	Purchase, training and keeping of breeding animals	100%

Source: Ministry of Agriculture of the Republic of Kazakhstan, e-gov, 2016.

Table 5. Commodity subsidies for keeping animals

Commodity	Unit	2011	2014	2015	2016
Beef of different quality	KZT/kg	80–200	120–220	100–270	100–300
Pork	KZT/kg	98	50–70	98	98
Poultry meat	KZT/kg	60–66	50–70	50–70	50–70
Eggs	KZT/ piece	2–2.6	2–3	2–5	2–5
Mutton	KZT/kg	50	100	100–170	100–200
Sheep wool	KZT/kg	105	170	150	130
Milk of different quality	KZT/kg	10–25	10–25	15–35	15–37

Source: Ministry of Agriculture of the Republic of Kazakhstan, e-gov, 2016.

Business structure

In Kazakhstan, the agricultural structure is determined by three essential types of enterprises (See Table 6):

- Agricultural enterprises (large), mainly legal entities.
- Individual enterprises (family enterprises, small and medium enterprises).
- Households of the population and small farmers (small-scale farms).

The boundaries between these types of enterprises are partly conditional, especially in relation to small farms. The households mainly produce agricultural products primarily for their own consumption, and only the remainder is sold on the market. Through special development programs, the construction

of milk collection centers, and the support of various forms of cooperation (cooperatives), the policy is trying to assist the transition process and the overall improvement of living conditions in the country. Along with the desire to increase agricultural production, first of all, social aspects are in the spotlight. Subsistence farms produce about 55% of the total agricultural output, with 70% of livestock production being produced by them. First, average family farms lack investment in modern technologies and the know-how. Often they use 30-year agricultural machinery manufactured even before the collapse of the Soviet Union. The costs of maintaining and repairing the equipment are huge, and the crop yield and labor productivity are low.

Large enterprises were often founded in the process of privatization from former collective farms and state enterprises or arose by investing funds from non-agricultural sectors. The support of the regional administration played an important role. As a rule, the management of such enterprises is well educated and knows how to use state support programs. It is also easier for these enterprises to provide access to both the Kazakhstan and international markets. The modern equipment is provided at least in key areas. Enterprises have partially expressed vertical structures up to the processing and marketing of products to ensure maximum participation in the entire value chain. However, not all registered enterprises are virtually active (See Table 7).

Table 6. Characteristics of the forms of agricultural enterprises in Kazakhstan for 2017

	Agricultural enterprises (large farms)	Farms (small and medium enterprises)	Households of the rural population (small households)
Total number of farms in 2016	12,655	190,120	1,620,386
Share of various agricultural producers in agricultural gross production	19.7%	30.1%	50.2%
Share of various agricultural producers in crop-growing gross production	27.5%	38%	34.5%

	Agricultural enterprises (large farms)	Farms (small and medium enterprises)	Households of the rural population (small households)
Share of various agricultural producers in stock-raising gross production	11.4%	14.4%	74.3%
Business legal structure of various structures of agricultural producers and summary description of their activity	Legal entities. Large agricultural enterprises can be registered in the form of LLPs, JSCs, agricultural cooperatives, holdings, as well as experimental farms owned by state-owned companies.	The farm enterprise mainly operates based on the participation of members of the same family and/or relatives.	Private houses/ households living in the rural region.
Average land area	On average, land area can vary from five to 20,000 ha. There are farms having from 500,000 to 1 million hectares of land.	Farms in the southern and northern regions differ markedly from each other in terms of the size of the cultivated land. On average, the land area of one farm in the southern regions can range from 3 to 500 ha; in the northern regions from 50 to 10 thousand ha or more.	Mostly garden plot/garden ranging in size from 0.10 to 0.5 ha.
Average number of employees	On average, starting from 10–50 full-time employees plus seasonal employees, an average of 30 employees per season.	On average, family members participate in economic activity from two to 5–7 people, plus 5–20 seasonal employees.	Family members, on average of 1–5 people.

	Agricultural enterprises (large farms)	Farms (small and medium enterprises)	Households of the rural population (small households)
Access to pastoral land	Usually they have their own pasture lands, especially if the farm is engaged in animal husbandry.	As a rule, pasture lands are used on the basis of a long-term lease for 49 years.	As a rule, they have 1–3 cows, 5–20 sheep and goats, chickens and other bird species, which are mainly used for domestic consumption. Typically, private household plots do not have pasture lands, livestock graze on the lands around the settlement or land is used by agreement ²

Source: Compiled by the author based on the data from the Ministry of Agriculture of the Republic of Kazakhstan and the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, 2017.

Development of agricultural production

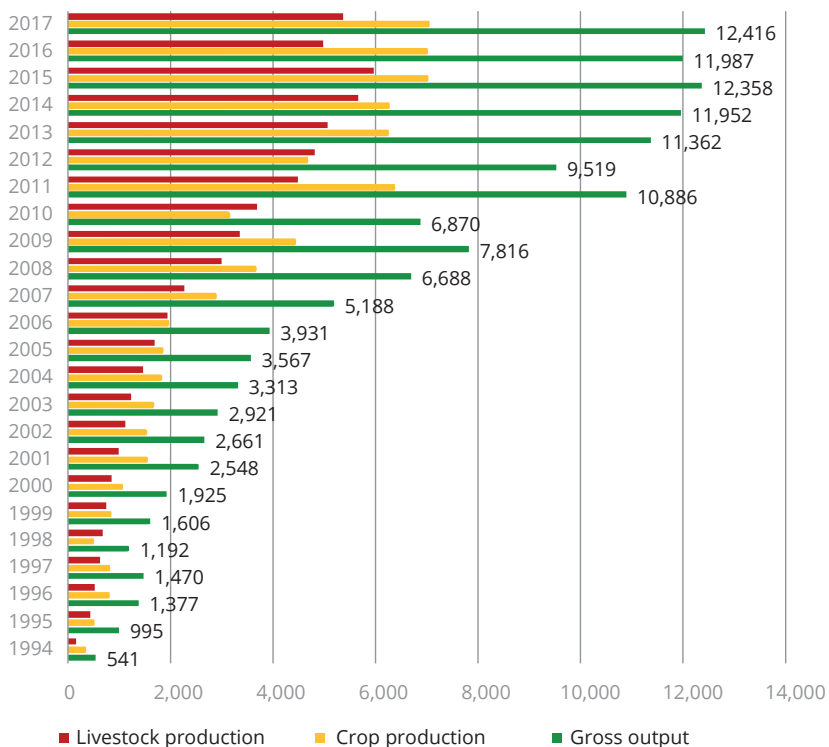
General production

After a significant reduction in agricultural production due to the collapse of the Soviet Union and the time of stagnation since 2000, Kazakhstan succeeded to increase more or less consistently the level of the agricultural sector. While the livestock production increased more or less constantly, years with weaker indicators should be noted in the field of the crop production due to the strong dependence on weather conditions. In 2010–2012, the livestock production indicator slightly exceeded the crop production indicator for the first time (Figure 4).

² Private household plots can graze cattle from spring until the first frost on lands that belong to other farms (usually large agricultural enterprises) or to the state. Usually a shepherd is hired, to whom private household plots pay a certain amount of money per one head/month.

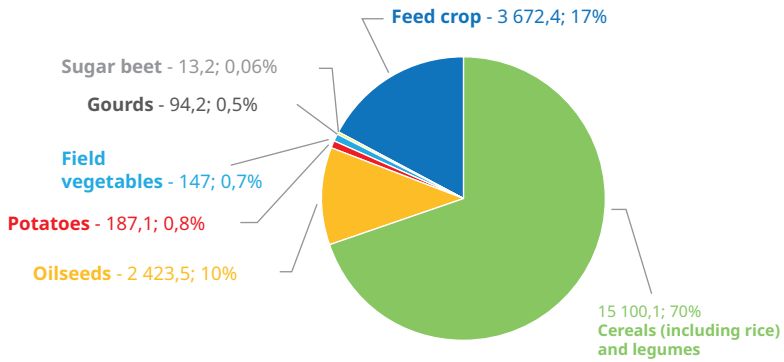
Grain, including rice and legumes, occupies a large share in the total cultivated area in Kazakhstan. The wheat accounts for two-thirds of the total sown area, other types of grain crops and leguminous crops occupy 8%, fodder crops take 17%, and oilseeds amount to 10%. Other crops are less important with respect to their sown area (See Figure 5).

Figure 4. Agricultural production in Kazakhstan from 1994 to 2017, € million



Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, 2017.

Figure 5. The structure of sown areas in Kazakhstan in 2017, thousand ha and in%

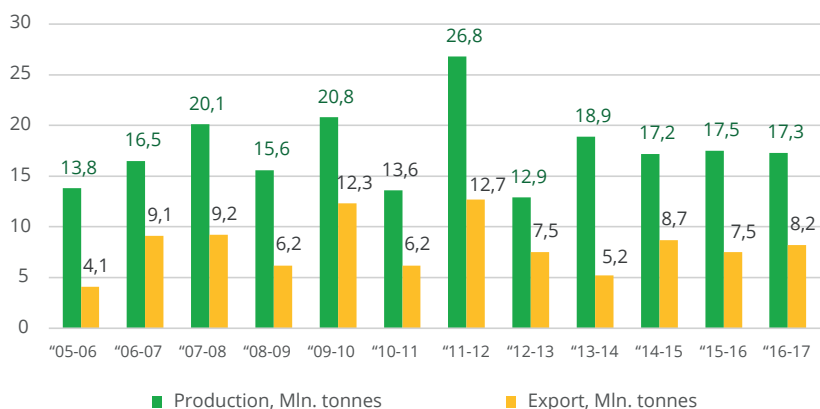


Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, 2018.

Grain production

Kazakhstan is one of the largest producers and exporters of grain and flour (See Figure 6). Wheat prevails not only among types of crops but also among all cultivated crops. The summer wheat of soft varieties (*Triticum aestivum*) is mainly cultivated. Taking into account the climatic conditions of Kazakhstan, quality features that are close to the characteristics of durum wheat (*Triticum durum*) are achieved. Therefore, Kazakh wheat is often called ‘hard-grain wheat’ in Russian. Unfortunately, this fact often leads to the confusion. Durum wheat is also cultivated separately. Barley, rye, and a wheat-rye hybrid hardly play any role here.

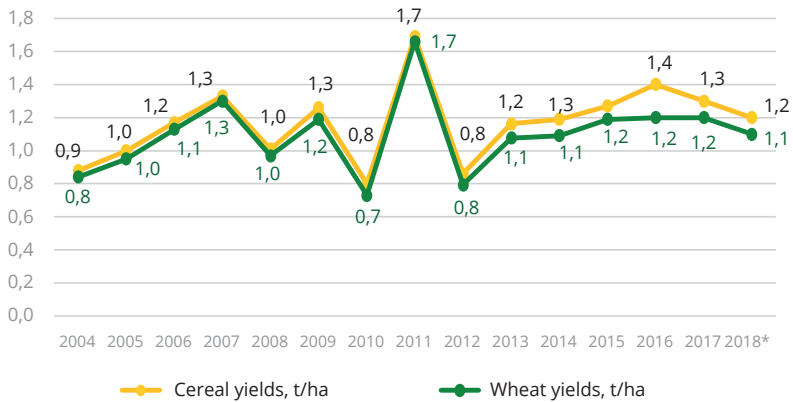
Figure 6. Production and export of grain crops in Kazakhstan



Source: Ministry of Agriculture of the Republic of Kazakhstan, 2018.

In Kazakhstan, grain production increased tenfold in several years – in the 50s during the program for the development of virgin lands in the steppe regions. We are talking about extensive cultivation with the current average crop yield of 1.1 t/ha. The crop yield is highly influenced and fluctuates from year to year (See Figure 7). Thanks to modern methods of cultivation, preserving soil and water, as well as through technical development, today it is possible to deal with large losses of productivity, at least partially. Due to the economic situation and the risk of poor harvest, many enterprises have practically not used any mineral fertilizers and plant protection products since the collapse of the USSR. Monoculture farming with autumn fallow is widespread. First, larger enterprises in recent years have invested in modern sowing equipment and combine harvesters. After a record crop in 2011, when transportation and storage requirements were not met, investments were also made in storage facilities.

Figure 7. The average yield of grain crops in Kazakhstan

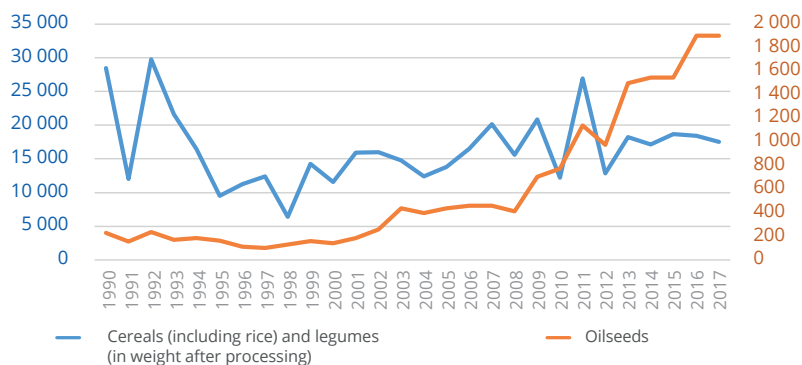


Source: Statistics Committee of the Republic of Kazakhstan, 2018 (* preliminary data).

Oilseeds

Over the past 20 years, the cultivation of oilseeds has been expanded in the framework of diversification efforts (See Figure 8), which is not least because of significant subsidies. There is a great danger that, when subsidies are reduced, the amount of cultivation will immediately decrease. On the one hand, there is a great export potential in the cultivation of oilseeds, and on the other hand, additional positive reverse effect can be noted in the country during crop rotation and processing of oilseeds (oilseed presscake as a protein feed). Spring rape, flax seeds, and sunflower are the most important oilseeds. Technologically, the advantage of these crops lies in the fact that, subject to a slight conversion and/or change in the settings of the machines, they can be processed like grain using the same technique of sowing and harvesting. Prior to this, the disadvantage was the absence of own processing facilities. This has led large manufacturers to build their own processing and storage facilities.

Figure 8. Oilseeds production compared to grain production, thousand ha

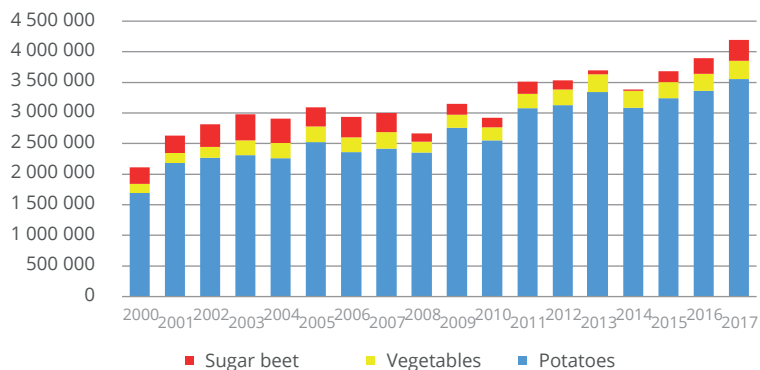


Source: Statistics Committee of the Republic of Kazakhstan, 2018.

Production of potato and vegetables

After wheat, potato with an annual consumption of 120 to 130 kg per capita is the second most important crop product in the nutrition of the Kazakh population. Due to the constantly increasing production (See Figure 9), Kazakhstan for a given period has reached a volume that covers its own needs and, in addition, exports potato and potato products.

Figure 9. Production of potato, sugar beets, and vegetables in the open ground, in tons



Source: Statistics Committee of the Republic of Kazakhstan, 2018.

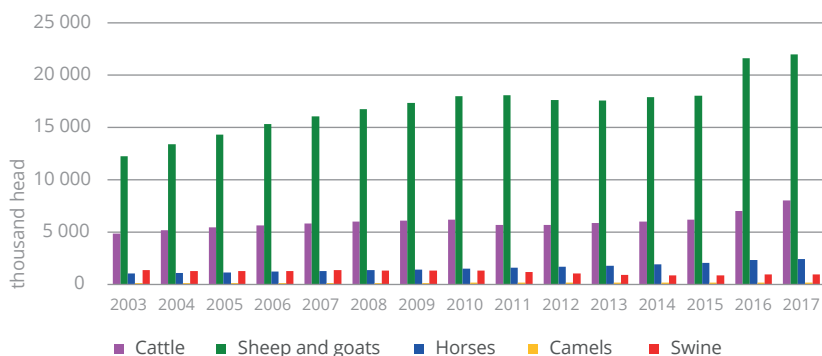
Climatic conditions make it difficult to meet the demand for vegetables of own production in Kazakhstan. Despite this, great efforts have been made in past years to resolve this issue. This applies to both vegetable production in small farms, and large vegetable enterprises. During the growing season, demand is about 1.2 million tons. Such a need can be provided by own production. The most important regions for the cultivation of vegetables, melons and gourds of open and closed ground are in the southern and southwestern regions, as well as in the central and northern regions, in the area around cities and in subsidiary farms. Tomatoes, cucumbers, eggplants, bell peppers, onions, garlic, and herbs are grown almost everywhere. Obviously, melons are grown only in the southern regions. The irrigation is required. In addition, it is gravitational irrigation in most cases. First, large farmers are increasingly using conservation technologies such as drip irrigation.

Out of season, Kazakhstan depends on extensive imports of products, primarily from neighboring southern republics. The greenhouse vegetable farming is developing for the import substitution. It should be noted that if in the past years independent construction and improvisation prevailed in this area, now investments are increasingly being made in the construction of modern greenhouse complexes.

Livestock production

Predominantly, the livestock is grown in household farms and small farms. After a sharp reduction in the number of livestock during the independence of Kazakhstan over the past ten years, stabilization has been observed at a low level (See Figure 10).

Figure 10. Livestock in Kazakhstan



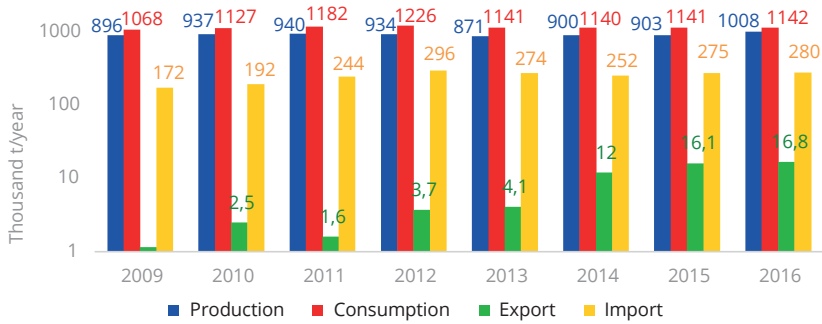
Source: Statistics Committee of the Republic of Kazakhstan, 2016.

Although Kazakhstan has provided tremendous funds for the purchase of breeding animals in recent years, the country has not achieved its goals either in the field of meat production or in the production of milk, nor has the stable development of herds of animals been ensured. An exception is the poultry industry. Significant successes have been achieved in both egg production and poultry production. In particular, household production has moved to large modern poultry farms. Often, these enterprises are part of the value chain of a holding, the spectrum of which covers many areas, from the cultivation of crops, poultry farming to its own slaughterhouse/processing and sale of products.

Meat production

Despite some improvements, Kazakhstan's own meat requirements have not yet been fully covered (See Figure 11).

Figure 11. Production and consumption of meat in Kazakhstan



Source: Ministry of Agriculture of the Republic of Kazakhstan, 2017.

Compared with the status of 1990, not a single production indicator was achieved for any type of meat other than horse meat. However, in recent years trend has been changed (See Table 8). In connection with the predominantly Muslim population, pork can be ignored. Horsemeat production is growing in Kazakhstan, which is in good demand among the local population.

Table 8. Meat production in Kazakhstan, thousand tons

	1990	2012	2013	2014	2015	2016	2017*
Beef	710	374	383	405	417	412	428
Mutton	285	154	156	162	144	149	152
Horsemeat	85	85	89	92	102	101	100
Poultry meat	201	123	136	134	146	153	170
Pork	290	193	100	100	95	106	106
Total	1 590	928	865	893	903	921	956

Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, 2017 (* Preliminary data of the Ministry of Agriculture of the Republic of Kazakhstan, 2018).

In arid regions, as well as in mountainous regions, (extensive) production of meat from cattle and small ruminants is considered an adapted direction of agricultural production if pasture degradation can be avoided and sufficient

water supply is provided. Therefore, one of the greatest potentials for the development of Kazakhstan's agriculture is to increase meat production.

Beef is the most important type of meat and has good export chances, provided that appropriate quality characteristics are achieved. Along with local breeds (Kazakh white-headed breed, Auliekol, and others), the cattle of stud breeds Angus, Hereford, and Limousine are primarily grown. The cattle are fed up intensively in feedlots according to the Canadian/American model. Due to the high level of slaughter of cattle, as a rule, the stability of the livestock is not ensured and, therefore, a good reproduction does not occur. In addition, sufficient quantity and adequate quality of food supply is not enough provided everywhere in the winter season.

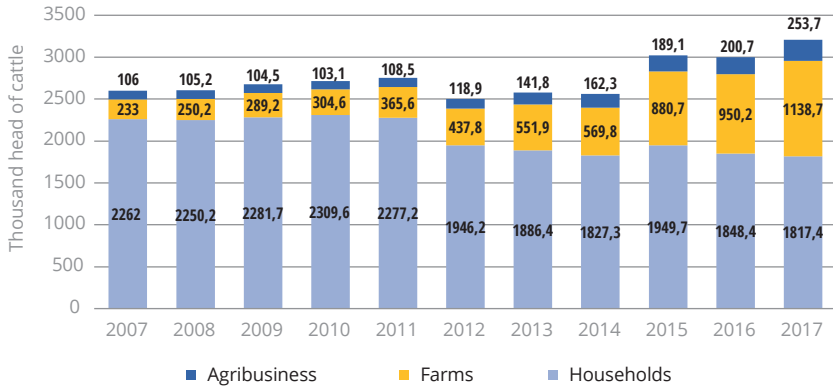
While large enterprises have adequate water supply, subsidiary farms, and small family enterprises primarily depend on the common grazing lands around settlements. It results in the depletion of pastures and the destruction of the soil covering. Therefore, the beef production has been mainly transferred from small enterprises to large farms in recent years.

Milk production

Milk production is located on farms even more intensively than in the case of meat production. More than 80% of dairy cows are kept in household plots and by small farmers (See Figure 12). On average, households have two to three cows to cover their own needs. Small volumes of milk are sold to neighbors and local markets. In fact, peasant farms are aimed at covering their own needs. Only some farms seek the opportunity to increase production and become true market participants. As a rule, cows cannot be attributed to any dairy breed ('underbred'). Milk yield varies from 2,000 to 2,500 kg/head per year. Progress in the breeding practically does not exist, as bulls that are used are not selected usually. Artificial insemination is not carried out. While animals can more or less find enough food for themselves in years without significant drought in the growing season, fattening in winter is problematic and limited often to lower quality hay and water. Inadequate livestock conditions can be added here. Poor milk quality and a strong dependence of supplies on the season (a large volume of milk supply in the spring and time with (almost) lack of supplies in the fall/ winter) make it impossible to process efficiently milk at dairy enterprises. The Ministry of Agriculture is currently

trying to take measures to solve this problem by creating milk collection centers and cooperatives.

Figure 12. The number of dairy cattle in different types of agricultural enterprises in Kazakhstan, thousand heads



Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, 2018.

The situation is hardly better for small farmers. Average milk production from 1,850 kg/ head is even lower than indicators of households. Here, manual milking operation is also usually used or an outdated and very simple technique is used.

Large dairy and livestock enterprises mainly keep dairy cows. Using government assistance in previous years, large batches of the Holstein and spotted (dairy) heifers were imported. However, often we are still talking about the livestock of the Simmental breed or the black-and-white breed of cows left over from the Soviet era. Artificial insemination is used in developing enterprises, and imported seed material is often used. Here fattening and keeping are carried out better than in households and at enterprises of small farmers. The average milk yield is about 4,200 kg/head per year. At some large enterprises, milk productivity reaches 7,000 kg/head per year.

Conclusions

Agricultural farming in Kazakhstan is of great importance and, undoubtedly, should be intensively developed in the future. However, the natural conditions are not simple in the country due to the pronounced continental climate, but thanks to the available area, this sphere has great potential. In the future, Kazakhstan could make an important contribution to the world food provision. The importance of the agricultural sector for the development of the country can be seen in the desire to meet own needs and diversify the economy. From a social and political point of view, the development of highly productive agriculture is seen as the basis for creating a value chain in rural areas and, thus, makes a significant contribution to improving living conditions.

In order to achieve such success, a reliable agricultural policy is needed that provides the required framework conditions and avoids direct interference in the economy. You can take as an example the solution of the land issue and the consistent optimization of subsidy systems. Further targeted investments aimed at the modernization of production, and above all, training, professional development, and counseling are indispensable conditions.

About the current Monetary Policy Regime

Rakhim Oshakbayev

On August 20, 2015, the National Bank of the Republic of Kazakhstan switched to inflation targeting and a free-floating exchange rate. It was expected that “the formation of a market exchange rate will create the necessary conditions to maintain sustainable economic growth and absorb external shocks.”¹

From that moment in Kazakhstan, it has become customary to believe that a free-floating rate is an integral element of inflation targeting policy. That is, there has been a misconception about inflation targeting and free-floating rate.

According to the classification of the International Monetary Fund (IMF), floating and free-floating rates are distinguished.

A regime with currency interventions less than three times in the last six months (each lasting no more than three business days) is classified as a free-floating rate.²

Thus, the IMF classifies the current currency regime in Kazakhstan as de jure free floating, and de facto floating.³

According to the National Bank of the Republic of Kazakhstan, the tenge exchange rate is formed under the influence of fundamental factors, and the regulator does not interfere in the formation of the exchange rate. The main fundamental factors that determine the tenge exchange rate are world oil prices, as well as the exchange rates of countries that are main trading partners, primarily Russia.⁴

At the same time, the National Bank reserves the right to conduct foreign exchange interventions “to prevent excessive changes in the tenge exchange rate.” And it is not disclosed what constitutes “excessive changes in exchange rate” and exchange rate benchmarks, for achievement of which interventions can be carried out. Consequently, the National Bank does not have any

¹ http://www.nationalbank.kz/cont/publish733297_29122.pdf (08.01.2019).

² https://www.imf.org/~media/Files/Publications/AREAER/AREAER_2016_Overview.ashx (08.01.2019).

³ <https://www.imf.org/~media/Files/Publications/CR/2017/Russian/cr17108r.ashx> (08.01.2019).

⁴ <http://www.nationalbank.kz/?docid=3334&switch=russian> (08.01.2019).

specific bar for the dollar exchange rate, at which the regulator will have to intervene in the exchange rate.

In 2016, the National Bank made a net purchase of \$2,870 million in the foreign exchange market to smooth out sharp tenge fluctuations, and, in 2017, carried out a net sale of \$621 million.

In September 2018, to prevent the strengthening of devaluation expectations and stabilize the domestic foreign exchange market, the National Bank decided to conduct foreign exchange interventions for the first time since October 2017. Thus, from September 5 to September 7, 2018, the National Bank sold \$521 million in the absence of a foreign currency supply. The National Bank's share amounted to about 80% of the total trading volume on the currency exchange during this period.⁵

It is worth noting that the National Bank publishes only net interventions, i.e. the difference between buying and selling, and the full amount of foreign exchange interventions is not disclosed.

In addition, the assets of the National Fund of the Republic of Kazakhstan and the Unified Pension Saving Fund are under trust management of the National Bank. According to some experts, they can also be used by the National Bank for foreign exchange interventions.

Despite all the attempts of the National Bank to smooth out the negative fluctuations, the transition to a floating tenge has led to high volatility and unpredictability in the foreign exchange market.

Since early 2016, the tenge exchange rate 'floats' from 310 to 384 tenge per \$, the conditional amplitude was 74 tenge, or 24%.

Under these conditions, the determining factor in the tenge exchange rate was devaluation expectations, and not "fundamental" factors. In the short term, tenge rate does not directly depend on oil prices. In January 2016, the tenge rate was 366 tenge per \$ at an oil price of \$31 per barrel, and in September 2018, it dropped to 380 tenge at the oil price increase to \$80 per barrel.

Population surveys by the National Bank in August 2018 show that about 67% of respondents believe that the \$ exchange rate will increase.

⁵ http://www.nationalbank.kz/cont/Пресс%20релиза%20по%20валютному%20рынку%20за%20сентябрь_финал.pdf (08.01.2019).

Individual media publications and statements by “experts” with negative forecasts for the tenge exchange rate started to influence the devaluation expectations.

Thus, managed float rate already envisages high volatility, which wasn't there before, not to mention the real free-floating rate.

This strengthens devaluation expectations, undermines confidence in the national currency and in inflation targeting policy, which is not identical to free-floating rate.

According to the definition of the International Monetary Fund, inflation targeting envisages the establishment of inflation targets and active communication policy⁶:

- public announcement of the inflation target, with an institutional commitment to achieve it typically in the medium term,
- in addition, usually the central bank actively communicates with society and market participants about its plans and tasks; its accountability for achieving the inflation target is ensured,
- the central bank should be guided in its decisions by the deviation of future inflation forecasts from the announced target.

According to the IMF classification, 38 countries use inflation targeting including Australia, Albania, Armenia, Brazil, United Kingdom, Hungary, Ghana, Guatemala, Georgia, Dominican Republic, Israel, Iceland, India, Indonesia, Kazakhstan, Canada, Colombia, Mexico, Moldova, New Zealand, Norway, Paraguay, Peru, Poland, Russia, Romania, Serbia, Thailand, Turkey, Uganda, Uruguay, Philippines, Czech Republic, Chile, Sweden, South Africa, South Korea, and Japan. According to the results of 2016, only seven countries achieved their inflation target, including Guatemala, Paraguay, Uganda, and Chile.

The list of countries that apply inflation targeting contains only 14 out of 36 OECD countries, and only seven of them use free floating rate: Australia, United Kingdom, Canada, Norway, Chile, Sweden, and Japan.

It follows that it is not necessary to combine inflation targeting with a free-floating rate.

⁶ https://www.imf.org/~media/Files/Publications/AREAER/AREAER_2016_Overview.ashx (08.01.2019).

A case in point is the Czech experience, which is often cited as an illustration (one of the few) of the successful inflation targeting policies. Until 2017, the Czech Republic combined inflation targeting with the rejection of free floating, not allowing the koruna to gain too much strength. Such a monetary policy allowed accumulation of large gold and foreign currency reserves (about \$150 billion) and revaluation of the Czech koruna in 2017 only.

In the inflation targeting regime, an important role is played by the interest rate channel through which the interest rate policy of the central bank influences market rates with a further shift to the consumer, savings, and investment behavior of the population, and, ultimately, to inflation processes. In Kazakhstan, the main monetary policy tool of the National Bank is the base rate.

In fact, to implement successfully inflation targeting, it is necessary to take into account a set of conditions, and not a mechanical change in the base rate:

- Working interest rate transmission channel,
- Economy dedollarization,
- Confidence in the policy of the National Bank.

Last year, KZT654 billion at 4% per annum was allocated to support the capital of five large banks. Under the UPSF investment program for KZT200 billion, banks are credited at 12%, while the base rate is 9%.

In fact, the interest rate channel doesn't work in Kazakhstan. The reduction in the base rate does not lead to an increase in lending. For example, according to the request of Halyk Bank, SWF Samruk-Kazyna has early withdrawn deposits of KZT117 billion, since "it is unprofitable to have such expensive deposits."

The dollarization level of deposits is falling, but remains high. At the beginning of July 2018, the dollarization level of deposits amounted to 44.5%, or \$23.3 billion.

Against this background, announcing an inflation targeting policy, it actually pursues an inflationary policy and is building up the money supply. Since January 2015, the money supply including notes increased by KZT10.7 trillion (*from KZT12.8 trillion to KZT23.5 trillion*) or 84%. The volume of deposits exceeds \$52 billion: \$29 billion in national currency, \$23 billion in foreign currency.

In the conditions of extremely low confidence in the regulator and the declared free-floating rate, free liquidity will inevitably enter the foreign exchange market, especially in the midst of negative expectations.

As a result, such a “monetary overhang” determines the fundamental pressure on the exchange rate and inflation.

Given these conditions, as well as the high volatility and weakening of tenge, the transition to an inflation targeting policy did not allow the National Bank to curb inflation.

According to the National Bank, a high risk of annual inflation going beyond the upper limit of the target corridor remains in 2018–2019. Moreover, the nature of the inflationary background is determined by non-monetary factors, which “formally do not depend on the monetary policy of the National Bank.” According to various estimates, the contribution of non-monetary factors to inflation exceeds 50%.

The key factor of inflation remains the tenge exchange rate, which strengthens inflation expectations in the free-floating regime.

Given that the usual daily exchange trading volume does not exceed \$150–200 million, the tenge rate will be a priori volatile. Since the economy and export revenue are not diversified, such a currency regime cannot be applied effectively in Kazakhstan. It is more appropriate for countries where foreign exchange and export earnings are diversified and do not provide for such high volatility that affects inflation.

In this regard, it is necessary to return to medium-term benchmarks at the tenge exchange rate. The previously applied fixed-rate policy did not prevent high economic growth and real income growth at various oil prices.

All economic growth and the increase in welfare that were present in Kazakhstan during the period of low and high oil prices occurred either at a fixed rate or within a fixed corridor.

The main argument is that a fixed rate is not flexible and accumulates an imbalance that leads to burning reserves.

According to the National Bank, \$39 billion was burned to support the fixed rate in 2014–2015. Various expert estimates are given: \$34 billion, \$28 billion.

However, according to the official statistics of the National Bank for 2014–2015, gold and foreign currency reserves and assets of the National Fund grew by \$2.4 billion before the transition to a free-floating exchange rate.

An informed source also confirmed that there was no “burning” of gold and foreign currency reserves during the fixed rate period: “The figure of \$28 billion is the net sale of foreign currency by the National Bank from January 2014 to July 2015. Specifically, \$22 billion was sold in 2014 and \$6 billion was sold in January-July 2015. However, this part accounts for KASE only. It should be noted that the National Bank sells only through KASE, but also buys through other sources. If you take all the sources, then the National Bank actually bought \$31 billion for the same period. That is, it sold \$28 billion and purchased \$31 billion.”

Taking into account the finances of the National Fund, \$29 billion was allocated from the National Fund to the republican budget and for the purchase of the quasi-public sector bonds in 2014–2015. At the same time, \$23 billion was transferred from the National Fund to the budget after the transition to a floating rate in 2016–2017.

In addition, the amount of burning / replenishment of reserves depends on the established rate value. It is assumed that the regulator can “protect” a certain value of the exchange rate without significant damage to gold and foreign currency reserves. For example, fixing the exchange rate at the level of 370–380 tenge per \$ three years ago, it was possible to avoid the volatility of the exchange rate without “burning” the reserves.

Kazakhstan maintains a trade balance surplus even with a critical drop in oil prices to \$30 per barrel. A potential threat to a fixed rate may be critical drop in the ruble exchange rate, its negative economic consequences are ambiguous and need to be evaluated.

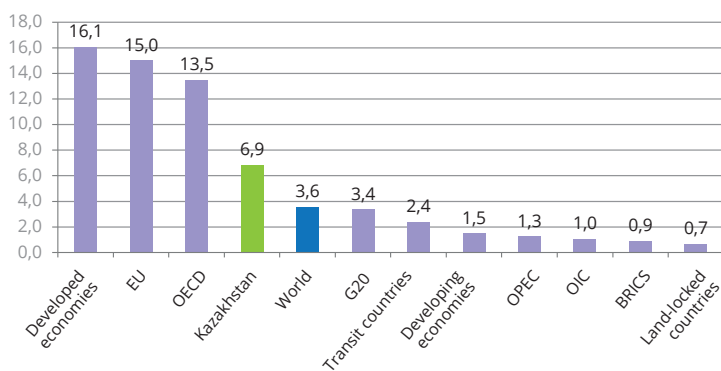
Smoothing currency fluctuations would help stop devaluation expectations, reduce currency risks, and increase certainty and business activity, which would contribute to economic growth.

Foreign Investments in Kazakhstan: a Pragmatic Assessment of the Scope and Impact on Economic Development

Dr. Vyacheslav Dodonov

Foreign investment has always been a significant factor in the economic development of the Republic of Kazakhstan, which was determined both by the scale of their attraction to the country and by the key role in the national economy of those industries that have become most attractive to foreign investors, primarily in the mining industry. An open and liberal economic model, which has been forming since the beginning of the 90s, has led to a significant influx of foreign investment into the country, in terms of the relative volume of which Kazakhstan occupies a strong position among the leaders. Thus, in terms of accumulated net foreign direct investment (FDI) per capita, Kazakhstan is significantly ahead of the average for most groups of countries, which include formal indicators or similar economic models (Figure 1).

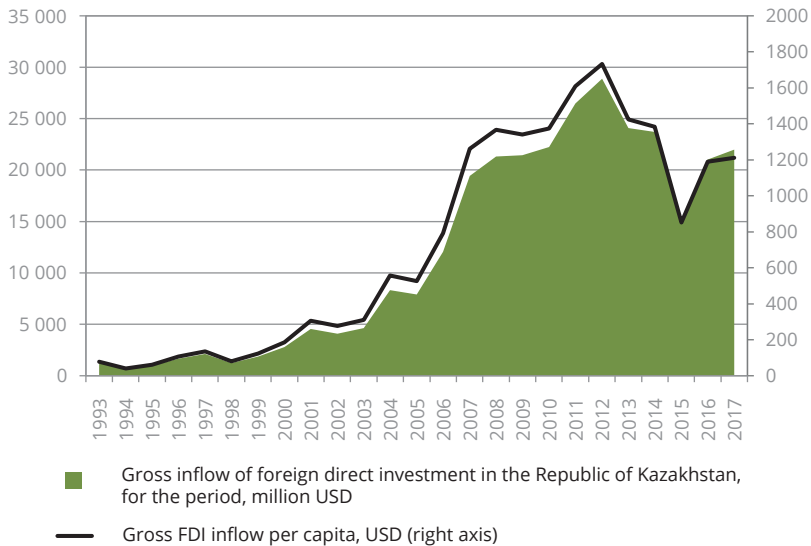
Figure 1. Net accumulated foreign direct investment per capita in 2016 – Kazakhstan and some groups of economies, \$ thousand¹



¹ Calculated based on the data of the following sources: Foreign direct investment: Inward and outward flows and stock, annual, 1970–2016. UNCTADStat website, <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> (reference date: 20.03.2018); Total and urban population, annual, 1950–2050. UNCTADStat website, <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=97> (20.03.2018); The fundamental social and economic indicators of the Republic of Kazakhstan. Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, http://stat.gov.kz/faces/wcnav_externalId/homeDinamika.pokazateli?_afzLoop=6088528441510190#%40%3F_afzLoop%3D6088528441510190%26_adf.ctrl-state%3D-j08l3gt7b_50 (20.03.2018).

The inflow of foreign investment in Kazakhstan grew rapidly over twenty years, becoming especially intense in the 2000s, when the annual gross inflow of FDI increased tenfold since 2000 (when this figure was \$2.8 billion) to 2012 (\$28.9 billion). However, FDI inflows began to decline both in absolute terms and per capita after 2012 (Figure 2), dropping in 2015 to the level of a decade ago.

Figure 2. The dynamics of the gross inflow of foreign direct investment and FDI per capita in 1993–2017²



The decline in FDI inflows identified in recent years indicates the presence of certain problems in attracting foreign investment, which should be considered in more detail, including in the context of clarifying the real impact of this factor on the development of the Kazakhstan economy and its scale.

The scale of recorded foreign investment in Kazakhstan of all types is very significant – in the third quarter of 2017, their volume reached \$225.9 billion,

² Calculated based on the data of the following source: The fundamental social and economic indicators of the Republic of Kazakhstan. Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, http://stat.gov.kz/faces/wcnav_externalId/homeDinamika.pokazateli?_afLoop=6088528441510190#%40%3F_afLoop%3D6088528441510190%26_adf.ctrl-state%3Dj08l3gt7b_50 (20.03.2017).

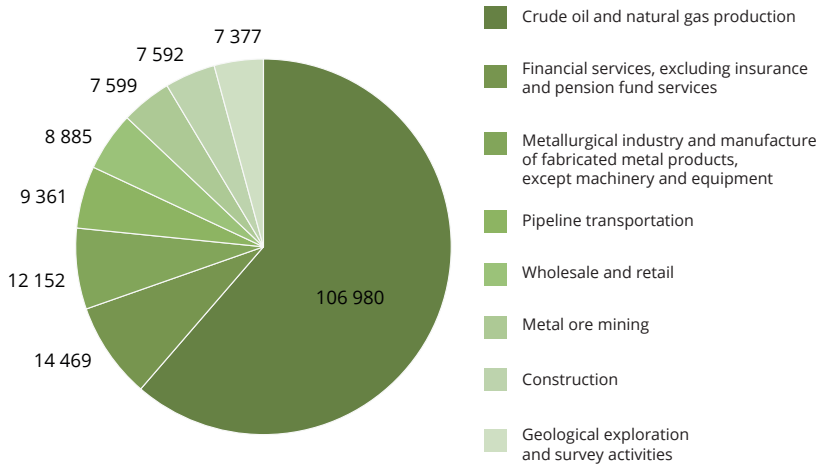
of which \$160.2 billion accounted for direct investment, \$23.8 billion for portfolio investments, \$41.9 billion for other investments, and \$0.04 billion for derivative financial instruments.³ Thus, almost 71% of foreign investments in Kazakhstan are direct investments, which, according to the methodology of the National Bank conducting their statistical accounting, include “the acquisition by non-residents of a part of Kazakhstan’s equity from residents (at least 10% of the shares or participation in the authorized capital); reinvested income (the share of foreign direct investors in retained earnings or loss of Kazakhstan enterprises with FDI); the receipt of funds on loans provided by foreign direct investors, both in cash and in other forms (in the form of goods, works, services, intangible assets, etc.), excluding repayment.”⁴ Direct investments are carried out in such basic forms as instruments for participation in the capital of Kazakhstan enterprises (this group also reflects the share of foreign investors in profits) and debt instruments.

All types of foreign investments accumulated in Kazakhstan have a weakly diversified sectoral structure and are concentrated mainly in the extractive sector and related activities (Figure 3).

³ Kazakhstan’s International Investment Position: Standard View / International Investment Position. National Bank of the Republic of Kazakhstan. Official website, <http://www.nationalbank.kz/?docid=679&switch=russian> (28.03.2018).

⁴ Gross inflow of direct investment to the Republic of Kazakhstan from foreign direct investors by countries, formed in accordance with the Balance of Payments Manual by International Monetary Fund (IMF), 5th edition of 1993. National Bank of the Republic of Kazakhstan. Official website, <http://www.nationalbank.kz/?docid=679&switch=russian> (29.03.2018).

Figure 3. Sectoral structure of accumulated foreign investment in Kazakhstan, \$ million⁵



Oil production, metallurgy, pipeline transport, metal ore mining and exploration – the types of activities directly representing the mining complex of the Kazakhstan economy – accumulated \$143.5 billion of foreign investment of \$226 billion that equals 63.3%. If we consider not the entire volume of foreign investments, but only direct investments, then the proportion of industries related to the extractive sector increases to 83% (Table 1).

Table 1. Volumes and ratio of FDI accumulated by main types of activity as of October 1, 2017⁶

	\$ million	Ratio,%
Crude oil and natural gas production	103,631	65

⁵ Calculated based on the data of the National Bank of RK: International Investment Position (IIP) of Kazakhstan: Standard Representation / International Investment Position. National Bank of the Republic of Kazakhstan. Official website, <http://www.nationalbank.kz/?docid=679&switch=russian> (28.03.2018).

⁶ International Investment Position (IIP) of Kazakhstan by type of economic activity of residents / International Investment Position. National Bank of the Republic of Kazakhstan. Official website, <http://www.nationalbank.kz/?docid=679&switch=russian> (28.03.2018).

	\$ million	Ratio,%
Financial services, excluding insurance, and pension fund services	9,114	6
Pipeline transportation	9,059	6
Geological exploration and survey activities	5,643	4
Metal ore mining	5,400	3
Construction	4,473	3
Financial services, excluding insurance and pension fund services	4,140	3
Wholesale and retail	3,913	2
Communication	1,591	1
Real estate operations	1,308	1
Total foreign direct investment	160,192	100

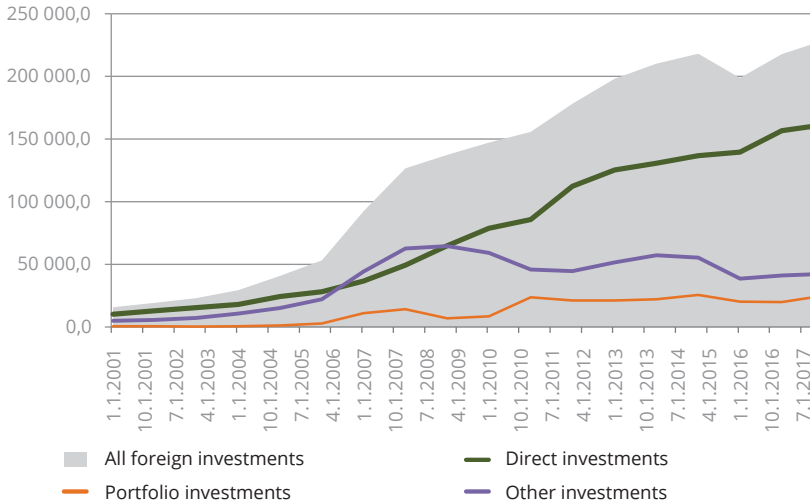
Thus, foreign direct investment demonstrates a practically single industry structure, as it is concentrated mainly in industries related to the extraction, primary processing, and transportation of minerals, and is virtually absent in progressive activities. Relatively high-tech sectors of the Kazakhstan economy, such as pharmaceuticals, rubber and plastic products, computers, electronic and optical products, electrical equipment, vehicles and equipment, research and development, have extremely limited access to foreign financing and receive it not in the form of direct investments, but in the form of other investments, that is, mainly in the form of loans. For these types of activities, the share of other investments in the total accumulated foreign investment is from 50 to 84%. This means that strategic foreign investors are practically not interested in Kazakhstan production in high-tech industries, and domestic companies from these areas, having no access to direct investment, are at best content with various forms of using foreign borrowed funds.

Meanwhile, direct foreign investments are the main driver of expanding the presence of foreign capital in Kazakhstan, since its major part falls on this form of investment traditionally. Except short period of the mid-2000s, when other investments made up the bulk of foreign investments,⁷ namely FDI was

⁷ That was due to large foreign borrowing by Kazakhstan banks.

and remains the leader in the share of total foreign financing of the Kazakhstan economy (Figure 4).

Figure 4. Dynamics of the volume of accumulated foreign investments in the Republic of Kazakhstan with breakdown by main types, \$ million⁸

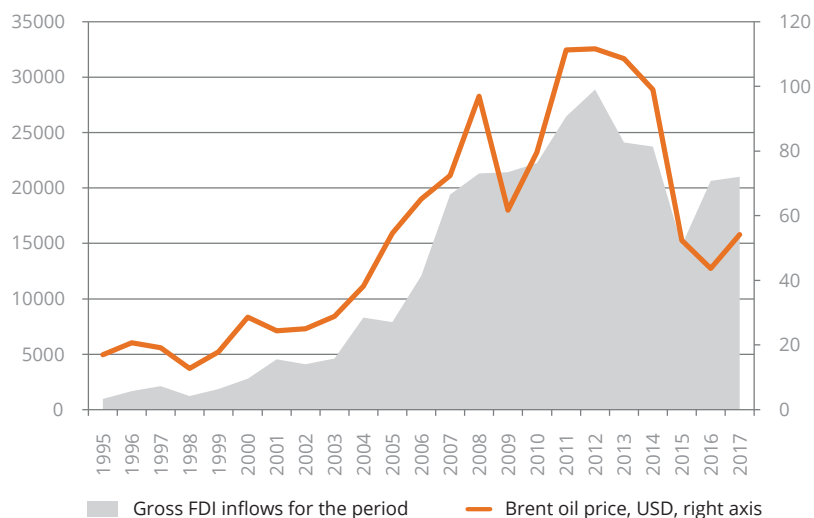


Thus, considering the problems of foreign investments in Kazakhstan, the main attention should be paid to direct foreign investments, both due to their prevailing share in the total volume and because this form of investment is accompanied by the greatest involvement of foreign partners in activities on the territory of the country, and their impact on economic development. FDI, with their share in the total volume of foreign investments at the level of 65–70%, determines the whole situation with attracting foreign capital to Kazakhstan, and both statistics and less obvious trends in the actual situation regarding their impact on the national economy primarily depend on this type of investment.

⁸ Calculated based on the data of the National Bank of RK: International Investment Position (IIP) of Kazakhstan: Standard Representation / International Investment Position. National Bank of the Republic of Kazakhstan. Official website, <http://www.nationalbank.kz/?docid=679&switch=russian> (28.03.2018).

FDI, as noted above, is concentrated mainly in the extractive industries, primarily in oil production and related activities (exploration, pipeline transport), and for this reason, the dynamics of the volume of these investments is closely linked to world oil prices. The correlation coefficient between the oil price and the gross inflow of foreign direct investment in the period 1995–2017 is 0.93, and the indicator of gross inflow of FDI actually duplicates the graph of oil prices (Figure 5).

Figure 5. Comparative dynamics of oil prices and foreign direct investment inflows in Kazakhstan, \$ million, unless otherwise indicated⁹



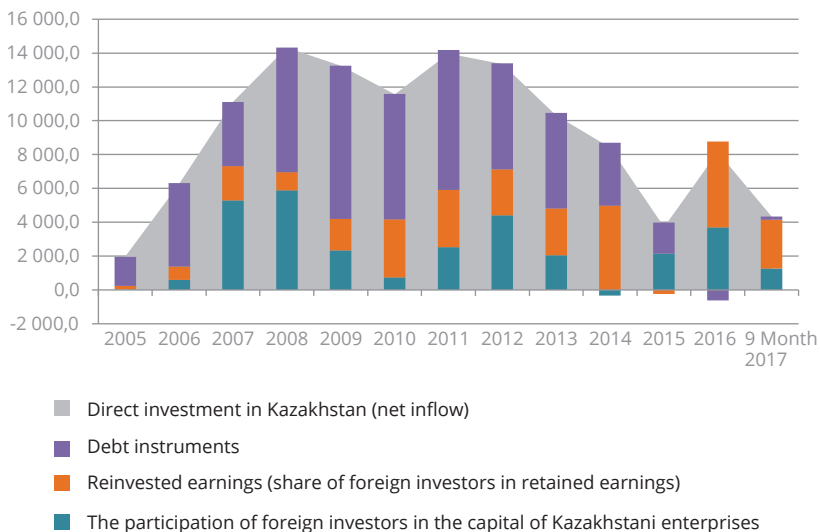
⁹ Calculated based on the data of the following sources: Europe Brent Spot Price FOB / PETROLEUM & OTHER LIQUIDS. U. S. Energy Information Administration website, <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRT&f=D> (reference date: 26.05.2018); The fundamental social and economic indicators of the Republic of Kazakhstan. Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, http://www.stat.gov.kz/faces/wcnav_externalId/homeDinamika.pokazateli?_afzLoop=555870719078243#%40%3F_afzLoop%3D555870719078243%26_adf.ctrl-state%3Dz22fuyh67_64 (26.05.2018); Foreign trade turnover of the Republic of Kazakhstan. Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, http://www.stat.gov.kz/faces/wcnav_externalId/homeNumbersCrossTrade?_afzLoop=556993200552625#%40%3F_afzLoop%3D556993200552625%26_adf.ctrl-state%3Dz22fuyh67_81 (26.05.2018).

Such a close relationship between FDI inflows and oil prices is explained not so much by investors' general theoretical inclination to invest in booming industries and leave them when conditions worsen (the reason this relationship is often explained by), but by the features of FDI statistical accounting. The index of net FDI inflow to Kazakhstan is formed from two main components – equity instruments and debt instruments. The first of these components also takes into account such an indicator as reinvested earnings (the share of foreign direct investors in the retained earnings (loss) of Kazakhstan direct investment enterprises). That is, a part of the FDI inflow is actually the share of foreign shareholders in the income of Kazakhstan enterprises, and not the “physical” receipts of money from abroad. Moreover, this feature of FDI statistical accounting means that their size directly depends on the income received by enterprises with foreign participation. Since the lion's share of FDI, as noted above, is concentrated in the oil industry, this determines the direct dependence of FDI inflows on the revenues of this particular industry, that is, on world oil prices, which predetermine a close correlation between them and foreign investment inflows, reflected in graphs of Figure 5.

The degree of interconnection between FDI inflows and oil prices also largely depends on how large is the share of foreign investors in the profits of enterprises with their participation in the total volume of FDI inflows. This figure has grown significantly in recent years. If it amounted to 10.5% of the net FDI inflow to Kazakhstan in 2005, then it reached 62.4% in 2016, and it increased to 66.2% for three quarters of 2017.¹⁰ As the share of foreign investors in the profits of Kazakhstan enterprises increased in the FDI inflow, the share of other components forming the FDI inflows decreased, including the largest of them – equity participation (that is, actually foreign investments in Kazakhstan enterprises) and debt instruments (indicator, which takes into account mainly loans issued by foreign parent companies to Kazakhstan subsidiaries with foreign participation). The evolution of the shares of three largest components of the net FDI inflow is shown in Figure 6, and it is very remarkable, giving grounds for a number of conclusions regarding the changing nature of the presence of foreign capital in Kazakhstan.

¹⁰ Calculated based on the data of the National Bank of RK: Direct Investments to the directional principle: flows for the period / Direct Investments Statistics according to the directional principle. National Bank of the Republic of Kazakhstan, official website, <http://www.nationalbank.kz/?docid=680&switch=russian> (30.03.2018).

Figure 6. Dynamics of the net FDI inflow and its main components in 2005–2017, \$ million¹¹



First, the low proportion of the FDI component comes under notice, which is traditionally associated with the concept of “investment”, the equity participation of investors supposes direct investment in the funds of enterprises. This indicator represents the difference between the increase and decrease in capital investments over the period, and can be not only positive, but also negative (which took place, in particular, in 2014). The ratio of this component of FDI inflows to Kazakhstan for 2005–2017 ranged from –4% to 57.5%, but its average value remained quite low at 24.8%, and in monetary terms amounted to \$2.4 billion a year. It means the real inflow of investments understood precisely as investments in the capital of Kazakhstan companies from abroad even in the best years, marked by the maximum FDI increase, remained very moderate both in absolute terms and in its share in the total inflow.

¹¹ Calculated based on the data of the National Bank of RK: Direct Investments to the directional principle: flows for the period / Direct Investments Statistics according to the directional principle. National Bank of the Republic of Kazakhstan, official website, <http://www.nationalbank.kz/?docid=680&switch=russian> (30.03.2018).

Another notable feature of FDI inflows to Kazakhstan during these years was a very high share of debt instruments, which for most of the period accounted for more than a half of this inflow (up to 87.5% in 2005). The main part of this component is formed by the obligations of Kazakhstan direct investment enterprises to foreign direct investors, that is, in fact, the debts of local subsidiaries to their foreign owners. It is these debts, taken into account by statistics as foreign direct investment that form the so-called “intercompany debt”, which is the main part of Kazakhstan’s external debt and undermines the stability of the national financial system, especially during periods of turbulence in world markets. As of January 1, 2018, the volume of the FDI component “debt instruments” amounted to \$89.9 billion, which corresponded to 61.2% of the total volume of FDI accumulated in Kazakhstan. In addition, this value corresponded to 86.5% of intercompany debt (\$104.5 billion) and 54% of Kazakhstan’s gross foreign debt (\$167.5 billion).¹² Thus, another feature of attracting foreign direct investment in Kazakhstan is high share of debt instruments in them and, as a result, the rapid growth of the country’s external debt, which carries a number of negative consequences and undermines the financial stability of the economy.

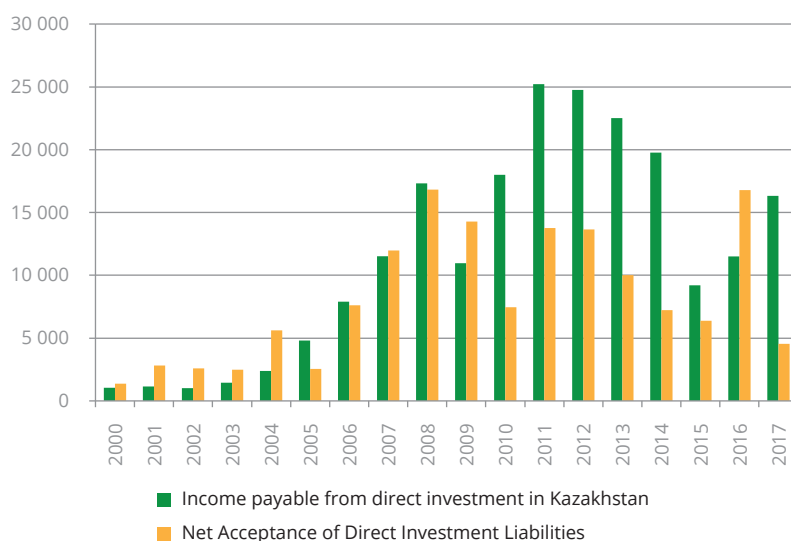
Finally, the third feature of FDI inflows to Kazakhstan is growing share of Kazakhstan companies’ revenues received by enterprises with foreign participation within the country, that is, of Kazakh and not foreign origin, but due to the peculiarities of statistical accounting considered as foreign investment. As noted above, the share of this FDI component (retained earnings attributable to foreign shareholders) has now exceeded 60%. Such a high share in the FDI inflow of funds of Kazakh origin also distorts the overall picture of the process of foreign investment attraction to the country.

Thus, the influx of foreign direct investment in Kazakhstan has a number of specific features that substantially correct the prevailing opinion of both the scale and the role of FDI in the economy. Given these features, this role is no longer so unambiguously positive, given the dominance of debt instruments in the FDI structure that increase the size of external debt and form a long-term trend of increasing capital outflows from the country by paying the principal and interest.

¹² External Debt: Analytic Representation / External Sector Statistics. National Bank of the Republic of Kazakhstan, official website, <http://www.nationalbank.kz/?docid=346&switch=russian> (30.03.2018).

Another controversial trend that has emerged in the field of foreign direct investment in Kazakhstan over the past decade has been a significant excess of income received by investors over the net inflow of investments (Figure 7), which in some years reached a double size. In other words, foreign investors receive significantly more funds in the form of income (and export abroad) than they invest.

Figure 7. Comparative dynamics of the net commitments on FDI in Kazakhstan and on income paid to direct investors in Kazakhstan, USD million¹³



In 2008 to 2017, the total amount of income payable to direct foreign investors amounted to \$175.5 billion, and the total volume of net assumed obligations for FDI was \$111 billion. The total difference of \$65 billion over a decade has become a significant burden on the balance of payments of Kazakhstan. It was the large negative balance of the primary income balance that was formed due to the high outflow of income of foreign investors, which averaged \$19.7 billion over the indicated period, which led to the stable negative

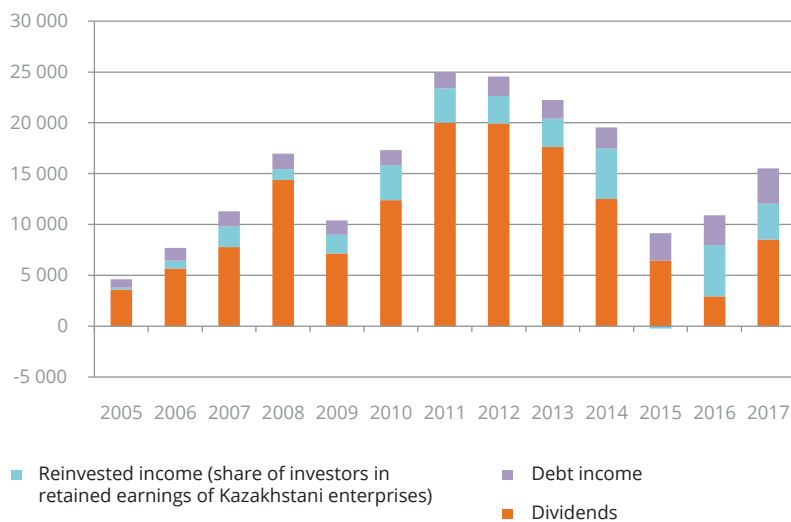
¹³ Calculated based on the data of the National Bank of RK: Balance of Payments of the Republic of Kazakhstan: Analytic Representation / Balance of Payments. National Bank of the Republic of Kazakhstan, official website, <http://www.nationalbank.kz/?docid=343&switch=russian> (02.04.2018).

current account balance over the past three years. In turn, a negative current account balance creates many different problems for the economy – from pressure on the tenge exchange rate, resulting in a devaluation and reduction in international reserves, to a growing debt burden, negative impact on sovereign credit ratings and loss of position in international indices and rankings.

The problem with the outflow of investment income from Kazakhstan is that this outflow is consistently high and, if during the years of favorable external economic conditions it is offset by a positive trade balance, then with a decrease in oil prices (as it was in 2015–2017), this compensation disappears and the current account becomes negative, immediately causing specified problems. Thus, sometimes a high share of foreign capital in the economy gives not only advantages, but also turns into adverse effects.

Considering the withdrawal of direct investment income, it should be borne in mind that not all income received by investors leaves Kazakhstan, its part is reinvested. However, this part is small, the average share of reinvested income in total FDI income in Kazakhstan was 16% between 2005 and 2017, and during this period there were several years when it was close to zero (Figure 8). Thus, the great majority of direct investment income received in Kazakhstan is still withdrawn by foreign investors from the country.

Figure 8. The main components of income from foreign direct investment in Kazakhstan in 2005–2017, \$ million¹⁴



Continuing the topic of the features of statistical accounting of direct foreign investments in Kazakhstan, it can also be noted that a very significant part of them is actually of internal origin, that is, these are investments of companies belonging to legal entities and individuals of Kazakhstan, but registered in the EU for various reasons (tax optimization, the desire to ensure the safety of investments, etc.). This situation is especially characteristic for investment cooperation with the Netherlands, a country where FDI forms almost a half of the total volume of accumulated FDI (\$70.1 out of \$160.2 billion as of the third quarter of 2017).¹⁵ In the Netherlands, traditionally there are especially many subsidiaries and other companies with virtually Kazakhstan capital, which are shareholders of domestic companies and banks (including the largest, even

¹⁴ Calculated based on the data of the National Bank of RK: Direct Investments to the directional principle: flows for the period / Direct Investments Statistics according to the directional principle. National Bank of the Republic of Kazakhstan, official website, <http://www.nationalbank.kz/?docid=680&switch=russian> (30.03.2018).

¹⁵ International Investment Position (IIP) of Kazakhstan by country / Direct Investments Statistics according to the directional principle. National Bank of the Republic of Kazakhstan, official website, <http://www.nationalbank.kz/?docid=680&switch=russian> (02.04.2018).

national ones), which explains the disproportionately high volume of investments from this country to the Republic of Kazakhstan. On the one hand, the high share of such investments explains the Netherlands's leadership in investing in Kazakhstan, and on the other hand, the above-mentioned feature of FDI statistical accounting also contributes to the Dutch leadership picture, since such investments have in many cases a very long history and therefore, the long-term volume of accumulated income from their Kazakhstan assets, offsetting the indicator of accumulated FDI. The presence of a number of offshore territories in the list of leading investment partners of our country may also testify to the high share of Kazakhstan capital in formally foreign direct investments. Fourteen countries, the accumulated FDI of which exceeds \$1 billion in Kazakhstan, include offshore jurisdictions such as Bermuda (\$4.3 billion of accumulated FDI), Virgin Islands (\$2.6 billion), and Luxembourg (\$2.1 billion).¹⁶ Their total volume of investments is almost \$9 billion, which corresponds to 5% of the total volume of accumulated FDI in Kazakhstan.

Countries with small indicators in other areas of economic cooperation present among the largest investment partners of Kazakhstan not only because 'tax-optimized' funds or some shadow capital flows through these countries, but also by the fact that a number of large Kazakhstan companies have changed jurisdiction and now these firms act as foreign investors. This is the case, for example, of the Eurasian Resource Group (ERG) – the former Eurasian Group (which after the privatization of the 90s united the largest metallurgical assets, including TNC Kazchrome, Aluminum of Kazakhstan, etc.), which was transformed in 2006 into the ENRC group, which became a British company and entered the London Stock Exchange in 2007, and is currently registered in Luxembourg. The situation is similar with KazMinerals Corporation (formerly Kazakhmys) and a number of other metallurgical companies that changed their registration to foreign after the privatization. All these initially Kazakhstan companies, including those owned by Kazakhstan owners, are de jure foreign, and investments are made in the status of foreign investors, which increases the statistics of FDI inflows, despite their actual Kazakhstan origin. Even the activity of national companies partially owned by the state are largely carried out through foreign subsidiaries, mainly with Dutch registration, which

¹⁶ International Investment Position (IIP) of Kazakhstan by country / Direct Investments Statistics according to the directional principle. National Bank of the Republic of Kazakhstan, official website, <http://www.nationalbank.kz/?docid=680&switch=russian> (02.04.2018).

in many respects is caused by the leadership of the Netherlands as a source of foreign investment in Kazakhstan. For example, the National Oil Company KazMunayGas participates in the largest oil consortium North Caspian Operating Company (NCO) engaged in the development of Kashagan and other oil fields in the Kazakhstan sector of the North Caspian Sea, not directly, but through a subsidiary of KMG Kashagan B.V. registered in the Netherlands.¹⁷ Accordingly, the investments in this project implemented by NC KazMunayGas are recorded as foreign. The practice to carrying out activities in Kazakhstan through the Netherlands subsidiaries is quite widespread not only in the oil industry, but also in other sectors of the economy (for example, in the banking sector), and this practice, in which investments of Kazakhstan origin are considered as European, also significantly distorts the real situation with the actual influx of truly foreign money into the national economy. Unfortunately, there are no statistics that allow us to allocate funds from foreign subsidiaries of Kazakhstan companies in the inflow of foreign investments, which does not allow us to clear the relevant data from this component.

If we try to evaluate the inflow and accumulated volumes of foreign investment in Kazakhstan critically, in particular, having cleared the relevant indicators of those components that are either loans and other forms of repayable funds (commodity loans, advance payments, etc.¹⁸), or have Kazakhstan origin that got into the statistics of FDI, passing through foreign subsidiaries of local business, can reduce the actual inflow of foreign investment significantly. Such an assessment is not methodological but applied, since the Kazakhstan methodology for foreign investment accounting meets international standards applied in most countries of the world. Clarification of the real scale of the inflow and the accumulated volume of FDI will make it possible to comprehend the reasons for the lack of investment attractiveness of the country among 'real' foreign investors, specify the industry problems that impede their attraction, and adjust government policy at the level of methods and mechanisms to stimulate this process.

In general, summing up the review of the current situation in the field of foreign investment attracting in Kazakhstan, we can draw the following conclusions:

¹⁷ North Caspian Project. PSA LLP website, <http://www.psa.kz/about/history/> (06.05.2017).

¹⁸ Accounted in the statistics of "other investments".

The sectoral structure of foreign investment retains a pronounced raw material nature, which is especially pronounced in attracting direct investment, more than 83% of which is concentrated in the mining industry, exploration and pipeline transport.

Most of the investments attracted to the country (\$167 billion of accumulated volumes or 73.5% of the volume of foreign investments in Kazakhstan) are borrowed funds of various types, that is, repayable money that will need to be repaid, and in a larger amount, and the return of which means the withdrawal of capital from Kazakhstan.

The share of accumulated investments in capital is relatively small and amounts to 25% of foreign direct investment, that is, investments in the classical sense of the term make up only a quarter of the total volume of accumulated FDI.

The net inflow of foreign direct investment has been declining since 2012 and has now fallen below the 2006 level.

The level of income of foreign investors from direct investments has steadily exceeded the net inflow of FDI since 2010, which means the negative impact of foreign direct investment on the balance of payments and current account – large revenue deficit has become the main reason for the current account deficit over the past three years.

The FDI structure has a high share of foreign investors in retained earnings, which is not an actual inflow of funds from abroad and is generated by Kazakhstan enterprises in Kazakhstan, but is reflected in the statistics as foreign investment, which distorts the picture of the real inflow of funds from foreign investors.

A significant part of the inflow of foreign investment is funds of Kazakhstan companies (including national ones), conducted through their foreign subsidiaries, which overestimates the volume of actual foreign investments.

Legal Regulation of the Labor Market of Kazakhstan: Problems and Solutions

Dr. Muslim Khassenov

The labor market is influenced by many factors. In the context of legal support for the functioning of the labor market, it is necessary to consider the issue in the framework of three main areas – the regulation of labor relations, employment policy and migration policy. Every direction is represented at three levels: international, integration (supranational), and national (the Republic of Kazakhstan).

Three levels in each direction are determined by the fact that the legal regulation of the labor market is influenced by three systems: international law (ratified international conventions and agreements), integration law (legal acts of the Eurasian Economic Union), and national law (legislation of the Republic of Kazakhstan).

We have a square with six dimensions. Conditionally, let us call it “Square of labor market legal regulation”.

Table 1. The square of the labor market legal regulation

1.1. International Regulation of Labor Relations AVAILABLE	2.1. International Employment Policy AVAILABLE	3.1. International Migration Policy AVAILABLE
1.2. Regulation of Labor Relations in the EAEU PARTIALLY AVAILABLE	2.2. The EAEU Employment Policy NOT AVAILABLE	3.2. The EAEU Migration Policy AVAILABLE
1.3. National Regulation of Labor Relations AVAILABLE	2.3. National Employment Policy AVAILABLE	3.3. National Migration Policy AVAILABLE

1. The Real Picture of the Labor Market: Statistics and Trends

The labor market is one of the fundamental pillars of the social and economic development of any state.

According to official statistics,¹ the labor market of Kazakhstan is presented as follows.

As of quarter 1 of 2018, the workforce aged 15 years and older in the first quarter of 2018 amounted to 9.0 million people. 8.5 million people were employed in the economy of the country, or 66.1% of the population aged 15 years and older. The number of employees amounted to 6.5 million people. The number of self-employed people is 2 million.

The number of unemployed (people aged 15 years and older who did not have a profitable occupation, actively searched it, and were ready to start) in the first quarter of 2018 amounted to 437.8 thousand people. The unemployment rate was 4.9%.²

In the total number of unemployed, the share of young people aged 15–24 years old was 8.9%, or 39.1 thousand people, aged 15–28 years old – 19.2%, or 84.0 thousand people. The youth unemployment rate at the age of 15–24 years old was 3.9%, at the age of 15–28 years – 4.1%.³

According to experts, one out of 15 unemployed people approaches the state employment service for help – this clearly demonstrates the lack of trust to the official institutions of the labor market. The number of unemployed is determined not by roll-call registration of every citizen searching for job, as it is customary in the world practice, but by the efforts of the country's statistics – by calculation, using the residual principle. The results of independent studies conducted by the audit company E&Y indicate a high proportion of hidden unemployment in the country, although the official unemployment rate has remained at 5% over the past few years. Consequently, successful statistics of

¹ The official website of the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, <http://stat.gov.kz> (06.06.2018).

² The official unemployment rate does not take into account hidden unemployment, since it includes only people who applied to employment centers.

³ On the Situation on the Labor Market in the First Quarter of 2018. Express information as of May 11, 2018, No. 36–8/179.

employment and unemployment could have occurred as a result of classifying unregistered unemployed as a self-employed population or other actions.⁴

Turning to the international assessment of the labor market of Kazakhstan, it is necessary to analyze the results of the study of the World Economic Forum 'The Global Competitiveness Index' (the Index).

It is noteworthy that one of three main conclusions of this study for 2017 relates to the labor market. It is noted that equal flourishing of the labor market flexibility and employees security need to be ensured in the era of the fourth industrial revolution.⁵ The index contains 12 indicators, one of which is labor market efficiency. Its essence boils down to assessing the labor market flexibility, which demonstrates to what extent opportunities are ensured in order for employees to make the most efficient use of economic incentives and make every effort in their workplaces. According to the Index, effective labor market facilitates the rapid movement of employees from one economic activity to another at low costs for both the employee and the employer.

Pursuant to the results of the 2017–2018 Index, Kazakhstan ranks 35th in terms of labor market efficiency. By the way, this indicator is the highest among all 12 rating indicators.

It is a quite contradictory fact that the labor market performance indicators and related indicators do not reflect the reform of labor relations liberalization conducted in 2015. On the contrary, based on the Index it turned out, the labor market became less efficient and flexible, when new Labor Code of the Republic of Kazakhstan was adopted.

Thus, Kazakhstan was ranked 15th in the world in terms of labor market efficiency in 2013–2015, and 20–24th in terms of flexibility in labour remuneration. One can doubt this, since the main reason for the 2015 reform was precisely the lack of flexibility and efficiency of the labor market.

⁴ Kulekeyev, Zh.A.: Ten Features of the Labor Market of Kazakhstan / Official website of the Center for Applied Economics Research, <https://cipe.kz/ru/articles/macroeconomics.html?id=107> (10.06.2018).

⁵ The Global Competitiveness Report 2017–2018 / World Economic Forum: Geneva, 2017, <http://www.weforum.org/gcr> (29.05.2018).

Table 2. The results of the indicator Labor Market Efficiency of the Global Competitiveness Index, Kazakhstan profile, 2012–2018

Years	Labor market efficiency	Social partnership	Remuneration flexibility	Hiring and dismissal practice	Payment and productivity
2017–2018	35	68	105	41	50
2016–2017	20	60	39	31	38
2015–2016	18	53	22	29	22
2014–2015	15	49	20	22	16
2013–2014	15	40	24	21	9
2012–2013	19	49	30	24	10

It is worth noting that the methodology for measuring this indicator (labor market efficiency) is mainly based on surveys of managers of large enterprises of the country, which raises certain questions to the objectivity of the results, in particular, taking into account the interests of employees, when assessing.

At the same time, according to the assessment of domestic experts, the labor market of Kazakhstan is notably different from similar markets of other countries of the world due to its underdevelopment. In this, difficulties that arose during the transformation of the social and political system of our state, as well as in the implementation of serious reforms in the face of limited financial and investment resources, insufficient experience in institutionalizing market transformations, etc., played their negative role. Due to these circumstances, the modern labor market of Kazakhstan is distinguished by such features as a high share of informal and shadow employment, weak social security of the unemployed, and an increase in the share of working citizens in the specialty they have not trained in, low mobility of labor resources, etc.⁶

Thus, as we can see from the above examples, statistics and international ratings do not reflect the real picture in the labor market due to methodological features.

⁶ Kulekeyev, Zh.A.: Ten Features of the Labor Market of Kazakhstan / Official website of the Center for Applied Economics Research, https://cipe.kz/ru/articles/macro_economics.html?id=107 (10.06.2018).

In the conditions of insufficient and unreliable statistics, it becomes an unachievable goal to track the impact of most of the government-adopted program measures to improve the situation on the labor market and the economy in general.⁷

These shortcomings demand to review the statistical information generation system and the labor market efficiency ranking system. Currently, the authorized body for employment issues analyzes, forecasts the demand and supply of labor, informs the Government of Kazakhstan about the state of the labor market based on the Employment Law of the Republic of Kazakhstan. I believe that in this case, the state of the labor market affects not only the government, but also the Parliament and civil society as a whole. Generally, it is more correct to inform society about the state of the labor market.

In this regard, it is proposed to envisage in the Labor Code the preparation and publication of the annual National Labor Report in the Republic of Kazakhstan, which includes key indicators of employment and labor statistics, the composition of the economically active population, information on the status of individual and collective labor relations, and compliance with labor laws.

This comprehensive document should be a joint result of the work of the country's key social partners: the state represented by the Government of the Republic of Kazakhstan and the relevant ministry, employers represented by the National Chamber of Entrepreneurs of the Republic of Kazakhstan, and workers represented by the Federation of Trade Unions of Kazakhstan. Parliamentary hearings should be held to discuss the preliminary results of the National Report. The final version of the National Labor Report should be presented annually in December at an expanded meeting of the trilateral Commission on Social Partnership and the Regulation of Social and Labor Relations, possibly with the participation of the President of Kazakhstan and representatives of civil society.

The practice of preparing national reports in Kazakhstan has been going on for several years. Thus, today there are eight such areas:

- National Report on the State of Entrepreneurial Activity
- National Report on the State and Development of the Education System

⁷ *ibid.*

- National Science Report
- National Energy Report
- National Report on the State of the Environment and the Use of Natural Resources
- National Report on the State of Public Service
- National Anti-Corruption Report
- National Report “Youth of Kazakhstan”.

2. Regulation of Labor Relations

2.1. International Regulation of Labor Relations

Since 1993, the Republic of Kazakhstan is a member of the International Labor Organization (ILO). Accordingly, Kazakhstan has undertaken obligations under the ILO Constitution and ratified ILO conventions.

As scientists note, the ILO created, in fact, the International Labor Code in the form of declarations, conventions, and recommendations. The fundamental principles enshrined in the ILO Constitution, in the Declaration on Fundamental Principles and Rights at Work (1998), are binding for all member states regardless of ratification by states of the relevant conventions.⁸

The ILO has an effective system of international monitoring of compliance with international labor law. The following mechanisms are included in this system:

- a) Regular (permanent) control
- b) Control carried out as needed based on recommendations and complaints
- c) Special control.⁹

To date, Kazakhstan has ratified 24 ILO conventions (including all current ones – eight fundamental and four priority conventions),¹⁰ which are a part of the

⁸ Alston, P.; Heenan J.: Shrinking the International Labor Code: An Unintended Consequence of the 1998 ILO Declaration on Fundamental Principles and Right at Work? / New York University Journal of International Law and Politics. Vol. 36. 2004. – Pp. 221–264.

⁹ Lushnikova, M. V.; Lushnikov A. M.: International and Comparative Labor Law and Social Security Law. Moscow: Yurlitinform, 2011. – Pp. 181–204.

¹⁰ See Khasenov, M. Kh.: The Legal Mechanism of Social Partnership in the Labour Relations / Dissertation for the degree of Doctor of Philosophy (Ph.D) in Jurisprudence. Astana: ENU named after L. N. Gumilyov, 2016.

current law of Kazakhstan and have priority over laws according to Article 4 of the Constitution of the Republic of Kazakhstan.

However, Kazakhstan has the lowest rate of the number of ratified ILO conventions in force among the EAEU Member-States.

Table 3. Quantitative indicators of ratification of ILO International Conventions by EAEU countries

The EAEU Member-State	Valid ILO Ratified Conventions
Armenia	29
Belarus	49
Kazakhstan	24
Kyrgyzstan	53
Russia	57

Despite the ratification of the above conventions and the establishment of their priority in relation to the laws of Kazakhstan, the implementation of international instruments faces serious challenges.

It should be noted that currently facts of violation of ILO international standards exist in Kazakhstan.

Thus, the ILO experts state that the current Law of the Republic of Kazakhstan dated June 27, 2014 No. 211 “On Trade Unions” (the Law) violates the right to freedom of association and contradicts international legal norms and standards in the field of labor on the following grounds¹¹:

1. First of all, the right of trade unions to freedom of association established by ILO Convention No.87 on freedom of association and protection of the right to organize and the International Covenant on Economic, Social and Cultural Rights is violated; the Republic of Kazakhstan ratified both documents.

Currently, a mandatory requirement is established for each trade union or trade union association to be a member of a higher association of trade unions.

¹¹ Khasenov, M. Kh.: Problems of Fulfillment of International Obligations by the Republic of Kazakhstan to Ensure the Right to Freedom of Associations in the Labor Relations / Bulletin of the Kazakhstan Association of International Law, No.4 (40), 2017. – Pp. 71–79.

2. The principle of the notification nature of the registration of the trade union and the right of the trade union to organize their activities and develop their charter established by ILO Convention No.87 are violated.

ILO Convention No.87 provides for the notification of trade union registration. In particular, according to Article 2 of the Convention, employees and employers, without any distinction, have the right to organize without prior permission, as well as the right to join such organizations on the sole condition of abidance by their charters. This rule also applies to federations and confederations of organizations of employees and employers.

Pursuant to Article 33 of the Law, trade unions have to amend the constituent documents and organizational structures within one year from the day the Law enters into force in accordance with the requirements of the Law.

However, according to Article 3 of the Convention, organizations of employees and employers have the right to develop their charters and administrative regulations, freely choose their representatives, organize their apparatus and activities, and formulate an action program. State authorities should refrain from any interference capable of restricting this right or hindering its lawful exercise.

As follows from the Law, government bodies can refuse to register trade unions referring to the imperfection of the charter. The Law indicates the typical structure and authorizes the government agencies to intervene in the internal trade union activity, including through the requirement to change the charters.

3. The right of the trade union to hold a strike established by ILO Convention No. 87 is violated.

Article 21 of the Law provides an exhaustive list of conditions, under which trade unions may decide to hold a strike: 1) if a collective labor dispute has not been resolved through conciliation procedures; 2) in cases, where the employer evades conciliation proceedings or fails to fulfill the agreement reached during the resolution of the dispute.

4. Restriction of the forms of trade union representation of workers.

According to the Law, primary organizations, local trade unions, sectorial, territorial, and republican associations of trade unions can exist in Kazakhstan

today de jure. Obviously, the legislator cannot limit the desire of people to unite only within the framework of these five forms. It is impossible to limit the principles of bringing people together in trade union organizations by limiting their forms. As fundamentally, it contradicts to international law.

According to international standards, trade unions have the right to unite based on belonging to a profession, occupation, industry, territory, etc. Moreover, workers should determine the internal structure.

Thus, international legal acts have a significant impact on the regulation of labor relations, contain fundamental principles and minimum employment regulation standards, which are not always implemented in the legislation of the country.

2.2. The EAEU Regulation of Labor Relations

Currently, at the level of the Eurasian Economic Union (the EAEU), there is no supranational labor code or labor law. Labor relations are regulated in accordance with labor codes adopted by each EAEU Member-State.

The EAEU Treaty provides for equal labor rights of migrant workers of the EAEU Member-States. Moreover, the EAEU Treaty contains only provisions related to labor migration and single labor market, that is issues of employment and labor movement between the states. However, the rules of national law are applied with regard to the rules of regulation of already existing labor relations.

At the same time, taking into account the emerging supranational law of the EAEU, concepts and ideas on the unification of the labor relations legal regulation appear in legal science.

Thus, the international textbook “The Eurasian Labor Law” published in 2017 by scientists from Belarus, Kazakhstan, Kyrgyzstan, and Russia states that the Eurasian regional model of the international legal regulation of labor (The Eurasian Labor Law) is a relatively young regional international legal system that is in its infancy and represents very mosaic picture. The final outlines of this legal model have not yet been determined, but further development trends are generally traced.¹²

¹² Eurasian Labor Law: A Textbook / Edited by Lushnikova, M. V.; Ramankulov, K. S.; Tomashevsky, K. L. - Prospect, Moscow, 2017. - P. 32.

If we turn to the experience of the EAEU predecessor – the Eurasian Economic Community (the EurAsEC), then, over the entire period of the EurAsEC's existence, only the concepts of the legislative framework have been developed, including the EurAsEC Labor Law Fundamentals (the Resolution of the Bureau of the Interparliamentary Assembly of the Eurasian Economic Community dated October 27, 2010, No. 8) and Recommendations on the Harmonization of Labor Legislation of the EurAsEC Member States (approved by the resolution of the EurAsEC IPA dated May 13, 2009).

When the EurAsEC was terminated, these documents became null and void, and currently within the EAEU there are no acts to be the basis for the unification of the labor legislation of the EAEU countries.

Thus, supranational legislation of the EAEU does not contain standards that regulate the use of the labor of employees.

2.3. National Regulation of Labor Relations

At the national level, labor relations are mainly regulated by the Constitution of the Republic of Kazakhstan, the Labor Code of the Republic of Kazakhstan, the Law of the Republic of Kazakhstan "On Trade Unions", a number of industry laws (for example, the Law of the Republic of Kazakhstan "On Public Service", etc.), and by-laws (over 40 government decrees and orders of the relevant ministries).

In addition, the normative resolution of the Supreme Court of the Republic of Kazakhstan dated October 6, 2017 No. 9 "On Some Issues of the Application by the Courts of the Legislation to Resolve Labor Disputes", which contains official explanation of the labor legislation for the courts, is in force.

The Labor Code of the Republic of Kazakhstan, which was adopted on November 27, 2015 and entered into force on January 1, 2016, has radically changed compared to the previous Labor Code of 2007. The reform on the liberalization of the Labor Code was mainly aimed at stimulating job creation and investment attraction.

The current Labor Code differs fundamentally from the previous editions, as it legislatively indicated transition to strengthening the autonomy of the parties to employment and collective agreements, expanding the collective

agreement method of social and labor relations regulation, and minimizing government interference in the labor legal area.

When describing the current Labor Code of the Republic of Kazakhstan, it is necessary to note a distinctive feature, which consists in the fact that a significant number of articles (about 56) has a reference to collective agreements. Thus, the legislator, laying the foundations for the autonomous regulation of social and labor relations subject to agreement between employees and employers, thereby established a clear “divide” between the minimum social and labor guarantees provided by the state and guarantees established as a result of collective negotiations between employees and employers.

At the same time, we should mention the shortcomings of the Labor Code of the Republic of Kazakhstan.

According to the OECD’s estimates, pursuant to the report published in 2017, “Building Inclusive Labor Markets in Kazakhstan: A Focus on Youth, Older Workers and People with Disabilities”, part-time employment and fixed-term employment contracts are not sufficiently applied in Kazakhstan: only about 2.7% of employees are employed for 30 hours a week, and less than 5% of employees have fixed-term contracts.¹³

Despite the reform on the labor legislation liberalization, the duality of the labor market remains: the legislation on fixed-term employment contracts has become too flexible, and the regulation of permanent employment contracts has retained sufficient rigidity. According to the OECD methodology, from 0 to 6 points, Kazakhstan has a score of 3.2 in terms of the rigidity of legislation on permanent contracts, while the average value in OECD countries is 2 points.

At the same time, extremes are observed within the regulation of permanent contracts: on the one hand, very flexible conditions (for example, low compensation for dismissals without observing the conditions of the Labor Code; low severance pay, and a short notice period) and at the same time very strict provisions (strict notification procedures upon dismissal, limited opportunities for reinstatement at work upon unlawful dismissals).

¹³ Building Inclusive Labour Markets in Kazakhstan: A Focus on Youth, Older Workers and People with Disabilities. / OECD Publishing, Paris, 2017.

In the assessment system of the fixed-term contracts regulation, Kazakhstan received 1.5 points, while the average indicator for the OECD was 2 points, i.e. OECD countries have stronger legislation on fixed-term employment contracts than Kazakhstan.

Firstly, there are no restrictions on the application of fixed-term contracts. Secondly, the minimum term is one year, and there is no maximum term for the contract. Moreover, the conditions for the extension or renewal of a fixed-term contract are quite strict. An employer does not have the right to terminate fixed-term employment contracts after they automatically switch to permanent contracts (which follows the expiration of the fixed-term contracts).

It should be noted that less than 9% of young people aged 15 to 24 are employed on the basis of temporary (fixed-term) contracts, which is significantly lower than in the OECD countries – about 25%.

In addition, there is no regulation of Temporary Agency Work or personnel lease in Kazakhstan. Today, it is illegal and traditionally causes negative reaction among civil society. However, this type of employment allows employees to gain experience and the opportunity to switch to stable, permanent employment.

The essence of Temporary Agency Work is that a special recruitment agency hires an employee to carry out temporary tasks of an individual employer, which are usually not the subject of employer's main activity. At the same time, such workers have lower protection against dismissal and have social guarantees. Of the post-Soviet countries, this type of employment is legalized with significant restrictions in Russia and Latvia. In a number of countries, for example, Argentina, Brazil, Belgium, Estonia, Korea, Poland, Norway, and Slovakia, the use of temporary agency work should be justified by objective reasons (seasonal work, temporary work).

The use of temporary agency work is considered as a tool for short-term increase in labor market flexibility, which helps to reduce unemployment. For example, in Germany, 68% of all agency workers in 2006 were unemployed in the past, and 15% were long-term unemployed (more than one year). In this regard, temporary agency work creates the so-called "crossing" effect (*brueckeneffekt* – German), i.e. increases the likelihood of overcoming unemployment

and switching to regular employment. This is especially relevant for long-term unemployed and various marginalized groups in the labor market.

Incidentally, the ILO has gone a path from a complete rejection of temporary agency work idea to attempts to somehow streamline this way of attracting labor force. The ILO recognized temporary agency work in 1997 by adopting Convention No.181 concerning private employment agencies that obtained the right to hire workers in order to grant them to the third party. However, only 23 countries joined this Convention, i.e. no more than 12% of the total number of the ILO members.

In half of the OECD countries, this type of recruitment is a licensed type of activity and requires the permission of the authorized body, as well as periodic reports on the legal requirements fulfillment. At the European Union level, the Directive on Temporary Agency Work has been adopted, which establishes general guarantees for temporary employed workers.

Despite the reform on liberalization of labor legislation in Kazakhstan, problems in the flexibility and effectiveness of labor regulation remain. In addition, the situation is aggravated by gaps and contradictions in the labor legislation caused by the low quality of legislative work.

2.4. Improving Regulation of Labor Relations

The labor legislation of Kazakhstan has certain paradoxes and problems that need to be addressed.

2.4.1. Responsibility

The main issue and the problem of labor relations regulation and compliance with labor legislation is responsibility. There is a paradoxical situation in Kazakhstani legislation. “Thanks to” the efforts of the “lobby” of employers, the employee has become even weaker side of the employment relationship than before. Today, the employee takes full disciplinary, material, administrative, and criminal liability. Therefore, the employee can be pressed from four sides.

Firstly, the new Labor Code broadens the grounds for dismissing an employee on the initiative of the employer – there are six more of them than in the previous Labor Code. The retirement age of the employee is one of the most resonant grounds.

Secondly, new Labor Code removes the upper limit of employee's financial liability. In the previous Labor Code of 2007, the limits of employee's financial liability were established, which were excluded from new Labor Code of 2015. Previously, the employee was financially liable for the caused damage within the range of employee's average monthly salary, unless otherwise provided by the Labor Code. Other grounds were covered by conclusion of agreements on full financial liability. According to the current Labor Code, there is a situation, when the employee has full financial liability in all cases. Given this fact, full financial liability agreements lose their meaning.

In addition, unlike the employee, the employer's financial liability (for harm caused to the life and/or health of the employee) is limited to the amount of 250 monthly calculation indices established for the corresponding fiscal year by the law on the republican budget (about 600 thousand tenge).

Thirdly, more than a half of mandatory provisions of the Labor Code are not sanctioned, i.e. established liability for their violation (criminal or administrative). For this reason, many provisions remain declarative.

The previous Code of Administrative Offenses dated January 30, 2001 contained elements of the offense – "Violation by the employer or officer of the labor legislation of the Republic of Kazakhstan" (Article 87), which combined many mandatory provisions of the Labor Code of the Republic of Kazakhstan. Definitely, we can agree that this interpretation is quite broad and requires a more differentiated approach. Therefore, it is necessary to clearly state the elements of administrative offenses based on specific norms of labor legislation.

What balance of interests of the parties to labor relations can we talk about when there is such an imbalance in matters of responsibility?

2.4.2. Minimum standard of labor remuneration

In the new Labor Code, minimum standard of labor remuneration (MSLR) is excluded from the list of minimum social standards in the field of labor. The exclusion of this type of minimum standard significantly reduced the guarantees of the rights of workers engaged in heavy work, work with harmful (especially harmful), and hazardous working conditions.

MSLR was a guaranteed minimum monthly wage for workers engaged in heavy work, work with harmful (especially harmful), and hazardous working

conditions that included a minimum set of food products, goods, and services needed to restore the vitality and energy of the worker exposed to harmful, and/or hazardous production factors during operation. Now this issue is fully transferred to the level of collective bargaining regulation, although earlier the MSLR was approved by the government and constituted a substantial guarantee for the employees.

Given that collective bargaining regulation in Kazakhstan is not at sufficiently high level, I consider the exclusion of MSLR as a state guarantee in the field of labor to be premature.

2.4.3. Public control

Another paradox of the new Labor Code is a significant limitation of public control. According to Article 155 of the Labor Code of Kazakhstan, the right to exercise public control over the compliance with labor legislation of the Republic of Kazakhstan is vested only with republican and sectorial associations of workers, with the proviso – on the terms and in the order specified in agreements and collective agreements. That is, if there is no such terms and order, then this provision becomes unrealized and declarative.

Moreover, the trade unions and the representatives of workers in general are not vested with powers to exercise public control. In addition, the Labor Code does not provide for a mechanism of public control.

The procedure for exercising public control over the observance of the rights of trade union members established by Article 20 of the Law of the Republic of Kazakhstan “On Trade Unions” shall be considered as insufficient, because public control is limited only to the participation of trade unions in the certification of production facilities under working conditions on an ongoing basis and as part of a commission for the investigation of industrial accidents.

The situation is such that if relevant agreements and collective agreements do not include public control terms and procedure, then public control is not feasible in practice.

To date, out of 18 sectorial agreements, only one sectorial agreement in the oil and gas, oil refining, and petrochemical sectors has established in 2017–2019 the conditions and procedure for public control to be executed by sectorial associations of workers. Such provisions are absent in all other sectorial

agreements, since the wording of the Labor Code allows for the optional inclusion of relevant requirements in the content of sectorial agreements.

In this regard, the Labor Code must establish a mandatory requirement to fix in social partnership agreements and collective agreements the conditions and procedures for public control to be executed by employees' representatives.

2.4.4. Execution of collective agreements and accords

Public control is linked inextricably to its form – monitoring the execution of collective agreements and accords.

In Kazakhstan, the single provision is contained in paragraph 6 of Article 154 of the Labor Code of the Republic of Kazakhstan and reads as follows: "The parties to social partnership monitor the execution of agreements." It states nothing about collective agreements. Everything is at the discretion of the parties to the contract. I think that this is not enough, because issues of working conditions and work organization should be at the discretion of the parties, but general institutional mechanisms, such as control, are guarantees of the social partnership development.

In this regard, it is proposed to consider introducing into the Labor Code of the Republic of Kazakhstan the obligation of the parties to the collective agreement to report on the fulfillment of obligations at the general meeting (conference) of the labor collective, and to provide all necessary information for this.

A similar mechanism needs to be provided for social partnership agreements, including regional and sectorial ones, at annual meetings of the relevant commissions. Additionally, such reports should be published on Internet resources so that everyone can read them. All this should be fixed legally.

Thus, it is necessary to continue improving labor legislation in terms of eliminating paradoxes and contradictions in legal regulation.

2.4.5. Age discrimination in labor relations

The labor legislation has a paradoxical situation related to the age discrimination in labor relations.

According to paragraph 2 of Article 6 of the Labor Code of the Republic of Kazakhstan, no one may be subjected to any discrimination including age,

when exercising labor rights. However, the Labor Code of the Republic of Kazakhstan has the following discriminatory provisions related to employees based on the age criterion:

1. Established the possibility to extend unlimited number of times with an employee who has reached retirement age (paragraph 5 of Article 30 of the Labor Code of the Republic of Kazakhstan),
2. Established the possibility to terminate the employment contract on the initiative of the employer in cases when the employee reaches the retirement age (subparagraph 24) of paragraph 1 of Article 52 of the Labor Code of the Republic of Kazakhstan.

Thus, the retirement age as the basis for terminating the employment contract at the initiative of the employer, as well as excluding the guarantee in the form of limiting the number of renewals of the fixed-term employment contract, is age discrimination. In this regard, it is proposed to exclude the above provisions that discriminate against employees by age criteria.

3. Employment Policy

3.1. International Employment Policy

Among international conventions ratified by Kazakhstan, the employment issues are regulated by the Employment Service Convention, 1948 (Convention 88).¹⁴

According to the Convention, each member of the ILO, for which this Convention is in force, maintains or ensures the maintenance of a free public employment service. The main duty of the employment service is to ensure, if necessary, in collaboration with other interested public and private institutions, the best possible organization of the employment market as an integral part of the national program to achieve and maintain full employment, development, and use of productive forces.

The employment service consists of a national employment system, which operates under the direction of the state authority.

¹⁴ Law of the Republic of Kazakhstan "On Ratification of the Convention on the Organization of the Employment Service" dated December 14, 2000, No. 119-II.

The general policy of the employment service, when it comes to directing people to vacant positions, is developed after consultation with the representatives of employers and workers.

Today, this international treaty is the only source of international legal regulation of employment in Kazakhstan.

3.2. Integration Employment Policy

The EAEU Treaty establishes that the labor activity of workers is regulated by the laws of the state of employment, taking into account the provisions of this Treaty. However, the Treaty establishes only the general framework for a coordinated migration policy. This means that the Treaty does not contain any grounds or even prerequisites to pursue an agreed employment policy at the integration level. All issues of labor law and measures to promote employment are provided for at the national level of the member states. Neither the primary nor secondary law of the EAEU, i.e. international treaties and decisions of the Commission do not provide for the above issues.

Thus, today there are no sources regulating the issues to promote employment at the integration level.

3.3. National Employment Policy

Measures to ensure employment in Kazakhstan are provided by the Law of the Republic of Kazakhstan "On Employment" dated April 6, 2016, the Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021, and a number of by-laws of the Ministry of Labor and Social Protection of the Population,¹⁵ such as:

- Rules for organizing and financing public works,
- Rules for organizing and financing social jobs,
- Rules for organizing and financing youth practice,
- Rules for the organization and financing vocational training,
- Rules for social vocational guidance.

¹⁵ The Order of the Minister of Health and Social Development of the Republic of Kazakhstan dated June 14, 2016 No. 516 "On Some Issues for the Population Employment Promotion".

The Employment Law¹⁶ contains the following tools:

- 1) Youth internship is designed specifically for the unemployed from among graduates of educational institutions implementing educational programs of technical and vocational, post-secondary, higher, and postgraduate education in the profession (specialty), not older than 29 years,
- 2) Social job is a workplace the employer creates on a contractual basis with the employment center to employ the unemployed by subsidizing their wages,
- 3) Social vocational guidance is a set of measures aimed at providing practical assistance in choosing professions, changing occupations, and advanced training taking into account professional knowledge, skills, personal interests, and labor market needs,
- 4) Public work is a type of labor activities organized by employment centers that do not require prior professional training of workers, having a socially useful orientation to ensure their temporary employment,
- 5) Setting quotas for jobs for four categories of workers:
 - disabled people – in the amount of from 2 to 4% of the number of jobs excluding jobs in hard work, work with harmful, hazardous working conditions,
 - persons registered with the probation service,
 - persons released from places of deprivation of liberty,
 - citizens from among the youth who have lost parents or who have remained without care before the age of majority, who are graduates of educational institutions.
- 6) The assistance to the entrepreneurial initiative is delivered to unemployed and self-employed through state support measures, which include training in the basics of entrepreneurship, the provision of services to support the project, microcredit on a repayable basis,
- 7) Promoting voluntary resettlement to increase labor mobility means to provide employees and their families with subsidies for relocation, housing,

¹⁶ The Law of the Republic of Kazakhstan dated April 6, 2016 No. 482-V ЗPK “On the Employment of the Population”.

including service housing, a dormitory room, as well as assist to find employment in new place of residence,

8) The provision of training, which includes vocational training, retraining, and advanced training,

9) The employment centers provide temporary work for people who are looking for jobs for the first time (previously not working) and who are unqualified, as well as for students and senior students of secondary schools during the summer holidays.

A serious problem to implement the provisions of the Law is the insufficient level of interagency coordination on employment issues in practice and the lack thereof at the legislative level.

According to Article 7 of the Employment Law, the authorized body for employment (i.e. the Ministry of Labor and Social Protection), coordinates the activities of local executive bodies, the center for the development of labor resources within its competence on employment.

However, we see that even at the level of the law, there is no talk of any inter-agency coordination. Although employment issues affect the majority of the relevant ministries. In particular, Article 3 of this Law refers to the main directions of state policy in the field of employment of the population, including:

- 1) To focus the education system on personnel training according to the needs of the labor market and the prospects for its development, and this is the competence of the Ministry of Education and Science of the Republic of Kazakhstan,
- 2) To implement financial, tax and investment policies, consistent with the state policy in the field of employment, stimulating the creation of jobs and special jobs for the employment of persons with disabilities. This is the competence of the Ministry of Finance, the Ministry of National Economy, the Ministry of Investment and Development.

The Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021¹⁷ plays a significant role in ensuring legislative guarantees of employment. In terms of employment promotion, the Program provides for the following measures:

1) To provide the participants of the Program with technical and vocational education and short-term vocational training:

- To train the personnel with technical and vocational education, taking into account the needs of the labor market,
- To provide the short-term professional training of workers in professions and skills that are in demand on the labor market,

2) To develop mass entrepreneurship,

- To train the program participants in the basics of entrepreneurship under the Bastau Business project:
- To support entrepreneurial initiatives in rural and urban areas,
- To guarantee loans/microloans in cities and rural areas,

3) To develop the labor market through the promotion of employment and labor mobility:

- The social vocational guidance, assistance in choosing a profession, advice on training and employment,
- To search suitable vacancies and assist in employment,
- To create social jobs,
- To organize youth practice,
- To organize public works.

At the same time, the relationship between entrepreneurship and self-employed population justifies the need to institutionalize the self-employed population to focus the entrepreneurial potential of the self-employed population in the most socially significant segments of Kazakhstan's society.

¹⁷ The Decree of the Government of the Republic of Kazakhstan dated December 29, 2016 No. 919 "On Approval of the Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021, Amendments and Additions to the Decree of the Government of the Republic of Kazakhstan dated December 30, 2015 No. 1136 "On Approval of the List of Government Programs and Recognition of Certain Decrees of the Government of the Republic of Kazakhstan as Having Lost Force".

To develop professional communities in the regions can be the tool for this from the experience of guilds and workshops of the Middle Ages. The ideas of a corporate, integrated, and functionally organized society have existed for a long time. However, today this well-forgotten experience can play a good service. For example, associations of clothing designers, interior designers and decorators, craftsmen and confectioners are forming in the regions of Kazakhstan.

In the Middle Ages, almost all the economic activities of an “economic person” took place within the framework of various corporations (workshop, guild, community). Medieval society was corporate from top to bottom. A person was always in contact with the corporation at that time one way or another. Guilds became the first self-governing professional associations that simultaneously contributed to progress and social peace. Later, as you know, guilds, workshops, and communities gave way to free trade, independent industrial enterprises, hired workers, and private ownership of land. Syndicates, labor unions, societies, etc. were established over time.¹⁸

In my opinion, it is necessary to adjust the Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021 in terms of supplementing areas related to the formation of professional communities among the self-employed population. It is necessary to assist the uniting of self-employed citizens by their professional affiliation using the centuries-old experience of guilds and workshops, which can be transferred to the rails of self-regulatory organizations in modern realities.

In general, the institutionalization of the self-employed population will solve the most important tasks:

- transferring self-employed population to the legal field with tax payment and receipt of social guarantees,
- giving impetus to the development of mass entrepreneurship (with a corresponding increase in the share of SMEs in the country's GDP),
- increasing the efficiency of the negotiation process at the local level.

Thus, we can make the following conclusions:

¹⁸ Khasenov, M. Kh.: Problems of Fulfillment by the Republic of Kazakhstan of International Obligations to Ensure the Right to Freedom of Association in the Field of Labor Relations. / Bulletin of the Kazakhstan Association of International Law, No. 4 (40), 2017. - Pp. 26–34.

- 1) The legislation of Kazakhstan contains sufficient measures to ensure employment, including among young people, they can be implemented by concluding social contracts with employers for youth internship.
- 2) It is necessary to strengthen the interagency coordination and interaction of state bodies in the field of employment both at the level of law and by-laws, and through a coordinated social and economic policy.
- 3) It is necessary to supplement the Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021 with tools aimed at forming professional communities among the self-employed population.

4. Labor Migration Regulation

4.1. International Legal Regulation of Labor Migration

All international acts on migrant labor can be divided into three groups: UN Acts (for example, the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families of 1990); ILO Acts (Migration for Employment Convention (Revised) No.97 of 1949, ILO Convention No.143 Concerning Migrations in Abusive Conditions and the Promotion of Equality of Opportunity and Treatment of Migrant Workers (Supplementary Provisions on Migrant Workers); Acts of Regional Organizations (for example, the European Convention on Legal Status of Migrant Workers of 1977).¹⁹

To this date, Kazakhstan has not joined the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families adopted in 1990. Meanwhile, the Convention provides that migrant workers shall be treated no less favorably than citizens of the state of employment, as well as in matters of remuneration and other working conditions such as overtime, working hours, weekly days off, paid vacations, safety, health protection, termination of labor relations, and any other working conditions to which this concept applies pursuant to national laws and practice; other conditions of employment, especially, the minimum age of employment, restrictions of domestic labor, and any other issues that are considered as conditions of employment pursuant to national laws and practice.

¹⁹ Lyutov, N. L.; Morozov, P. E.: *International Labor Law: A textbook* / Moscow: Prospect, 2011. – P. 194.

Kazakhstan calls the opportunity of joining it as “premature” for financial reasons and because of the “inconsistency of certain provisions of the Convention with the current legislation of the Republic of Kazakhstan”.²⁰ In addition, Kazakhstan is not a party to the ILO Migration for Employment Convention (No. 97) and Convention No. 143 Concerning Migrations in Abusive Conditions and the Promotion of Equality of Opportunity and Treatment of Migrant Workers.

The fact is that Kazakhstan has not ratified (or acceded to) any of the universal conventions of the UN and the ILO in the field of labor migration.

Kazakhstan participates only in the conventions on labor migration concluded at the regional (integration) level within the CIS and the EAEU.

4.2. Integration Migration Policy

4.2.1. Unified EAEU Migration Policy

As you know, the Treaty on the EAEU²¹ is based on four economic freedoms: the freedom of movement of goods, services, capital, and labor, which are ensured by coordinated, agreed or uniform policy in economic sectors.

The Treaty distinguishes between three degrees of integration: “coordinated policy” (a policy based on common approaches), “agreed policy” (a policy that assumes the harmonization of legal regulation), and “single policy” (a policy that assumes the unification of legislation and the establishment of identical legal regulation mechanisms in certain areas).

One of the objectives of the EAEU is the desire to form a single labor market among other things. The 26th section of the Treaty regulates labor migration issues.

In particular, the cooperation in this area is carried out in the form of policy coordination (the second degree of integration), i. e. involving the harmonization (the approximation of legal regulation), as well as in the form of facilitating the organized recruitment and employment of workers in the Member-States.

The created single labor market allows employers and customers of works (services) to engage the workforce of the Member-States without taking into

²⁰ See <http://medialaw.asia/node/10846> (20.12.2018).

²¹ Treaty on the Eurasian Economic Union dated May 29, 2014. Entered into force on January 1, 2015. It was ratified by the Republic of Kazakhstan by the Law dated October 14, 2014 No. 240-V.

account restrictions on the protection of the national labor market. In this case, workers of the Member-States do not need to obtain work permit to be employed in the state of employment.

However, this is not an absolute norm, and the Treaty clearly states two exceptional cases, when restrictions can be established and applied – to ensure national security and public order – with regard to the work, occupation, and territory of workers of the Member-States. Every state is entitled to establish restrictions in the legislation.

The unified EAEU migration policy provides for the mutual recognition of documents on education without conducting procedures for their recognition. Again, this is not an absolute rule. Exceptions are cases, when workers apply for pedagogical, legal, medical or pharmaceutical activities in another Member-State; the procedure for educational documents recognition is required.

Citizens of the Member-State who have arrived to work or be employed in the territory of another Member-State, as well as family members, if they have been in the territory of another Member-State for more than 30 days from the date of entry, are required to register in accordance with the law of the state of entry, if such an obligation is established by the law of the state of entry.

Migrant workers are essentially granted a national treatment, i.e. they enjoy almost all the rights as the citizens of the state of employment:

- to own, use, and dispose their property,
- to protect property,
- to transfer funds easily,
- to have social security (social insurance) (except for pension) on the same conditions and in the same manner as citizens of the state of employment,
- to be entitled to receive emergency medical care (in emergency and urgent forms) and other medical care,
- to be entitled to enter trade unions.

Children of migrant workers of the Member-State living together with them in the territory of the state of employment are entitled to attend pre-school institutions and receive education.

It should be noted that labor migration issues are priority for the EAEU, and there are two advisory committees under the Board of the Eurasian Economic Commission: the Advisory Committee on Migration Policy and the Advisory Committee for Social Security, Compliance with Pension Rights, Medical Care Provision, and Professional Activity of Workers of the Member-States of the EAEU.

Among previously adopted agreements within the framework of the Eurasian Economic Community, the Agreement on Cooperation in Countering Illegal Labor Migration from Third Countries of November 19, 2010, concluded between Belarus, Kazakhstan and Russia, continues to be in force. It contains general issues; the implementation mechanism is set at the level of national legislation.²²

4.2.2. Coordinated Migration Policy within the CIS

In addition to the EAEU, this cannot be ignored that a number of international documents have been adopted and are in force within the CIS, which envisage free movement of labor force within the Commonwealth.

Thus, the Agreement on Cooperation in Labor Migration and Social Protection of Migrant Workers was signed on April 15, 1994.²³ The Agreement laid the foundation for migration policy in the CIS and established a visa-free regime for citizens of the CIS. Kazakhstan has ratified this convention.

The CIS Convention on Human Rights and Fundamental Freedoms of May 26, 1995²⁴ established the right to free movement, social security of labor migrants.

On November 14, 2008, the Convention on the Legal Status of Migrant Workers and Members of Their Families of the CIS Member States²⁵ was signed, establishing a national regime for the rights of migrant workers.

²² Eurasian Labor Law: A Textbook / Edited by Lushnikova, M. V.; Ramankulov, K. S.; Tomashevsky, K. L. - Prospect, Moscow, 2017. - 496 Pp.

²³ The Agreement on Cooperation in Labor Migration and Social Protection of Migrant Workers (Moscow, April 15, 1994). Ratified by the Republic of Kazakhstan by the Resolution of the Supreme Council of the Republic of Kazakhstan dated September 8, 1994, No. 147-XIII.

²⁴ The Convention of the Heads of State of the Commonwealth of Independent States / "On Human Rights and Fundamental Freedoms" dated May 26, 1995, Minsk.

²⁵ The Convention on the Legal Status of Migrant Workers and Members of Their Families of the CIS Member States dated November 14, 2008, Chisinau. Ratified by the Republic of Kazakhstan by the Law of December 31, 2009, No. 235-IV.

On May 17, 2012, the Concept of the Common Migration Space of the CIS Countries²⁶ was adopted.

On October 16, 2015, the Council of the Heads of State of the CIS adopted a Resolution

“On the Legal Support of Migration Processes in the CIS.”²⁷ The document envisages the establishment of an international base that governs the fundamental rights and freedoms of labor migrants, the preparation of a draft agreement on the organized recruitment of citizens for temporary work in the CIS.

Therefore:

1) The Unified Labor Market with the number of economically active population of over 95 million people has been created and functions within the Eurasian Economic Union. This is the main challenge for the Kazakhstan labor market and a factor affecting unemployment, since equal conditions for citizens of the country and migrant workers from four states of the Union create increased competition for Kazakhstan citizens, especially young people.

According to experts, virtually two out of five countries – Russia and Kazakhstan – are recipients of labor migration, and Armenia and Kyrgyzstan are pure donors. There is labor migration to Russia from Belarus, but it is rather insignificant. Kazakhstan labor migration to the Russian Federation is minimal.²⁸

At the same time, these are estimates, since there are no statistics that would single out a separate movement of labor within the EAEU Member-States. Therefore, the EAEU Commission as a supranational body has yet to develop common rules for the registration of the EAEU labor migrants and coordinated statistics on labor migration issues.

²⁶ The Resolution of the Inter-Parliamentary Assembly of the Member-States of the Commonwealth of Independent States N 37–8 “On the Concept of the Common Migration Space of the CIS Member States.” Adopted at the thirty-seventh plenary meeting of the Inter-Parliamentary Assembly of the CIS member states (Resolution N 37–8 dated May 17, 2012).

²⁷ The Resolution of the Council of Heads of State of the CIS of October 16, 2015 “On the Legal Support of Migration Processes in the Commonwealth of Independent States” (Burabay village).

²⁸ The EAEU Labor Market and Migration. / Official website of the newspaper “Kazakhstanskaya Pravda”, <http://www.kazpravda.kz/fresh/view/trudovoi-rinok-eaes-i-migratsiya/> (06.01.2019).

2) The coordinated migration policy within the CIS covers the economically active population of over 135 million people. This factor is an additional challenge to the labor market of Kazakhstan.

3) The EAEU contractual framework and the institutional structure of the Eurasian Economic Commission indicate that labor migration issues will continue to develop to deepen the integration.

In particular, a single pension space will be the next step to develop a single labor market.

In this regard, in the context of the single Eurasian labor market, the main condition for reducing unemployment is to ensure the competitiveness of the Kazakhstan personnel (including youth) through training, career guidance and mobility, as well as improving the rules for registering labor migrants.

4.3. National Labor Migration Policy

Considering that issues of labor migration within the EAEU – between the Member-States – are the exclusive competence of the EAEU, and exemptions are allowed only in relation to a limited range of issues (recognition of educational documents for teaching, legal, medical or pharmaceutical activities), the national migration policy comes down to measures to protect the labor market in cases of labor migration from third countries.

Measures to protect the domestic labor market of Kazakhstan are established in the Law “On Migration of the Population” dated July 22, 2011, the Law “On Employment of the Population” dated April 6, 2016, the Concept of Migration Policy of the Republic of Kazakhstan for 2017–2021, the Rules for Establishing Quotas for Engagement of Foreign Labor Force in the Republic of Kazakhstan and its distribution among regions.

The Law on Migration of Population²⁹ distinguishes four categories of immigrants arriving for the purpose of employment:

1) Foreign immigrant workers:

- Who arrived for self-employment in professions that are in demand in priority sectors of the economy (types of economic activity),

²⁹ The Law of the Republic of Kazakhstan “On Migration of the Population” dated July 22, 2011 No. 477-IV.

- Whom employers attracted to carry out labor activities in Kazakhstan,
- 2) Business immigrants are immigrants, who arrived to carry out entrepreneurial activity,
 - 3) Seasonal foreign immigrant workers are attracted by employers to perform seasonal work, but for not longer than one year,
 - 4) Labor immigrants are immigrants who arrived as domestic workers to work (provide services) for employers – individuals in the household based on the work permit of a labor immigrant.

The main instrument to protect the domestic labor market (in relation to third countries) is quotas for engagement of foreign labor forces established by the government and the corresponding permission to attract foreign labor force issued by the local executive body. This is the main tool to be applied to the first and the third categories of immigrants.

Quota for foreign labor force is the maximum permissible amount of foreign labor force allowed to be attracted by an employer for labor activities in Kazakhstan.

The quota for engagement of foreign labor force is set as a percentage of the labor force and includes the following:

1. A quota for engagement of foreign labor force by types of economic activity,
2. A quota for engagement of labor immigrants (i.e. to work in the household),
3. A quota for engagement of foreign labor force by country of origin subject to the ratified international treaties on cooperation in the field of labor migration and social protection of migrant workers.

For example, in 2017, the government established two types of quotas³⁰:

³⁰ Decree of the Government of the Republic of Kazakhstan dated December 15, 2016 No. 802 "On the Approval of the Rules for Establishing a Quota for Engagement of Foreign Labor in the Republic of Kazakhstan and its Distribution among the Regions of the Republic of Kazakhstan, Determining the Lists of the Sectors of the Economy Where Intracorporate Transfer Is Performed, and Identifying Persons Whose Work Does not Require a Permission from Local Executive Bodies to Attract Foreign Labor, and Recognizing Certain Resolutions of the Government of the Republic of Kazakhstan as invalid".

- A quota for 19 types of economic activity in the amount of 0.6% of the labour force, or 53,992 people, 2.5% of the number of working-age youth (2,182,700 people). Meanwhile, the construction industry turned out to be the most numerous – 0.28% or 25,196 people.
- A quota for engagement of labor immigrants for 4.2% of the labour force or 377,949 people.

Thus, 431,941 people were legally allowed to work (about 5% of the labour force) in 2017. This amounts to 20% of the number of youth able to work.

As of April 1, 2017, 28,842 foreign citizens were engaged in labor activities by permission of local executive bodies in the territory of Kazakhstan. 3,786 of employers attracted foreign labor; 489,906 Kazakhstan citizens worked for them, which amounted to 94.3% of the total number of employees.

We see that the largest share of foreign labor force arrived using the third and the fourth categories that amounted to 70% or 20,000 people.

In this regard, it seems necessary to analyze 19 types of economic activity, for which it is allowed to attract foreign labor force, and when forming an educational order, to take into account sectors where more foreigners are engaged. For example, we see that 25 thousand foreigners were attracted to the construction sector in 2017. Therefore, this area is the scarcest in terms of providing domestic personnel.

The issues of quota arrangement are considered by the Commission on Quota Formation for Attracting Foreign Labour consisting of representatives of the territorial bodies of internal affairs, local executive bodies and the labor inspections, the regional chamber of entrepreneurs and territorial associations of trade unions.

The most important guarantee for citizens is the right of the Commission to reject the needs of employers fully or partially, if it is possible to satisfy the need for labor force at the expense of own labor resources, including through training, retraining or advanced training of unemployed citizens, self-employed, as well as workers released on professions and specialties, where it is supposed to attract foreign workers.

In addition to restrictions, the legislation of Kazakhstan establishes a list of persons who, in order to work, do not need the permission of local executive bodies on foreign labor force attraction. Such persons include, but not limited to:

- Oralmans (repatriates),³¹
- Business immigrants,
- Persons who enter Kazakhstan for family reunification, of legal age, being the spouse of a citizen of the Republic of Kazakhstan, and for at least three years have been in a marriage recognized by the legislation of Kazakhstan,
- Full-time students and at the same time working in educational institutions of Kazakhstan during free time,
- Persons involved in teaching activities according to international treaties, but constituting no more than 25%, and for those implementing international integrated educational training programs not more than 50% of the organization's staff.

Thus, we can draw the following conclusions:

1) The legislation of the Republic of Kazakhstan contains sufficient measures to protect the labor market through quotas of foreign labor and permits for labor immigrants. The effectiveness of the use of foreign labor directly affects the dynamics of unemployment in the country, including youth employment. Therefore, it is necessary to ensure public coverage of the activities of the Commission on Quota Formation for Attracting Foreign Labour in the media and Internet resources, as well as the inclusion of independent experts,

2) The Commission consideration is envisaged only at the stage of forming the needs of employers by local executive bodies. At the same time, the issues of establishing quotas by the government and their distribution between regions play an equally important role. In this regard, it is necessary to ensure the formation of the Commission on Quota Formation for Foreign Labour under the Ministry of Labor and Social Protection of the Population to achieve publicity

³¹ Oralman is an ethnic Kazakh who constantly resided at the time of the acquisition of the sovereignty of the Republic of Kazakhstan beyond its borders, and his/her children of Kazakh nationality who were born and constantly lived after the acquisition of the sovereignty of the Republic of Kazakhstan outside it, arrived in Kazakhstan for the purpose of permanent residence in their historical homeland and received the corresponding status (Article 1 of the Law of the Republic of Kazakhstan "On Migration of the Population").

and transparency in setting quotas for engagement of foreign labor before submitting them for approval by the government.

3) The method of import substitution can be applied for dual training in the selection of specialties for dual training in order to prepare the required personnel based on the analysis of quotas of foreign labor.

Summary

A study of the legal labor market at three levels and in three directions allows us to draw the following conclusions.

First, it is necessary to continue improving labor legislation aimed at balancing the interests of workers and employers, and consider the possibility of regulating temporary agency work.

Second, the implementation of labor conventions ratified by Kazakhstan needs to be revised, as well as the assessment of the possibility of ratifying a number of the UN and the ILO international conventions in the field of labor relations and labor migration.

Third, it is necessary to strengthen the interagency coordination and interaction of state bodies in the field of ensuring employment with additional tools and to adjust the Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021, taking into account the need to support the formation of professional communities among the self-employed population.

Fourth, the EAEU single labor market together with a coordinated migration policy within the CIS is the main challenge for Kazakhstani labor market and, therefore, requires focusing government efforts on improving the competitiveness of domestic personnel.

Fifth, it is proposed to use the import substitution method, when choosing specialties for dual training in order to train the demanded personnel based on the indicators of foreign labor attraction.

Sixth, it is necessary to envisage in the Labor Code the preparation and publication of the annual National Labor Report in the Republic of Kazakhstan, which includes key indicators of employment and labor statistics, the structure of working-age population, information on the status of individual and collective labor relations, and compliance with labor laws.

The New Middle Class as a Factor in the Modernization of the Economy and the Consolidation of Kazakhstan Society

Dr. Nurlan Baigabylov, Dr. Elmira Otar, Petro Tokar

The article proposes to consider the main views of scientists in the analysis of the role of the middle class in ensuring stability, as well as an assessment of the situation on the labor market, in science and education on the formation and development of the middle class, its role as the main factor in ensuring a new quality of human capital, economic transformation, modernization of stability, and strengthening of civil society in Kazakhstan.

The relevance and scientific novelty of the problem of the new Kazakhstan middle class lies in the fact that this phenomenon, with rare exceptions, has not been investigated in its new quality, and therefore has no modern theoretical explanation, both from the point of view of individual states and on a scale global integration process. This is because a significant part of post-Soviet researchers proceeded from a rather contradictory position that in the context of globalization in the world, a Western-oriented middle class will be formed and country features, historical, social and cultural characteristics will eventually be leveled and smoothed out. Indeed, the stratum of intelligentsia inherited by the post-Soviet republics, the working class, and the peasantry, the entire social structure of society at first came to a certain state of uncertainty very quickly by historical standards. Later it did not pass the test of the new time and received new social boundaries and national characteristics in every republic with all its outward similarities. However, the significance of the phenomenon of the middle class did not diminish, but on the contrary, it was more clearly indicated and increased to the level of the guarantor of stability of any society.

In this article, we intend to reasonably prove that any society is able to maintain stability in society and even ensure its development for a certain time: in one case, by the efforts of authoritarian power, as in Iraq and Libya during the time of Gaddafi and Hussein, in the other, by manipulating public consciousness, and thirdly, more or less, depending on the specifics of the state system and the stability of political power.

In principle, any power sooner or later, without ensuring the formation and development of its national middle class, is not able to create conditions for

stability in the development of society for the long term and, moreover, without interethnic, social, interreligious, and other cataclysms, to ensure the continuity and conflict-free transmission of political authorities. The substitution of concepts, the invention of various social substitutes for the role of the middle class, based on which social, cultural, national, religious, and even party formations, can only stretch the problem in time, drive it deeper, but not ensure lasting stability and continuity in their society for a long time and seriously.

The new political power of Kazakhstan received a very complex social inheritance, burdened by the presence of deep interethnic and inter-religious contradictions, possible conflicts and the burden of an equally difficult economy. After independence, large internal migration movements took place in the republic, dictated by the collapse of the old economy and a change in its structure, the closure of industries, the reduction of economic activity, unemployment in some localities, and a shortage of labor in others. It was a time of great challenges and threats, even the forerunner of a civil war. Thanks to the successfully implemented political, financial, and economic reforms that followed this influx of high revenues from the sale of raw materials, Kazakhstan secured the opportunity to reformat and re-create the national economy, ensure social and economic stability, which led to the rapid formation of a noticeable middle class layer.¹ However, the global financial crisis that began in 2008 was a serious test for the emerging middle class of Kazakhstan and many other countries, especially in the territories of post-Soviet states. It is worth emphasizing that, unlike many other countries, Kazakhstan practically avoided the recession in 2008–2009. In 2010, GDP growth already amounted to 7.5%, consumer price inflation was 8.3%.² Then it even increased the growth of the proportion of the middle class in the social structure of the Republic of Kazakhstan, and in some regions pushed to the beginning of growth, as the necessary conditions were created for this. Within a decade after the global financial crisis, changes have occurred and continue in many cities and rural settlements, historical areas and cultural landscapes: the economy with digital elements is being modernized, the social structure of society is being formed and complicated, and the consolidation and stability of public rela-

¹ Daly, J.: Kazakhstan's Emerging Middle Class / Silk Road Paper. Singapore: Central Asia – Caucasus Institute, Silk Road Studies Program, 2008. - P. 99.

² Otar, Elmira: Features of the Urban Middle Class of Kazakhstan. Astana: ENU named after L. N. Gumilev, 2018. - P. 5.

tions is being strengthened. This is confirmed in a number of social studies, in particular in the results of a study by the “Strategy” Center for Social and Political Studies Public Fund, which derived an index of the comfort of the living environment. The map developed under the state grant of NAO “CISC” was called “Assessment of Needs and Requirements of the Population of the Regions, including Rural”, it shows the lowest and highest index of comfort of the living environment, generally sufficient at that time to form the middle class, necessary conditions for private enterprise and public initiative, especially for non-governmental organizations (NGOs). When calculating the rating, the experts analyzed 72 indicators, which are combined into 11 groups characterizing the main aspects of the quality of life in the region: income level of the population, employment and the labor market, living conditions, security of living, demographic situation, environmental and climatic conditions, health and educational level, provision with objects of social infrastructure, level of economic development, level of development of small business, development of the territory and development of transport infrastructure. This study deserves to be continued.

At the same time, the importance of studying the middle class phenomenon lies primarily in the fact that in the developed countries the share of the middle class in society reaches 70–80%, ensuring stable development, reducing poverty and social contradictions.³ After all, it is known that the middle class provides employment, includes the main taxpayers, investors, generates demand, and develops the economy, science, culture, healthcare, education, engages in intellectual work, contributing to innovative development, creates guarantees of stability and security of the country. However, among the specialists of Kazakhstan, there are different estimates regarding the specific weight of middle class in Kazakhstan society. Some argue that it is too early to talk about the Kazakhstan middle class, since the basis of the middle class should be professionals in the field of education and health.⁴ Other domestic researchers are confident in the existence of the middle class in Kazakhstan, showing its share in indicators of 25–40% and its role in the development

³ Pudovkin, E.: The European Middle Class Overtook the American / *Nezavisimaya Gazeta*, 04/26/2017, http://www.ng.ru/world/2017-04-26/6_6982_middleclass.html (08.04.2019).

⁴ Zhusupov, S. E.: People of the “Golden Mean” / Postback USSR Information and analytical portal, January 25, 2007, <http://www.ia-centr.ru/expert/2385/> (08.04.2019).

of small and medium-sized businesses (SMEs),⁵ and on September 2, 2018, N. Nazarbayev emphasized in his speech at a joint meeting of the Chambers of the Parliament of the Republic of Kazakhstan that the foundation of a strong economy is small and medium-sized businesses. The country has set a strategic goal to bring its share in the economy to 50% by 2050.

The existence of a problem in the discrepancy in the level of specific weight and the role of middle class in Kazakhstani society actualizes the need for sociological research aimed at studying both the specifics of the formation and structure of the Kazakhstan middle class and its distinctive characteristics, manifested in lifestyle, value and normative strategies, and behavioral practices. The results of such scientific research will help to find out how much the emerging Kazakhstan middle class differs from the middle class of Western societies and what role it plays in the formation of civil society, the creation of its strength and stability. If an order appears, the authors are ready to conduct such a social survey.

Studies on the features of a new, for example, urban middle class of Kazakhstan are only beginning to appear, some new political science studies, journalistic works on the formation and development paths of the Kazakhstan middle class can be noted.⁶ This problem is rightly considered one of the central for the entire post-Soviet development of countries⁷: the specific weight of the middle class in the social structure, its role in economic, social, and political processes largely determine the results of those profound social changes that the Russian and similar Kazakhstan society are experiencing. Without forming and creating the right conditions for sustainable development, increasing the share of the middle class in the social structure of society, that is without the main segment of social capital in the labor market, it is not enough to talk today about the large-scale modernization of the Kazakhstan economy. We see the solution of the modernization of the Kazakhstan economy in an integrated approach, preparing systemic conditions for this,

⁵ Otar, Elmira: Features of the Urban Middle Class of Kazakhstan. Astana: ENU named after L. N. Gumilev, 2018. - P. 5.

⁶ Yelmuratov, G. Zh.: The Formation and Development of the Middle Class of Kazakhstan as a Subject of Political Modernization: Politological analysis. / Doctor of Political Science. Almaty: Abay Kazakh National Pedagogical University, 2009. - P. 22.

⁷ Shkaratan, O. I.: The Sociology of Inequality. Theory and Reality. Moscow: Publishing House of the Higher School of Economics, 2012.

including, above all, creating conditions for the formation and development of the middle class as the main factor in ensuring a new quality of human capital, the main condition for updating and transforming the economy, and increasing stability, modernization of consciousness, and strengthening of civil society in Kazakhstan in general.

The historical experience of most countries that have undergone socio-economic and political transformation indicates that it is difficult to achieve strategic goals without the middle class. The presence of a strong, stable middle class is a prerequisite for stabilizing the economy, further moving forward with reliance on the conflict-free transit of power. The state of the middle class is an important indicator of the level of civil society and the socio-economic development of the state. It is no coincidence that the President of the Republic of Kazakhstan attached and attaches great importance to the formation and development of the middle class in the country, whose real presence "in society can qualitatively change the existing nature of relations within society, both between its layers, and the relationship of society with the authorities, is a stabilizing principle within any society".⁸ In addition, the middle class determines the quality of the country's human potential and the distinctive features of a nationwide identity, ensures the continuity of generations and life values. This is connected not only with the mental and physical health of the new middle class of the country, but also with the level of its educational and qualification potential, as well as with personality traits such as innovative potential, certain nature of value system, and especially motivations in various fields of life. According to the latest World Bank data, extreme poverty is practically eradicated in Kazakhstan, while the middle class has grown to about 20% of the population.⁹

However, the complexity and inconsistency of the current stage of the announced modernization of consciousness and transformation of the Kazakhstan economy, the ongoing process of polarization of various social groups and segments of the population, including the heterogeneity of the middle class, pose a number of challenges for researchers to understand the regional factors of the reproduction of the middle class of Kazakhstan. There is not only

⁸ Nazarbayev, N.: *The Kazakh Way*. Karaganda: Arco, 2006. - P. 210.

⁹ Burunciu, L.: *Dream Bigger: Building the Middle-Class in Central Asia*. / The World Bank. October 17, 2017, <http://www.worldbank.org/en/news/opinion/2017/10/17/dream-bigger-build-the-middle-class-in-central-asia> (08.04.2019).

a theoretical, but also a practical need to study the objective and subjective aspects of the style and lifestyle of the middle class, which is due to the problem of building up social capital in the conditions of economic transformation and the transition to an innovative type of development. In other words, to what extent can the emerging middle class of the Republic of Kazakhstan be the guarantor of stability and correspond to the 'ideal' Western middle class? What do the emerging middle class of Kazakhstan have in common with the middle class in the West and what distinguishes them from each other? What are the features in lifestyle, worldview, life strategies and values (subjective aspects), consumer behavior, the availability of education and skills, activity on the labor market, income and property characteristics and leisure activities (objective aspects) of the new middle class of the Republic of Kazakhstan; what are its differences from the middle class in both developed and developing post-socialist countries. For all these questions, domestic sociologists, economists, and politicians should seek answers. Both in foreign and in post-socialist sociology, including Kazakhstan sociology, there is an accumulated amount of scientific work on various topics of the study of the middle class. However, it is worth emphasizing that the required comprehensive sociological analysis of the middle class as a guarantor of stability in the context of the above and country-specific features in Kazakhstan has not yet been undertaken. However, in view of the new tasks, this problem should be solved urgently, and that is why we are raising it.

Compared to Western countries, where there is a tendency to reduce the influence and prestige of a public servant, and even an absolute decrease in the level of employees' salaries is recorded, the situation is different in Kazakhstan. Today, officials show signs of wealth – these are social packages. In addition, civil servants have an administrative resource, since due to their position in the organizational hierarchy, they have quite serious opportunities to convert administrative positions and influence into material resources.¹⁰ State bureaucracy, especially bureaucracy of the middle and upper strata, due to its official and unofficial incomes, has a consumption level quite similar to many entrepreneurs and managers in the private sector. Moreover, they often secretly or openly engage in business. All these arguments are in

¹⁰ Editor's note: This author's description of the situation in Kazakhstan should not be interpreted as a support for corruption in the country, but rather as an idea of the state of affairs as it currently stands.

favor of including this group in the middle class. Moreover, studies carried out in the Republic of Kazakhstan show that these groups of officials, including the leaders of large national corporations and even high command, consider themselves to be middle class, having incomes not of the middle class.

In Kazakhstan, one of the priority areas of economic reform and the development of new social capital is the formation and development of small and medium-sized businesses. This is one of the foundations of the Kazakhstan 2030 Strategy. This task was specifically set this year in the February Address of the President of the Republic of Kazakhstan to the Nation. In Kazakhstan, small and medium business is not only a necessary link in a market management system, but also the most essential element in the social transformation of society. In the Republic of Kazakhstan, as of January 2018, 1.5 million active small and medium-sized businesses were registered.¹¹ Kazakhstan SMEs show annual growth. According to the national statistics agency, only for the period 2011–2012 the number of active SMEs increased by 4.2%. The largest number of enterprises is concentrated in the segment of trade and services (33%). At the same time, in some large cities of Kazakhstan, the number of people employed in SMEs reaches 50% of the active population. Entrepreneurs are referred to the middle class not only in terms of income and material security, but also use cultural and moral criteria, for example, a sense of *personal responsibility* for their own destiny, patriotism, independent existence, and a desire to assert themselves, all this is a clear sign of a new middle class.

In Kazakhstan, the reinforcement of the power vertical strengthened the position of national companies. They do become the largest and most successful in business, and a new social group of managers was formed and began to grow rapidly around them, which thanks to the education received at national universities and abroad, took up managerial positions in corporate structures and engaged in labor organization.¹² The manager accumulates new productive and managerial functions. Managers, like capitalists, have control over the production process, but at the same time, they can be con-

¹¹ Statistics Committee of the Republic of Kazakhstan, http://stat.gov.kz/faces/wcnav_externalId/homeNumbersSMEnterprises?_afz-Loop=9069023247697977#%40%3F_afzLoop%3D9069023247697977%26_adf.ctrl-state%3D1b0x44xom (08.04.2019).

¹² Wallerstein, I.: *Bourgeois: Concept and Reality from the 11th to the 21st Centuries.* / Wallerstein, I.; Balibar, E.: *Race, Nation, Class. Ambiguous Identities.* / Translation from French. Moscow, 2004. - P. 166.

trolled and exploited by the capitalists, as well as workers. The contradictory class positions of managers mean the duality of their class interests, and the higher their position in the hierarchy, the more prevailing are the interests similar to those of the capitalists. Thus, there is a close relationship between the level of power in the Republic of Kazakhstan and the possibility of appropriation of a surplus product.

This situation was formulated relevantly by Senator Murat Bakhtiyaruly. He noted that Kazakhstan, based on the strategy and modernization logic of the economy and social consciousness announced by the President of the Republic of Kazakhstan, as well as the needs of the national economy, it might be necessary to conduct a new structuring of the labor market taking into account the new tasks set in the speech of the President of the Republic of Kazakhstan and by a number of experts at the Astana forum: main areas are the digitization of the economy, infrastructure and management, active use of these opportunities in the security and cybersecurity system. According to the observations of experts, no more than 25% of the working age population really work in the classical sense. The rest working people are engaged in new areas of life, including digitization and new technologies. At the same time, the weight of human capital in Kazakhstan is still insufficient, which actualizes the President's task that human capital needs to be qualitatively improved both as a basis for the transformation of the Kazakhstan economy and as the core of the modernization of public consciousness, the guarantee of which is a well-to-do, educated and professionally trained middle class.

Economics is a relationship between people, a kind of creativity. The subjects of these relations are the creators of the economy and these communications. They need to create conditions for the development and maximum implementation of their capabilities. Only with this formula, Astana – as a capital and an example of such relations – should become a center of creation and patriotism. If we want to have a healthy economy, then the cells of the subjects of these relations must be healthy. To do this, they need to be built based on universal and clear norms and rules, principles established and adopted independently. Relations that are generally understood by all entities that suit and accept them for their joint activities and co-existence. This is not a healthy market where a state and cartel monopoly is established, as we see, for example, in the fuel price system of fuel and lubricants, when oil

prices have fallen around the world, the country is a producer of oil, and the prices for fuel and lubricants for the population of the country are rising. Corruption, freedom of speech, the movement of labor and capital, the development of entrepreneurship, the investment climate, the protection of private property and intellectual law, the level of education and science, the foundations of life and happiness – all this is measured by the indices of international organizations. Collectively, according to these indicators, the Kazakhstan economy is not yet in the top 30 countries of the world. This means that the subject of economic relations is not healthy enough. The middle class, as experience shows in countries where it dominates and provides a guarantee of the stability of society, is very sensitive to these indicators of rights and freedoms, values and social well-being. These countries include primarily the countries of the European Union, Canada, Australia, Japan, South Korea, and Singapore. However, the demand for innovations is created not only by science, but above all by society, the state and private business. Great attention must be paid to human capital. This is raising the level of education and science, developing primary education and upbringing. First of all, building responsibility for oneself. Otherwise, we will be a country of eternal perspective, in which strategic planning is in the first place, while the population will live a dependent life, remain unviable for creativity. On the other hand, if we do not resolve the issue of ownership, then the middle class that exists today will leave (and it leaves now, but we consider this issue later), and we will not form a new one. We have clarity, a clear understanding of who controls, but there is no clarity about ownership – who owns what.

Kazakhstan seeks to become not only an industrially advanced state, but also a postmodern country, but so far it is more declarative than real, because a postmodern country is a modern person. It would seem that the fact that the digital revolution has completely changed our ideas about how you can and should do business is no longer news. Nevertheless, what if the problem is wider and not only the form but also the very essence of the economy is changing?

Do we understand how to behave in an era of growing uncertainty? The book “Capitalism without Capital” by Jonathan Haskell and Stian Westlake offer an extraordinary answer to this question: the cornerstone of all current changes is the growing importance of “intangible investment.” They argue that in the

modern economy, the welfare of companies and states is completely dependent on investments in intangible assets – design, research, software, organizational processes, etc. According to the authors, the trend of the intangible assets value growth appeared in the 20th century and preceded (and even became the basis) of the digital revolution. Our era is characterized by the increasing rate of depreciation of tangible assets. What can such dynamics lead to? How and whose salary will it affect most? What professions will be in greater demand in the near future? All this needs to be investigated and we can do it.

In this sense, one should understand who is able to take on the solution to these problems today. A conscious, educated, and patriotic new middle class will solve this problem. Provided that it becomes the dominant social stratum (group), consciously taking on a mission of responsibility for the consolidation of civil society. Then investments in “intangible assets” such as science, digital economy, public health, following the example of developed countries will be improved. Despite the fact that a number of governments of even developed countries are on the path to erosion of the middle class. Now even multinational Europe is facing this, where in a number of countries the middle class is losing ground. How is this issue being resolved and will be resolved in Kazakhstan? Again, this should show the results of new studies that are needed.

However, it is already clear today that the current course of Kazakhstan is right, as it is aimed primarily in the sphere of modernization and the formation of consciousness of the middle class. Its goal is a large and powerful conscious middle class that meets the level of tasks of the fourth industrial revolution and high technological structure, understands this mission. Today there is not a single developed society, wherever the global migration of people takes place. Many states resemble Babylon. Competitive and human-centered societies are general mainstream of the 21st century. Countries with effective social organization will be attractive instead of those that are oriented to the past and lose human capital.

Europe today is experiencing another stage of demographic decline. If not for the influx of non-Europeans, a strong depopulation would have already begun in Europe long ago. To prevent this, the generation of children should quantitatively replace the generation of parents. For this, the average woman should give birth to about 2.15 children at the current level of infant and child

mortality. For 100 women shall be 215 children. This indicator has not been found in any European country for 60 years. Accordingly, each subsequent generation is quantitatively smaller than the previous one, and the classical demographic pyramid has turned into a demographic rhombus. This means that the composition of the population gets older and has less youth. It is obvious that where the standard of living is higher, there is no mass migration from the country. Practice shows that where a developed and influential middle class is created, there will be a fairly high standard of living, spiritual values will not be eroded, and if the standard of living is 30–40% lower than now in Western Europe, migrants would come here on a massive scale. Until this moment, they should not be expected to return, but rather the opposite.

Information: Migrants go to Kazakhstan, although the balance in the Republic of Kazakhstan is also negative: in 2018, departure is higher – this is a trend since 2012. According to the head of the Center for Support and Training of Labor Migrants, Sh. A. Ismailov, Kazakhstan has about 300,000 migrants for today. Despite the improvement in the conditions of stay of migrants stipulated by the Kyrgyz Republic's membership in the EAEU, the number of Kyrgyz migrants entering into labor relations with employers has slightly increased. In Kazakhstan, migrants from Uzbekistan and Tajikistan are registered mostly as domestic workers from individuals – this is the only permitted form of work stipulated by the legislation of the Republic of Kazakhstan (up to five people per citizen of the Republic of Kazakhstan). After obtaining permits, they actually work for hire with legal entities, which carries the risk of administrative punishment. The Kyrgyzstan-Astana Public Association has an interesting experience in promoting the integration of migrants: to increase the potential of migrants – domestic workers through training in the following specialties: nanny, governess, home cook, which should be expanded.

Kazakhstan also calculated the volume of remittances from abroad and named three main directions of receipt of funds. The Central Asian News Portal reported this. The volume of transfers from Russia to Kazakhstan in January–April 2018 decreased by 13% compared to the same period last year. Over this period, about KZT36.7 billion (\$109.2 million) was transferred to Kazakhstan. This figure indicates that the share of transfers from Russia from the total amount of funds transferred is 44%, although last year the same indicator reached 54.4%. South Korea takes the second place in the number of

money transferred to Kazakhstan. About KZT12.6 billion (\$37.5 million) was transferred from there. It is noteworthy that, volumes increased by 2.3 times compared with the same period last year. The share of funds transferred from South Korea increased from 6.9% to 15.3% in total. Kyrgyzstan takes the third place. 10% of the total funds were transferred from there. Although last year this figure was only 6.1%. From Kyrgyzstan, Kazakhstan people received KZT8.3 billion (\$24.7 million).

By July 1, the number of residents of the Republic of Kazakhstan amounted to 18.27 million people. This is 115.1 thousand more than at the beginning of this year. Urbanization is clear: over half a year, the urban population of the country increased by 1%, the rural population grew by 0.1%. It is noteworthy that the natural growth for six months amounted to 125.9 thousand people, and 10.8 thousand people is the migration 'loss' of the country, according to the analytical service EnergyProm. Therefore, the number of urban population has grown since the beginning of the year by 1% (plus 105.5 thousand people), to 10.53 million. At the same time, the number of rural residents increased by only 0.1% (total plus 9.6 thousand people), up to 7.74 million Kazakhstanis in the first half of the year by July of this year. For various reasons, migratory moods not only change, but also intensify. "Over the past few years (in the world), people's desire to emigrate for work has diminished; this reduces the efficiency of hiring migrants as one of the solutions that countries and companies resort to solve the problem of labor shortages. The authors of a new joint study by BCG and The Network (Headhunter in Kazakhstan) entitled "Analysis of the Global Talent Market 2018" (Decoding Global Talent 2018) came to such conclusions. Respondents in the world are still more focused on the internal advantages of the future workplace, for example, those that result from good relations with colleagues, rather than the level of material compensation. At the same time, for Kazakhstanis, the material factor comes first followed by the financial stability of the employer (this factor is only in sixth place in the world), as well as training and development of skills. Compared to 2014, Kazakhstan managed to significantly improve its position and rise in the ranking from 129th to 77th place. This happened largely due to the steady growth of the country's economy and, as a result, the availability of opportunities for self-realization, improving the business environment in the country, and increasing the country's openness through numerous international events in recent years. As a place of work, Kazakhstan is mainly popular among

residents of Russia, a number of member states of the Commonwealth of Independent States (CIS), including the Republic of Belarus, Ukraine, Uzbekistan, Kyrgyzstan, as well as a number of Middle Eastern countries, such as Turkey, Egypt, and Qatar. Kazakhstan attracts citizens of a number of neighboring Central Asian states, where people have fewer opportunities due to the small size of the economy. For some of them – regardless of whether they are qualified specialists or unskilled workers – the standard of living in Kazakhstan is higher than what they had in their homeland. Compared with the world average (57%), a larger number of Kazakhstanis are ready to move to another country for work in general 61% of respondents. It is worth noting that this amount slightly decreased compared to 2014 (64%). At the same time, 66% of Kazakh citizens under the age of 30 are ready to work abroad, and the share of highly educated is 60%. Among the countries where citizens of Kazakhstan would like to emigrate for work, the United States (1st place), Russia (2nd place), Germany (3rd place), Canada (4th place), Great Britain (5th), then in descending order are Australia, UAE, Switzerland, Italy, and Japan. At the same time, Russia's attractiveness for Kazakhstanis has slightly decreased compared to 2014. Among the five main reasons for working abroad for citizens of Kazakhstan in the first place is the acquisition of work experience, which is consistent with the global rating, then respondents mention a higher salary (in the world this factor is only in 5th place), more career opportunities, higher standard of living, and enrichment of personal experience.¹³

This technique could also be used in a series of case studies that continue the topics mentioned above. However, if we are talking about refugees, then they need generous social support, which Ukraine can hardly offer in the near future, and Kazakhstan mainly supports only its repatriates (Oralmans). There is no reason to worry about it yet. In addition, economic migrants will travel only under the corresponding economic situation. Migration legislation is quite liberal for this in Ukraine. Hence, similar conclusions can be made relatively to Kazakhstan. The stability and higher standard of living, the presence of a small specific weight of the middle class are already attracting, but not in large quantities. Who does mostly work in the service sector today, especially in the trade of the Republic of Kazakhstan? – Migrants do. They begin to work, as a rule, in the service sector, and they will move on gradually. As for

¹³ Realist's conversation with the famous Ukrainian scientist-demographer Ella Libanova, <http://blog.i.ua/user/1633142/2232217/> (08.04.2019).

industry, the Chinese and Vietnamese will come. They are more inclined to work in production, are quite qualified and disciplined.

How do Kazakhs relate to migrants and what does research show: nothing so far, that is similar to Ukraine. We do not feel threatened, but we do not understand what problems may arise. For example, we have not visible xenophobia. On the other hand, we do not know how, for example, Somalis in Ukraine, and Afghans and other southerners in Kazakhstan will behave? There are no such studies yet. Since we do not know, we will just be wary of this for now.

There are well-defined clear solutions to this problem in a number of EU countries, for example, in Germany. They work closely and purposefully with migrants and refugees on selection, training, and social adaptation.

One way or another, but the most obvious way to save the nation in the light of the problems voiced is to increase the birth rate. This can be achieved by increasing social benefits, developing a system of preschool institutions, providing women with real opportunities to work and be engaged with children, family (remote, part-time), etc. You can get a quick effect, but it will be short-term. A long-term result is possible only due to the influx of migrants from countries with high birth rates.

It is nothing new. This is a worldwide practice, as well as to fight for the eradication of drunkenness in the workplace and increased penalties for drunken driving. As a conclusion, it is worth emphasizing that since we are talking about the role of the middle class and its mission, we should talk about its influence on qualitative changes in Kazakhstan, Ukraine or another society. In particular, the development of the middle class will affect such very important problems as reducing criminalization, gradual and bloodless decommunisation, and will strengthen the importance of educating so-called European values in society, reducing radicalism, and confidence of young people in their future.¹⁴ This topic is a subject of new research on the level of consciousness and behavior of the new middle class, its specific gravity and its impact on social processes in general, on the transformation of the economy, and readiness for innovation.

¹⁴ Half of Kazakhstanians Are Ready to Move to Another Country, https://forbes.kz/process/expertise/polovina_kazahstantsev_gotovy_i_pereehat_v_druguyu_stranu/?utm_term=Autofeed&utm_campaign=Echobox&utm_medium=Social&utm_source=Facebook#Echobox=1530250345 (08.04.2019).

Some of the problems voiced above relate to theory, but most to practice. According to the author of the new “Postcapitalism” book by Economist Paul Mason, the Left project failed in the last 25 years. The market destroyed the planned economy, individualism replaced collectivism and solidarity, and the rapidly expanding labor force of the world looks like a “proletariat”, but no longer thinks and does not behave as such. Meanwhile, technology has created a new way out that the remnants of the old left and everyone they impressed will have to accept or die from it. It turns out that capitalism will be put to an end not by violent methods, but by something more dynamic that already exists, albeit invisibly, in the old system and which will break through and rebuild the economy around new values and patterns of behavior. He calls it postcapitalism. The post-capitalism will replace the capitalism. We will not go into discussion with the author regarding the labor force and the proletariat, but “today we need more than just utopian dreams and small horizontal projects. We need a project based on reason, evidence, and verifiable developments that integrates into the course of history and can sustain the planet. And it should start working”.¹⁵ The collective mind of scientists from 6–7 universities within the framework of the Horizon 2020 Framework Program could carry out such a project to study the role of the middle class and the working class. Such a global project is beyond the power of one scientist today.¹⁶ For example, there are also opinions that confirm the need for new research in this area. In the countries of the transition period (Kazakhstan, Russia), the middle class is still amorphous, is in the process of formation. According to various estimates, its share in the population is from 15% to 25–30%. Moreover, this middle class accounts for consumption from 50% to 80% of goods and services in the country. However, in both developed and developing countries, the middle class is not a homogeneous social group. It is stratified and represents a heterogeneous formation. Emphasizing this fact, some sociologists propose to call this group not a ‘middle class’, but ‘middle classes’, which is logical.

In developed countries, the middle class is at least 50% of the population and is the basis of the economy and civil society. Although the crisis has transferred part of the middle class to the lower segment... there is a layer between the

¹⁵ The End of Capitalism Has Already Begun. What’s Next? / <http://ideanomics.ru/articles/4476> (08.04.2019).

¹⁶ *ibid.*

rich and the poor in Kazakhstan, which is united only by the presence of an average income level. This is approximately 60% of the population. Conditionally and generally, this large group can be called the middle layer. Despite the amorphous nature, the middle layer has its own core, which is more formed, dense, and active. This core can be called the basis for the formation of the middle class. Estimates of its volume range from 15% to 30% of the total population. These are economically active groups: entrepreneurs, owners (small and medium-sized businesses), top managers, managers in large and medium-sized businesses, professionals and experts of the high and middle class, whose skills and experience are recognized and demanded by society and the market (and this is reflected in a stable high income).

Sociologists consider it premature to talk about the presence of an established middle class in Kazakhstan. Consequently, it is impossible to assert the existence of a formed civil society, since the middle class is precisely its social basis".¹⁷

In some works of Kazakhstani scientists, the problems of the middle class are adapted to the theoretical and methodological ideas of Western sociology regarding the degree of knowledge, for example, of the Kazakhstan urban middle class. Conclusions and recommendations contained in those works and in this article can be used to prepare and conduct new sociological studies to explore the level of consciousness, state, formation and development of the middle class in the Republic of Kazakhstan, when developing documents and normative acts by state and public organizations, interested in the development of the middle class in Kazakhstan. In addition, the authors of this study can take part in the preparation of scientific, educational, and social programs, scientific and practical conferences and other events aimed at forming and increasing the role of a new middle class in society. The need to study the problems of the new middle class has matured both in the global world and throughout the Eurasian space, and the issues related to migration, the process of world integration and globalization that are related to this topic need to be studied.

¹⁷ See <http://www.brif.kz/blog/?p=1037>, Author: Alexander Ruzanov (08.04.2019).

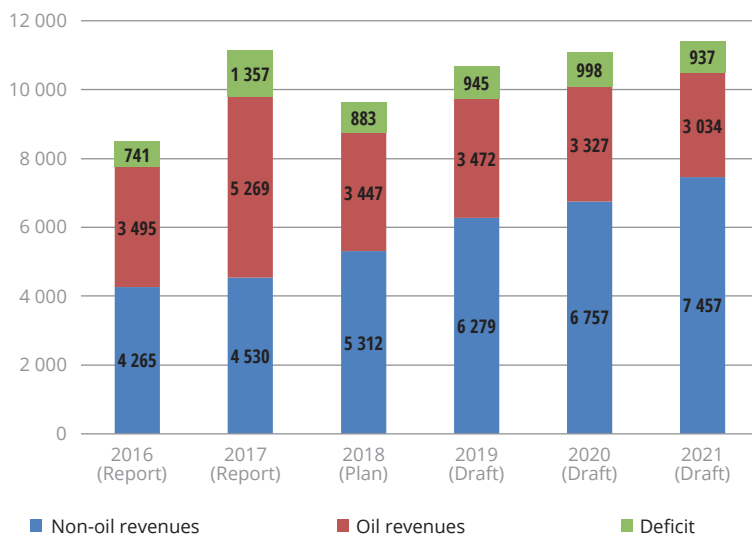
About Budget Parameters for 2019–2021

Rakhim Oshakbayev

On November 30, 2018, the Law of the Republic of Kazakhstan “On the Republican Budget for 2019–2021” was signed, its draft was discussed throughout the autumn in the Majilis of the Parliament of the Republic of Kazakhstan.

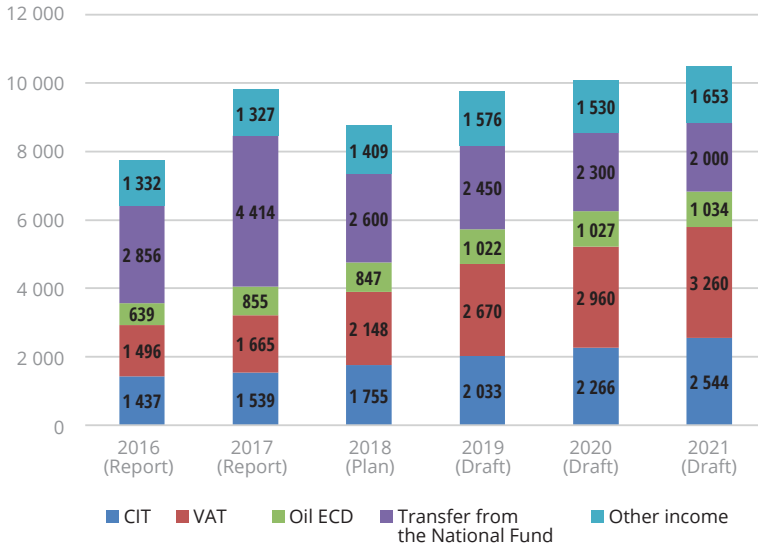
It is important to note the lower budget dependence on oil revenues is a transfer from the National Fund and oil export duty. Their share in the total revenues of 2019 will reduce to 36%. For comparison, it was 54% in 2017 and it is expected to be 40% in 2018.

Chart 1. Republican budget expenditures and sources of their financing, billion tenge



It is planned that the share of non-oil revenues will be higher due to an increase in the collection of VAT and CIT. There will be more CIT and VAT collected next year than it is planned for 2018, by 800 billion tenge, or 20%. Thus, a serious tax burden will fall on the non-oil sector.

Chart 2. Republican budget revenues, billion tenge



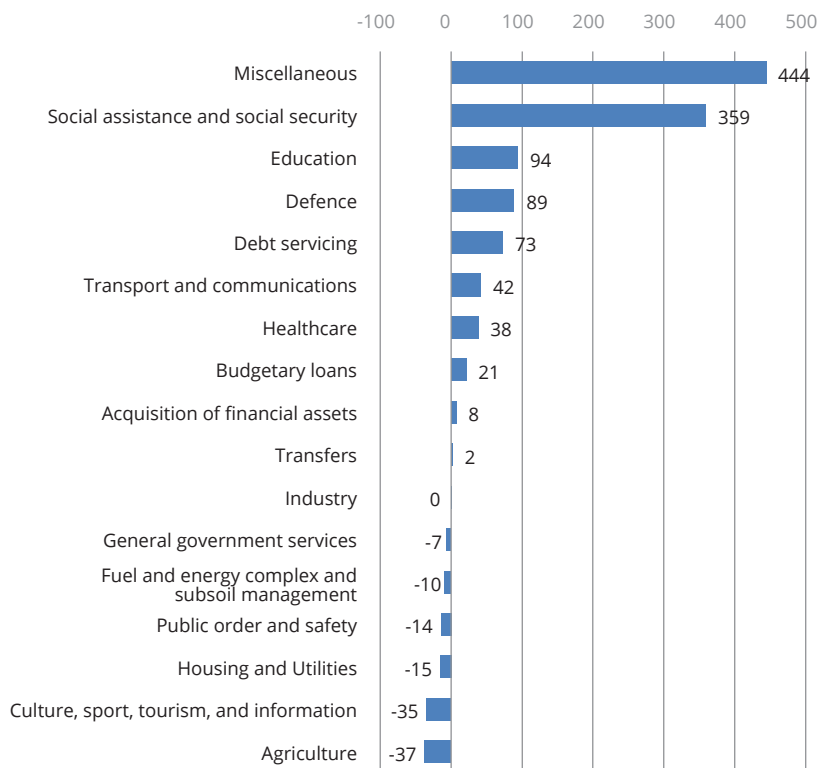
Despite such an increase in tax collection, the Ministry of National Economy was not able to maintain the previously announced budget parameters.

In the Concept for the formation and use of the National Fund resources, the guaranteed transfer size was to be reduced to 2,300 billion tenge in 2019, in the draft budget – 2,450 billion tenge. Last year, the budget deficit for 2019 was declared at 1% of GDP, and the draft was 1.5% of GDP.

Compared with the plan for 2018, the republican budget expenditures for 2019 will increase by more than 1 trillion tenge, or 11%.

The main items, which caused the growth, are Miscellaneous, including the Government Reserve and Social expenses.

Chart 3. Growth of expenditures in the draft republican budget for 2019 compared to the 2018 plan, billion tenge



The Government reserve (448 billion tenge) will be used mainly to finance the initiatives of the State of the Nation Address of the President of the Republic of Kazakhstan “Growing welfare of Kazakh citizens: increase in income and quality of life.” Apart from the National Bank, during three years, 1.3 trillion tenge will be additionally allocated from the budget for the goals of the Address.

Table 1. Additional costs for the implementation of the Address of the Head of State, billion tenge

	2019–2021
Government (budget)	1 228
Salary increase for employees of budgetary organizations in connection with the growth of the minimum salary	288
Business Roadmap 2020	90
Support for processing industry and non-resource exports	500
Support for agro-industrial complex	300
Improving access to education	50
National Bank	600
Crediting priority projects	600
Total	1 828

The total expenditures of the republican budget for 2019 amount to 10.7 trillion tenge.

In total, there are 232 budget programs. 76% of all expenses account for ten of them.

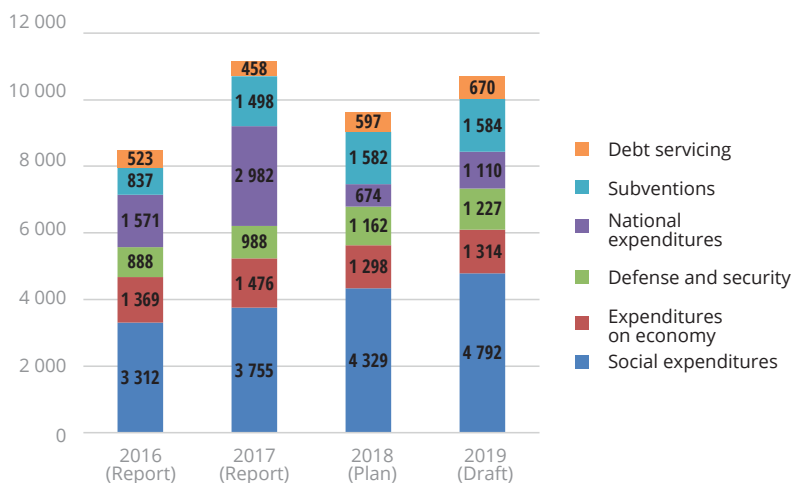
Table 2. The most expensive budget programs in the draft republican budget for 2019

No.	Budget program	Administrator	Draft RB for 2019	
			Billion tenge	%
TOTAL			10 697	100
Including top-10 budget programs			8 118	75.9
27	Social security of certain categories of citizens and their support in payments	MLSP	2 928	27.4
400	Subventions to regional budgets	MoF	1 584	14.8
67	Providing a guaranteed package of free medical care	MoH	982	9.2
13	Government debt servicing	MoF	670	6.3

No.	Budget program	Administrator	Draft RB for 2019	
			Billion tenge	%
47	Ensuring combat and mobilization readiness of the Armed forces of the Republic of Kazakhstan	MoD	551	5.1
10	Reserve of the Government of the Republic of Kazakhstan	MoF	448	4.2
1	National Security	NSC	275	2.6
99	Ensuring access to high-quality formal education	MES	254	2.4
91	Repair and maintenance aimed at improving the quality of public roads	MID	214	2.0
3	Development of roads at the national level	MID	211	2.0

In general, 4.8 trillion tenge out of 10.7 trillion tenge, or 45% are social expenses. In 2019–2021, social expenses will increase by almost a third.

Chart 4. Republican budget expenditures, billion tenge



224 billion tenge will be allocated to the quasi-public sector. Baiterek NMH (80 billion tenge) and Agrarian Credit Corporation JSC (60 billion tenge) will get the largest amount of the budget.

Table 3. Expenditures of the quasi-public sector in the draft republican budget for 2019

	Billion tenge
TOTAL	224
CREDIT PROVISION	168
Agrarian Credit Corporation JSC	60
Baiterek NMH JSC	65
Projects of State Program of Industrial and Innovative Development	30
Ensuring the competitiveness and sustainability of the national economy	14
Passenger car fleet renewal	11
Preferential car loans	10
Housing Construction Saving Bank of Kazakhstan JSC	28
INCREASE OF THE AUTHORIZED CAPITAL	33
Baiterek NMH JSC	15
Kazvodkhoz Republican State Enterprise on the Right of Economic Management	7
National Agrarian Scientific and Educational Center	7
Zerde National Infocommunication Holding JSC	2,7
National Company Kazakhstan Engineering JSC (PZTM, Kirov Plant)	1,5
TARGET BANK TRANSFER	22
The AIFC Authority JSC	20
National company Astana EXPO 2017 JSC	2

In general, the economic block of the Government, adhering to previously expressed statements, has developed a conservative draft budget for 2019–2021.

Central Asian Rapprochement. Illusion or Real Chance?

Dossym Satpayev

Since Alexander Humboldt first identified Central Asia as a separate region of the world in the 19th century, the emphasis was mainly on geographical boundaries. They were constantly different. Although the Soviet Union still added emphasis on economic orientation within the framework of a single national economic complex. At that time, such a concept as “Central Asia and Kazakhstan” was used. It should be noted that at present the concept of “Central Asia” (CA) has a geographical, ethnic, and political designation. However, I would like to pay more attention not so much to the geographic or ethnic dimension in this article but to the political definition of Central Asia, which, in my opinion, should include only five post-Soviet states, for the reason that they came out once of the same economic and political system.

Moreover, the peculiarity of the situation was that after the collapse of the USSR, one of the results of the “parade of sovereignties” was the crisis of “regional self-identification” on the part of most countries of Central Asia. The term “regional self-identification” means the drive and desire of the Central Asian states to link their own prospects with the future development of the entire region. In recent years, even Kazakhstan has tried to position itself more as a Eurasian rather than a Central Asian state, especially when the Eurasian Economic Union was established. The resonant statement by the President of Kazakhstan N. Nazarbayev was quite revealing in early 2014, when he talked about the possibility of renaming the country as “Kazakh Eli”, as well as getting rid of the “stan” ending. As the Head of State then stated, “The name of our country has the “stan” ending, as well as other Central Asian states. At the same time, foreigners are showing their interest in Mongolia, whose population is only two million people, while its name lacks “stan” ending.¹ It is interesting that in September of the same year, the Kyrgyz party Ar-Namys came up with a similar initiative, as according to its leader Felix Kulov: “... the terms

¹ Nazarbayev Proposes to Get Rid of “Stan.” / <https://rus.azattyq.org/a/nazarbaev-pereimeno-vaniye-kazak-eli/25255902.html> (07.02. 2014).

with the suffix “-stan” have Persian roots. And the word ‘Kyrgyzstan’ was created in Soviet era.”² Nevertheless, things did not go beyond words.

The lack of regional self-identification led to the fact that the region consisted of five specific political, social, and economic systems, five different levels of integration into the system of international economic and political relations for a long time. Moreover, this has already turned into one of the risk factors in Central Asia, as it generated points of tension within the region between different countries. All this prevented effective interaction and determination of common regional interests. As a result, no joint regional project was launched, whether it was the establishment of a single economic space or the joint solution of environmental problems.

Table 1. Retrospective Analysis of Integration Initiatives in Central Asia

Initiative	Date	Supported by	Geographic coverage	Result
1. Common Economic Space (CES)	1994	Kazakhstan, Uzbekistan, Kyrgyzstan. Tajikistan joined in 1998	Central Asian countries except Turkmenistan	It did not reach the objectives. Transformed in CAEC
2. Agreement “4+N” (Treaty on Deepening Integration in the Economic and Humanitarian Areas)	1996	Kazakhstan, Kyrgyzstan, Russia, Belarus	Kazakhstan, Kyrgyzstan, Russia, Belarus	One of the first stones in the foundation of the EurAsEC

² Trautman, Ted: The End of “Stans”: Kazakhstan and Kyrgyzstan Need Other Names for Their States (La fin des «Stan»: le Kazakhstan et le Kirghizistan veulent changer de nom), 12.11.2014, <https://inosmi.ru/sngbaltia/20141118/224333439.html> (18.11.2014).

Initiative	Date	Supported by	Geographic coverage	Result
3. Central Asia Regional Economic Cooperation Program	1997	Asian Development Bank, European Bank for Reconstruction and Development, World Bank, International Monetary Fund, Islamic Development Bank and UN Development Program	Central Asian countries (except Turkmenistan), Afghanistan, Mongolia and XUAR	Some successful projects in establishing economic relations between Central Asian countries and Asian countries
4. Central Asian Economic Community (CAEC). The first unsuccessful attempt to use the water and energy resources of the Naryn-Syrdarya reservoir cascade in a coordinated manner	1998	Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan	Central Asian countries except Turkmenistan	Serious differences were revealed in understanding the future integration process in the post-Soviet space. It was transformed into CACO due to inefficiency.
5. EU-Central Asian Partnership and Cooperation Agreements	1999	Kazakhstan, Kyrgyzstan, Uzbekistan + EU	Kazakhstan, Kyrgyzstan, Uzbekistan + EU	A new qualitative level of cooperation with 'united' Europe. It formed the basis for the development and adoption of the EU strategy towards Central Asia in 2007
6. Central Asian Cooperation Organization "CACO"	February 28, 2002	Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan	Central Asian countries except Turkmenistan	Not further developed

Initiative	Date	Supported by	Geographic coverage	Result
7. Central Asian Union	2005	Kazakhstan, Kyrgyzstan, Tajikistan	All Central Asian countries	The initiative remained at the project level

Perhaps, it is time now to attempt to discuss a new agenda for the region. The first step was in March 2018, when a meeting of the Heads of Central Asian States was held in Astana as part of a working (consultative) meeting for the first time in many years. The President of Turkmenistan Gurbanguly Berdimuhamedov was the only one who was not able to attend this meeting. Instead, Akjoy Nurberdiyev, the Chairman of the Mejlis (Parliament) of Turkmenistan, arrived in Astana. Nevertheless, more interestingly, the Turkmen delegation included Serdar Berdimuhamedov, the son of the President of Turkmenistan. The meeting of the President of Kazakhstan with Serdar Berdimuhamedov was aimed to be acquainted with the future new head of Turkmenistan among other issues. As for the working (consultative) meeting of Heads of Central Asian States, the President of Kazakhstan proposed the establishment of a mechanism of five-sided regular consultations between the National Security Councils of the countries of the region. Also during the consultative meeting, a proposal was considered to create a five-sided Working Commission at the level of Deputy Prime Ministers to promote economic cooperation in the region. The Kazakhstan side noted the need for the economies' transition to a new innovative digital platform and the importance of optimizing tariff policies, and advocated the simplification of administrative procedures for transit traffic. In addition, the importance of addressing the use of transboundary water resources was emphasized. It was of great importance that the initiative to hold this working (consultative) meeting belonged to the new President of Uzbekistan Shavkat Mirziyoyev, who sharply changed the country's foreign policy towards more openness and cooperation with its Central Asian neighbors after coming to power in December 2016.

For example, 2017 was a record year in the history of Central Asia in terms of the number of official visits of presidents of CA countries to each other. The main thing is that this develops into a new regional quality. Heads of Uzbekistan and Turkmenistan have already visited Kazakhstan. In turn, the President of Kazakhstan paid visits to Uzbekistan. At the same time, Shavkat Mirziyoyev

has also visited Turkmenistan, Kyrgyzstan, and Tajikistan, in addition to Kazakhstan, from the moment he assumed the presidency in 2017–2018. In Turkmenistan last year, the President of Uzbekistan attended a ceremony to commission railway and road bridges across the Amu Darya, which are part of the Central Asia – Middle East transport corridor (Uzbekistan – Turkmenistan – Iran – Oman). The energy and transport were identified among the strategic directions of the partnership. The Uzbek State Energy Company O`zbekNeftGaz and the Turkmen Company Türkmennebit (Turkmenoil) have signed a memorandum on joint exploration and development of deposits in the Turkmen sector of the Caspian Sea. However, besides economic issues, the security factor is also of great significance for Tashkent, especially against the fact that fighters became more active on the Afghan-Turkmen border. Moreover, the President of Turkmenistan G. Berdimuhamedov and the late President of Uzbekistan I. Karimov reached an agreement on joint protection of the border in case of an external threat back in 2012. In April 2018, the President of Turkmenistan paid an official visit to Uzbekistan, including for the purpose to enlist the support of Uzbekistan in the construction of the TAPI gas pipeline (Turkmenistan – Afghanistan – Pakistan – India). Now the leadership of Turkmenistan is actively looking for new partners for this project.

In turn, the visits of the President of Uzbekistan to Kyrgyzstan and Tajikistan aroused great resonance and interest amid long years of mutual tension and mistrust between these countries. For the first time in Kyrgyzstan, hopes for an early settlement of border problems were voiced and prospects for cooperation in the water and energy sector were discussed. Moreover, the Uzbek President arrived in Tajikistan in early March 2018 for the first time in many years. During the meeting, the Presidents of Uzbekistan and Tajikistan discussed the prospects for the development of relations between the countries and concluded 27 agreements. In particular, an Interstate Agreement on Certain Sections of the State Border, an Agreement on International Automobile and Air Traffic, Mutual Visa-free Travel for Citizens, etc. were signed. Intergovernmental commissions of Tajikistan and Uzbekistan have already been created and are working on issues of disputed sections of the state border and trade and economic cooperation. It was also stated that the trade turnover between the countries in the coming years is planned to be increased to \$500 million.

At the same time, the intensification of contacts between Astana and Tashkent comes to the front. There are several reasons. Firstly, there is a much smaller number of mutual claims and tensions between Kazakhstan and Uzbekistan. Secondly, it was Kazakhstan that at one time actively advocated for strengthening regional cooperation. Unfortunately, it did not find active support from the late Islam Karimov, including due to worsening relations with Kyrgyzstan and Tajikistan. Thirdly, the Kazakhstan model of attracting investments is already of certain interest for Shavkat Mirziyoyev. The interview with the Chairperson of the Management Board of Halyk Bank of Kazakhstan, Umut Shayakhmetova, about the abolition of currency regulation in Uzbekistan was interesting. She said that she was already receiving many questions about Uzbekistan, "We see that Kazakhstan investors are ready to go to Uzbekistan, and ask if we are ready to lend them in this market. However, this country still needs to carry out many infrastructure reforms – to build a financial system."³ Although, in her opinion, it will take Uzbekistan at least five years to compete with Kazakhstan through infrastructure reform, including the building a new financial system to be attractive to investors.

However, if Uzbekistan continues to pursue financial and economic reforms, it may constitute real competition for Kazakhstan in terms of investment in the future. The transformation of Uzbekistan into more open and attractive investment state, subject to successful economic reforms, may eventually deprive Kazakhstan of the image of an economic favorite in the region, which was mainly built around the extraction of raw materials. Moreover, attracting investment has become one of the priorities for the President of Uzbekistan. Another advantage in favor of Uzbekistan is that, unlike Kazakhstan, a political transit of power has already occurred in this Central Asian republic, which has consolidated the position of the new head of state, reducing the level of political risks and uncertainty in this country.

Generally, if we analyze the package of documents that was signed between Astana and Tashkent over the past year and a half, the bulk of them relate to economic as well as infrastructural cooperation. Roadmaps on cooperation in the field of water relations, reconstruction and modernization of checkpoints, roads and the arrangement of the adjacent territory on the Kazakh-Uzbek

³ Gayfutdinova, Venera: It Will Take Five Years for Uzbekistan to Make up for Lost Time. September 5, 2017, https://forbes.kz/life/observation/uzbekistanu_potrebuetsya_5_let_chtobyi_naverstat_upuschennoe (05.09.2017).

state border were approved. Moreover, they increasingly began to talk about the need to create a center for cross-border Kazakh-Uzbek cooperation, by analogy with the Khorgos International Center for Cross-Border Cooperation on the Kazakh-Chinese border. In addition, after Shavkat Mirziyoyev's visit to Kazakhstan, an agreement on the establishment of the Business Council by the Chamber of Commerce of Kazakhstan and the Chamber of Commerce and Industry of Uzbekistan was reached to solve problematic issues regarding excise duties, taxes, customs procedures, etc.

According to official figures, in 2017, the volume of bilateral trade between countries increased by 30% and amounted to \$2 billion, and foreign trade turnover between countries for the first quarter of 2018 increased by 50% compared to the same period in 2017. The signing of separate Memorandums of Understanding in the trade, economic, cultural and humanitarian areas between the heads of the border regions of Kazakhstan and Uzbekistan is noteworthy. In particular, Zhanseit Tuimebayev, the Akim of the South Kazakhstan region, proposed the Uzbek people to create joint ventures in the South Kazakhstan region, including entering the EAEU market.

In principle, Uzbekistan is considered by Kazakhstan as a strategic partner among all the countries of Central Asia, the development trajectory of the entire region as well as its security depends on. Although it is not yet clear, how far Tashkent is ready to go in its policy of openness towards its neighbors. Will there be an emphasis only on enhancing bilateral relations, or will there be interest in already dusty projects for closer regional cooperation?

For now, we are only returning to where we started. As mentioned above, new attempts to strengthen primarily trade and economic cooperation in the region were initiated by Kazakhstan and Uzbekistan, which ideally could constitute an effective core for regional cooperation, to which other countries of Central Asia could join. Figuratively speaking, there is a certain evolution process from the "small window of disappointment" to the "window of opportunity" to reformat the regional space towards greater interaction after the change of power in Uzbekistan, which over time can transform into an "open door" policy. Naturally, there are skeptics who are not yet convinced of the sincerity of the new leadership of Uzbekistan regarding the implementation of not cosmetic, but deep domestic economic reforms, as well as more open foreign policy model of behavior. In their opinion, what Shavkat Mirziyoyev

has done lately is not yet irreversible processes and therefore many things can still be turned back.

On the other hand, 'something is better than nothing'. After many years of isolation and strict state regulation of the local economy, the first steps of Shavkat Mirziyoyev towards partial economic liberalization have already aroused great interest among neighbors, as well as foreign investors. By the way, besides Uzbekistan, certain attempts to improve the investment climate can also be observed now in Kyrgyzstan, where, for example, in September 2017, the government even came to an amicable agreement with the Canadian company Centerra Gold Inc., which is responsible for gold mining at the deposit through Kumtor Gold Company. This long-standing conflict seriously hit the investment attractiveness of Kyrgyzstan, where Kazakhstan investors also had rather serious problems. Ultimately, pulling up the investment climate in other Central Asian countries at least to the Kazakhstan level can make the entire region attractive to investors who will focus on much larger market. Nevertheless, to speed up and deepen the process of regional cooperation, reasons should be carefully studied that prevented the countries of Central Asia from establishing close economic and political interaction for many years.

The Reasons for the Low Level of Regional Cooperation in Central Asia

- Different hierarchy of internal and external threats. For example, while for Uzbekistan the problem of extremism and terrorism was relevant back in the 90s of the last century, Kazakhstan seriously recognized this problem at the official level as a real threat to its national security much later, in the 2000s. In addition, the foreign policy of Kazakhstan has long been closely associated, for example, with attracting foreign investment in the country, while the foreign policy of Uzbekistan has put the security of the country at the forefront, which forced to spend large resources for its support. However, this hierarchy of threats should move from the national to the regional level, when every country in the region will clearly understand that many of these threats can be more easily neutralized by joint efforts. Moreover, some of these threats, such as the risk of border conflicts or tension because of water resources, can only be addressed at the level of close regional cooperation in principle within the framework of the same water-energy consortium.

- Different models of economic development selected by the countries of Central Asia. Particularly, different levels of the investment climate, which prevented the movement of capital and services within the region. Insecurity of investment and property as significant obstacle to economic integration, especially in the context of a change in political elites.

- Integration of Central Asian states is hindered by the uniformity of their economies. All of them are mainly based on raw materials. "In the export structure of Central Asian countries, more than 55% of the share falls on only three product groups, including oil, gold, gas, and metal ores. In Kazakhstan, this concentration is the highest – 66.5%. Oil production and export (53% of total exports) are locomotives of the national economy, and the country itself is one of the world leaders in its production. Uzbekistan and Turkmenistan have huge gas reserves that are only partially developed, while Kyrgyzstan and Tajikistan have reserves of gold. Almost 50% of Kyrgyzstan's exports are accounted for by gold (in Tajikistan – 17%), and Tajikistan relies on aluminum exports – 30% in the structure of total exports."⁴

- Lack of multidimensional project thinking: security, economy, human capital, demography, environment protection, cultural cooperation, etc. Indeed, the birth rate, migration, health and education of people are also important factors in the stability and development of separate Central Asian countries, and of the entire region consequently. For example, the long absence of a single information space in the region has led to the fact that a whole generation of independence has grown in our countries, which does not know its neighbors in the region well. Therefore, now it is necessary to strengthen the emphasis on public diplomacy, joint educational, cultural, sports, and other projects. This is a humanitarian basis for the regional cooperation.

- Different degrees of openness to the world and the dominance of authoritarian political regimes. As world's practice shows, authoritarian regimes are less inclined towards cooperation than democratic ones.

- Personification of foreign policy. Subjective factors influence significantly making and implementing of integration decisions, which impedes the forecasting of the directions, forms, pace and results of integration.

⁴ Enhancing Competitiveness in Central Asia. February 26, 2018, <http://www.oecd.org/about/sge/enhancing-competitiveness-in-central-asia-9789264288133-en.htm> (26.02. 2018).

- Interstate tension on the same territorial claims or water scarcity. Permanent zones of instability and tension are kept.
- Different levels of interest in the integration processes in the region. For instance, when Kazakhstan, Kyrgyzstan, and Tajikistan had more aspirations for comprehensive integration than Uzbekistan and Turkmenistan.
- Integration separatism, when there is a great number of regional associations with their own specific goals in the post-Soviet space. For example, Kazakhstan and Kyrgyzstan are the EAEU members. The rest of the Central Asian countries are not members of this union. According to experts of the TACIS program M. Roberts and P. Wehrheim, the architecture of multilateral trade agreements of the CIS countries has many overlapping, and sometimes even conflicting provisions.

Elements of regional cooperation

Oscar Wilde once said that mutual illusions are the best basis for a marriage. Nevertheless, in any regional cooperation, “marriage” should not be based on illusions, but on four important elements.

1. Political will

It is based on several pillars:

- The recognition of a closer economic and political interaction between the countries of the region as a priority in the foreign policy of the Central Asian states.
- The recognition of territorial integrity and existing borders.
- The principle of equality, voluntariness, and mutual trust.
- The region does not need new “big brothers”. Definitely, the same Kazakhstan and Uzbekistan could be the engines for the regional development but without any attempts to consider the rest of the Central Asian countries as slaves. As for trust, one spiritual quote says, “The well-being of any partnership is held on six pillars: the first is fate, the other five are trust.” Nobody denies our common geographical destiny. For a long time, the main problem was trust. And it must be restored.

- The establishment of working bodies on certain problems of regional cooperation under the relevant ministries and departments, in order to optimize staffing and improve the organization.
- The unification and coordination of all signed agreements on regional cooperation in various fields.

2. Economic pragmatism

In the field of regional cooperation, technocrats and businesspersons who will sooner find a common language based on the same pragmatism should rule the ball. As long as there is no feeling that we are all sitting in the same boat, there will be no desire to row a boat together in one direction.

3. Long-term domestic political stability

“... The priority of creating an effective state mechanism over democracy can be justified in the initial period of political institutionalization. But at a certain stage, it is an open competitive political system that becomes a necessary element in building such an effective state”.⁵

4. Foreign policy continuity in joint regional projects

To do this, it is necessary to minimize the dominance of subjective factors, when making and implementing certain foreign policy decisions often based on personal likes and dislikes.

Three stages of regional cooperation

The first stage: Targeted Projects (Political will)

1. For the Central Asian states at the initial stage of regional cooperation, the solution of two interconnected key problems on which the security of the entire region depends is vitally important:

⁵ Melville, Andrey; Polunin, Yuri; Mironyuk, Mikhail; Timofeyev, Ivan; Ilyin, Mikhail; Meleshkina, Yelena; Vaslavskiy, Yan et al: Political Atlas, 2006. Expert Magazine, 43 (537): Pp 23–54.

The growth of trust at the border. In fact, we are talking about the foundation of a new regional policy that affects the prospects of our countries. World experience shows that cross-border cooperation can have a positive multiplier effect for all its participants, laying the foundation for closer economic cooperation. By the way, when it comes to regional cooperation, the activation of cross-border trade should have been the first step in laying the foundation for closer economic interaction, not vice versa. Before jumping into the open sea, you must learn to swim in the pool. It would be optimal for us to have a longer and more effective relationship building based on cross-border cooperation. For this, it is necessary to use the business community of the Central Asian countries as an engine of regional cooperation, as support for regional cooperation from below is required. We can agree with those experts who believe that any attempts at deep integration only from above at the level of political initiatives without taking into account industry integration will lead to nothing. That is why, at the micro level, it is very important to rely on business entities that need to reduce the cost of export-import operations and the time to implement them in the absence of a direct access to the sea in the countries of the region. The excise policy of Uzbekistan was mitigated already for the import of a number of goods that have priority export potential for Kazakhstan. By the way, in 2017, the President of Uzbekistan Shavkat Mirziyoyev voiced an interesting initiative to create an Association of Heads of the Regions of Central Asian countries to enhance interregional cooperation at the International Conference "Central Asia: One Past and a Common Future, Cooperation for Sustainable Development and Mutual Prosperity", which took place in Samarkand. In his opinion, this mechanism will make it possible to use the industrial, investment, and intellectual potential of the region. In addition, Astana and Tashkent discuss the establishment of the Central Asia International Center for Cross-Border Cooperation to increase trade between two countries to \$3 billion by the end of 2018. An agreement was reached to hold the first Kazakhstan-Uzbekistan Interregional Forum in Astana, The Central Asian Regional Economic Forum in Tashkent, as well as the first meeting of the Business Council and the joint business forum in Shymkent. Moreover, as it was stated, the main partner of Uzbekistan is the South Kazakhstan region, whose share of exports to Uzbekistan is 30%. As for the intention of Kazakhstan and Uzbekistan to hold the first Forum of Interregional Cooperation, here Astana does not reinvent the wheel. Similar

memoranda have long been in force between the Kazakh and Russian border regions, which even transformed into regular annual regional forums with the participation of the Heads of two States.

2. Cooperation in the water and energy sector, including as a part of preparing for global climate change that threatens the future of all of Central Asia, especially when it comes to increasing water scarcity. In this regard, we can completely agree with the conclusions of those experts who believe that the governments of our countries should take into account the risks of the climate change, when implementing long-term infrastructure projects, which will force us to review not only budget expenditures but also the entire structure of local economies.

The second stage: Regional economic cooperation (Political will + Economic feasibility + Human capital)

The countries of Central Asia should move from targeted projects to regional cooperation in other areas so as not to get stuck in the peripheral zone of world economic processes.

The third stage: Internal factors and challenges to accelerate regional cooperation

1. Economic cooperation as the basis for further integration processes will help lay the foundation to develop economies of the countries of the region more efficiently and implement economic policy objectives.

2. In the case of closer economic cooperation between the countries of Central Asia, investors will be guided by a larger market, investing in various industries. A common market in terms of the absence of any technical and tax borders that put a barrier to free movement of goods, capital, labor, would increase the investment attractiveness of every regional country. "A large degree of diversification of the economy, production, and exports should lead to increased incomes, jobs, and stable growth. Central Asian countries must find their specific element in the global value chain, where they can implement their competitive advantage... Improving transport and information infrastructure while reducing soft trade barriers (for example, eliminating burdensome customs procedures) will decrease trade costs and increase

the attractiveness of the Central Asian countries for participants in global value chain, thereby playing into the hands of all economies' diversification."⁶

3. One of the key challenges for all Central Asian countries is creation of "knowledge economy" to build up productive human capital through increased humanitarian investment. One can agree with the opinion of Cesar Hidalgo, the Associate Professor of the Massachusetts Institute of Technology, who specializes in economic development and macro interrelationship and believes that "...countries will grow where the real economy requires more intensive knowledge. Those, where the economy does not require this, which could not diversify towards higher technologies, will become poorer, and those who overcome the barrier will become richer."⁷ Now, virtually all the countries of Central Asia are rapidly losing their human capital. An alarming phenomenon is that many ambitious, creative, and capable young people, not finding prospects in the countries of the region, "vote with their feet" and leave in different directions, trying to find application of their "competitiveness" in other regions of the world. For example, the Finprom Agency presented the data of its survey in Kazakhstan, according to which 37.7 thousand people left the country in 2017. This is 25.3% more than in 2015. The share of qualified personnel who left Kazakhstan amounted to 54%, or 20.4 thousand people, which is 17% more compared to 2015.⁸ The most critical outflow of techies, economists and educators.

Even the "brain drain" can be stopped and corrected, if you start the "reverse migration" policy, when the country encourages the return of ready specialists to the familiar environment of "brain" competition. However, this requires several important things. Firstly, the competitive intellectual, political, and economic environment is required with large number of "social elevators" and without many artificial ceilings for growth, which are often created where unequal opportunities are determined only by life lotteries, lucky or unlucky to be born with a silver spoon in the mouth. Ultimately, a competitive state is formed only in conditions of severe internal competition of "knowledge", but

⁶ OECD: Enhancing Competitiveness in Central Asia. February 26, 2018, <http://www.oecd.org/about/sge/enhancing-competitiveness-in-central-asia-9789264288133-en.htm> (26.02.2018).

⁷ Bukeyeva, Ardak: Cesar Hidalgo. No.77 (January, 2018), https://forbes.kz/process/tsezar_idalgo/ (06.01.2019).

⁸ More specialists are leaving Kazakhstan. February 20, 2018, <https://kapital.kz/economic/67059/kazakhstan-pokidaet-vse-bolshe-specialistov.html> (20.02.2018).

not telephone law, when much depends only on personal abilities to realize these opportunities. Secondly, there should be a real, not mythical, increase in the standard of living of most Central Asian citizens, when the number of simply “surviving” would be much less than those who consider themselves to be representatives of the “middle class” for whom the culture of quality education is not a whim but natural need for self-development. Thirdly, equal opportunities imply equal access to quality education, which does not provide just a diploma, but continuous long-life learning skills. Moreover, equal access to quality education should be provided in all countries of the region. Fourth, it is necessary to get rid of the “raw material consciousness” and develop an innovative economy, where the end product is not just new technologies, but the production of ideas, projects, and knowledge in all areas of applied and theoretical value. Only then it will result in the very “knowledge economy” that has been recently talked about in all Central Asian countries.

4. The mechanism of effective regional interaction as a tool to neutralize the “old”, “new”, and “potential” threats to regional economic, political, and environmental security. This largely depends on a well-structured regional policy with the participation of the Central Asian states themselves without intermediaries. “Two things can be learned from the experience of the EU. The first thing includes the EU regional institutions. Unlike in the past, the first stage of improving relations is currently being observed in terms of regular meetings, institutionalization, collective regulation, and coordination. First of all, this will help to strengthen interstate trust and form common interests in relation to the third party... It is important to create regional institutions for such development. The second aspect is the intensification of general trade. For example, the elimination of common borders for trade and the intensification of regional trade have played a very important role in the overall development of the EU. In the Central Asian region, this depends more on Russia and China than on the countries of the region themselves. As we have already mentioned, the third important aspect is development aimed at regional identity.”⁹

In fact, we are talking about the survival of the countries of the region as independent economic and political actors. The region should be economically

⁹ Turonbek, Kozokov: Regional Conflicts in Central Asia: Identity Issues and EU Experience. Interview with Torsten Bonaker. March 26, 2018, <https://cabar.asia/ru/regionalnye-konflikty-vtsentralnoj-azii-voprosy-identichnosti-i-opyt-es/> (26.03 2018).

competitive and politically stable in the context of global geopolitical changes, which often destabilize more than order. The situation is complicated by the fact that it is not yet clear whether the next hegemonic change will take place according to the classical scheme, or whether there will be a period of temporary geopolitical chaos when old players can no longer control the situation, even within the framework of the “controlled tension” model. In addition, none of the potential hegemons will be ready to assume the role of a world center. Either powerful regional coalition will replace classic hegemonic state.

Thus, the Central Asian countries should take into account the current changes in global architectonics, which lead to the emergence of a sufficiently large number of “black swans”. In particular, we are talking about such global and subregional trends as:

- The crisis of the international law system.
- The revitalization of separatist, extremist, and terrorist organizations.
- Expanding the use of hybrid wars.
- The increase of the number of regional conflicts.
- The new “great transmigration of peoples” in the framework of illegal migration.
- The acceleration of the urbanization process.
- The arms race and the process of militarization of foreign policy.
- The growth of environmental risks. Increased water scarcity.
- The threat to food security.
- The global climate change.

Different problems at the global, subregional, and regional levels will affect Central Asian countries in different ways. This is also because each country in the region is involved in certain processes at different extent. Therefore, when an attempt is made to consider the possible prospects for Central Asia, one should always consider not only the regional political and economic potential, regional risks and threats, but also the existing global and subregional trends that may affect the region directly or indirectly.

Therefore, regional cooperation within the framework of Central Asia is not only the disclosure of the economic potential of the entire region, but also effective protection against unfriendly economic, political, and ideological

interventions from old and new world centers of influence. Nobody except the countries of the region will solve our regional problems. If someone will try to, then only by imposing its own rules of the game and its own agenda for Central Asia. Moreover, we can distinguish Russia, China, the USA, Turkey, Iran, and Saudi Arabia from the geopolitical players who are directly or indirectly present in the region in the economic, ideological or military and political areas. All of them are more interested in bilateral relations with each of the Central Asian states than to deal with a certain consolidated position of the countries of the region on one or another regional issue. Definitely, stability in the region is an important factor for the same Russia and China. However, mainly through the support of loyal political elites, some of which for a long time sought military and political and economic support from outside, than tried to establish partnerships with their neighbors. It is not surprising that, for example, most of the Central Asian countries, having entered the same SCO, were able to solve their border problems with the same China, and turned the borders within the region into a permanent source of tension. Ultimately, it is preferable for all major geopolitical players to draw Central Asian countries into their alliances than to support the process aimed at the emergence of a new regional coalition.

Summary

After the USSR collapsed, one of the results of the “parade of sovereignties” was the crisis of regional self-identification on the part of most Central Asian countries.

To speed up and deepen the regional cooperation, it is required to study closely the reasons that prevented the countries of Central Asia from establishing close economic and political interaction for many years.

Another attempt should be made to discuss a new agenda for the region. A transition is needed from the “small window of disappointment” to the “window of opportunity” to reformat the regional space towards greater interaction after the change of power in Uzbekistan, which over time can transform into an “open door” policy.

Four important elements should underlie the regional cooperation of Central Asian countries: political will, economic pragmatism, long-term domestic

political stability, and foreign policy continuity to implement joint regional projects.

Regional cooperation within the framework of Central Asia is not only the disclosure of the economic potential of the entire region, but also effective protection from unfriendly economic, political and ideological interventions from old and new world centers of influence.

The Commodity Partnership of Germany and Kazakhstan as Part of the Commodity Strategy of Germany and the Economic Policy of Kazakhstan

Aliya Mussina

When it comes to countries rich in natural resources, the question often arises of both their rational use and the impact of this abundance on the welfare of their citizens. As a rule, high revenues from commodity transactions are inaccessible to the majority of the population of a state abundant in natural resources. Kazakhstan is no exception in this sense. Moreover, despite the measures taken in the economic policy of the country, it has not yet been able to come off the resource dependence completely.

A “resource curse” in the absence of democracy in the “oil-rich” countries has become a byword and very scarce raw materials have been like a litmus test in most countries with developed democracies. Despite highly developed technologies and a relatively prosperous economy, Western Europe, Germany in particular, is forced to look for options and develop special strategies for the continuous supply of its economy with raw materials. The measures taken are very trivial and the economic needs usually prevail over the compliance with the requirements to democratic standards in relation to partner countries.

Commodity Strategy of the German Government

In 2010, Germany adopted the so-called commodity strategy, which guarantees to provide the German economy with metals and minerals. Germany, being one of the technologically highly developed countries, needs substantial stocks of raw materials for its industry. Thus, for example, rare-earth metals are imported mainly from China. And the commodity strategy has been adopted exactly for the purpose of continuous supply and diversification to reduce the risks associated with import dependence.

One of the main tools of Germany’s commodity strategy is the so-called “commodity partnerships” concluded by the Federal Government to support the German economy and provide industry with raw materials.¹ Now, there are

¹ Bundesministerium für Wirtschaft und Technologie (BMWi): Rohstoffstrategie der Bundesregierung. Sicherung einer nachhaltigen Rohstoffversorgung Deutschlands mit nichtenergetischen mineralischen Rohstoffen. Berlin, 2010.

partnership agreements in the field of raw materials with Mongolia (2011), Kazakhstan (2012), and Peru (2014), partnership agreement with Chile is in the form of political intention so far. Possible commodity partnership with South Africa is also being explored.²

As a rule, in such partnerships, the German Government promises assistance in mineral resources exploration and mining, management support, and investments in exchange for favorable investment conditions and minerals accordingly. Technical infrastructure creation and development, raw materials and resource efficiency enhancement, transparency improvement in the raw materials sector, both at the national and international levels, are also among usual main arrangements. Moreover, the introduction of environmental and social standards for exploration and mining, the improvement of the legislative and administrative frameworks in the resource-based sector, as well as training and professional development of workers in the resource-based sector often complement such partnerships.

Governments and entrepreneurs of partner countries support bilateral commodity partnerships, supervising their activities during projects implementation. Thus, on the German side, primarily the Federal Ministry for Economics and Technology, as well as the Ministry of Foreign Affairs, the Ministry of Economic Cooperation and Development, and the Ministry of Ecology coordinate projects implementation under such partnership agreements. And the Federal Union of German Industry does it from the business side.³

Kazakhstan's commodity policy and measures to end commodity dependence

Being a natural resources-rich country, Kazakhstan has been thinking about the commodity policy since the very first years of its independence. Despite the fact that hydrocarbon production in Kazakhstan began back in 1899,⁴ the oil potential was not fully employed in the Soviet Union due to political reasons.

² <http://dip21.bundestag.de/dip21/btd/17/134/1713434.pdf> (01.11.2018).

³ https://www.umweltbundesamt.de/sites/default/files/medien/1968/dokumente/2017-02-01_rohpolress_ka_6_rohstoffpartnerschaften.pdf (01.11.2018).

⁴ <http://www.neftegaz.kz/analitik-articles/istoriya-kazaxstanskoj-neftyanoj-otrasli.html> (01.11.2018).

At the same time, it was the oil and gas sector that attracted the first foreign investments in the early 90s. For obvious reasons, it was the management and regulation of subsoil use that had one of the important places in the formation of the country's economic and foreign policy.

In those same years, the country's leadership repeatedly mentioned a need to avoid the "Dutch disease" in Kazakhstan. The words about the importance of a diversified economy that is independent of oil prices were often expressed. Simultaneously, the first measures and proposals to end commodity dependence were developed.

In 1994, the Concept of Management and Regulation of Subsoil Use and Protection of Subsurface Resources and the Investment Program for Geological Exploration and Development of Mineral Deposits of the Republic of Kazakhstan were approved. According to this concept, the first steps were taken to open and develop an investment area in the field of geological exploration and development of mineral deposits. Thus, geological and economic data were declassified to ensure investors access to the necessary information. At that time, it was decided to proceed with a "market review of the world mineral resource complex, production, consumption, and trade of commodity products, as well as collection and accumulation of information on the commodity policy of developed and developing countries to determine the strategic position of Kazakhstan in the world balance."⁵

In August 2012, the Government approved the Concept of the Geological Industry Development in the Republic of Kazakhstan until 2030. It aims at the rational use of the subsoil, the development of the geological industry infrastructure, the introduction of innovative technologies, personnel development, as well as the improvement of the legal framework in order to increase investment attractiveness and develop Public Private Partnership mechanisms.⁶

Nevertheless, the economy dependence on oil prices is still rather strong. The abundance of resources did not help to avoid the economic crisis, but in some ways contributed to its grotesque manifestation in all sectors of the country's economy. The tools used, such as the stabilization fund created in Kazakhstan since 2001 or various programs adopted to support SMEs and

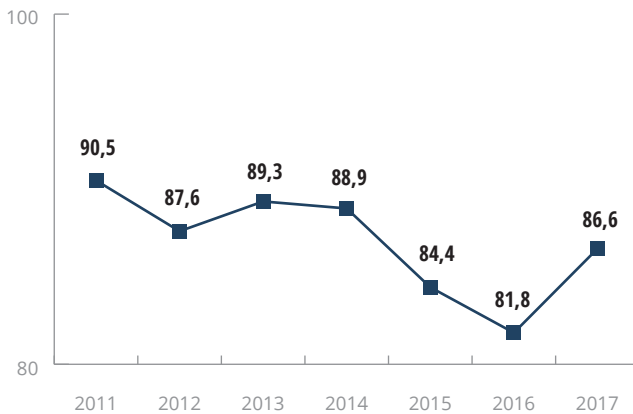
⁵ http://kazakhstan.news-city.info/docs/sistems/dok_pegmli/index.htm (01.11.2018).

⁶ <http://adilet.zan.kz/rus/docs/P1200001042> (01.11.2018).

diversify the economy, were insufficient. The established basic institutional foundations are not strong enough, and the lack of transparency coupled with corruption weakens the measures taken to end the commodity dependence.

The importance of the primary industry for the Kazakhstan economy is manifested in all sectors. For example, in 2015, 2/3 of the industrial production accounted for the oil and gas sector, mining, and metal products.⁷ The bulk of direct investments, about 70% in 2017, also accounts for the mining industry and exploration.⁸ The share of raw materials in Kazakhstan's exports, despite some fluctuations, continues to grow and amounts to 86.6% in June 2017 (see chart below).⁹

Chart 1. The share of minerals and metals, as well as the articles made from them in the export of Kazakhstan (% , according to the data of Statistics Committee)



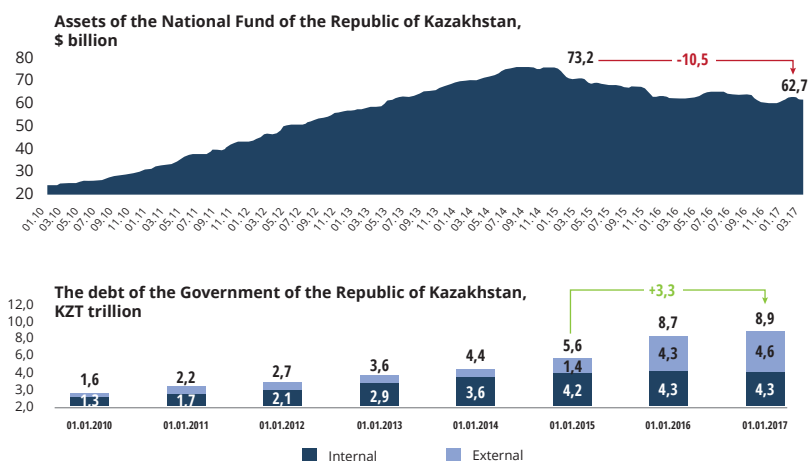
⁷ https://www.oaov.de/sites/default/files/page_files/Kasachstan-Update-Ost-Ausschuss.pdf (01.11.2018).

⁸ http://www.gtai.de/GTAI/Content/DE/Trade/Fachdaten/MKT/2016/11/mkt201611222083_159840_wirtschaftsdaten-kompakt---kasachstan.pdf?v=8 (01.11.2018).

⁹ <https://365info.kz/2017/08/kazahstan-menyayet-struktur-eksporta/> (01.11.2018).

The Stabilization National Fund, being one of the best tools for commodity policy, is currently demonstrating, rather, its fragility. The graph below by the “Talap” Center for Applied Research shows this fact.¹⁰

Chart 2. Since 2001, oil revenues of Kazakhstan have been accumulating in the National Fund, its safety buffer declines



a relatively positive result in the “Ease of Doing Business Index” (28th place) in comparison with neighboring countries, including Russia, eight positions increase over a year.¹²

Framework conditions are created everywhere to boost investment attractiveness. Thus, recognizing the need for modernization, and demonstrating the readiness for it in “100 Concrete Steps to Implement Five Institutional Reforms” Program (2015), steps 74 and 75 speak of increasing transparency through CRIRSCO international reporting system introduction, as well as simplifications in issuing licenses according to the international best practices.¹³

The main elements of the new Subsoil Use Code of the Republic of Kazakhstan dated December 27, 2017 provide for significant simplification and acceleration of the basic rules for obtaining exploration and mining licenses (on the “First Come, First Served” principle), the issuance of licenses for small deposits by local authorities, the introduction of international standards for resource assessment. The state regulation of the services and goods procurement by subsoil users and obligations on reporting and local content are brought in line with the WTO requirements. In general, the new code is also intended to increase investment attractiveness.¹⁴

The new Strategic Development Plan of the Republic of Kazakhstan until 2025 also envisages further measures for the economy of Kazakhstan to abandon the commodity dependence, which entered into force in February 2018, primarily through the diversification of the economy and digitization of industry 4.0.¹⁵ However, despite the detailed plan of action in various sectors of the economy and only a brief mention of the primary sector, a high level of oil revenues will remain in the future development of Kazakhstan. First, this is caused by weak state institutions and corruption that reduce the effectiveness of actions and measures taken.

¹² <http://www.doingbusiness.org/content/dam/doingBusiness/country/k/kazakhstan/KAZ.pdf>, <https://24.kz/ru/news/delovye-novosti/item/274950-kazakhstan-podnyalsya-na-8-pozitsij-v-rejtinge-doing-business> (01.11.2018).

¹³ https://online.zakon.kz/Document/?doc_id=31977084 (01.11.2018).

¹⁴ https://forbes.kz/process/expertise/obzor_klyuchevyih_polojeniy_novogo_kodeksa_rk_o_nedrah_i_nedropolzovanii/ (01.11.2018).

¹⁵ <https://docs.google.com/viewerng/viewer?url=http://www.akorda.kz/upload/media/files/1f-1037924cdfffa26ebdc7054f3502aa.doc> (01.11.2018).

Agreement between the Government of the Republic of Kazakhstan and the Government of the Federal Republic of Germany on Partnership in the Commodity, Industrial, and Technological Areas – Goals and Obligations

One of the examples of the implementation of both Germany's commodity strategy and Kazakhstan's commodity policy can be the Partnership Agreement between these two countries signed in February 2012. It became a kind of a supplement to the existing Investment Protection Treaty dated 1992, which entered into force in 1995, and the Treaty on Avoidance of Double Taxation dated 1997, effective since December 12, 1998, as well as the Joint Statement on Partnership for the Future between the RoK and the FRG dated September 3, 2008.

It should be noted that in general economic relations between Germany and Kazakhstan are developing successfully and continue to be mainly in the field of trade. Exports from Germany show 17% increase in 2017, as well as imports from Kazakhstan show 24% increase. At the same time, achievements are very far from the best indicators, for example, in 2013, when the trade turnover amounted to €6.8 billion.¹⁶

Primarily, Kazakhstan imports oil, gas, metals, and chemical products to Germany. Thus, Kazakhstan is the fourth oil supplier to Germany and takes the fifth place in the European Union, supplying 7% of all oil to the EU. German also invests mainly in the primary sector in Kazakhstan, namely in oil and gas production. Nevertheless, Germany takes only eighteenth place among the investors of Kazakhstan.¹⁷ In 2017, German enterprises invested only \$345 million in Kazakhstan. And, in general, German investments in the country amount to \$549 million, including in such sectors of the economy as construction, trade, infrastructure, and chemical industry.¹⁸

The main objective of this so-called "commodity" agreement is to deepen economic relations between two countries in the primary, industrial, and technological sectors. Thus, it contributes to the sustainable development of both partner countries by supporting the commodity potential of Kazakhstan

¹⁶ <https://www.oaov.de/kasachstan> (01.11.2018).

¹⁷ https://www.oaov.de/sites/default/files/page_files/Kasachstan-Update-Ost-Ausschuss.pdf (01.11.2018).

¹⁸ <https://www.oaov.de/kasachstan> (01.11.2018).

through investments, innovative development, and technology transfer from Germany and ensuring the reliable provision of the necessary raw materials from this country.

Kazakhstan has committed to guarantee investments in unrelated financial loans and export credit insurance. Thus, the Government of Kazakhstan gives state guarantees regarding the financing of projects of state enterprises. The guarantors here are either the Development Bank of Kazakhstan or Sovereign Wealth Fund "Samruk-Kazyna". The agreement also guarantees non-discriminatory access to German enterprises to raw materials produced in the country within the framework of Kazakhstan legislation.

The Government of Germany will assist and help Kazakhstan to improve qualifications of senior employees in the field of economics, enterprises to establish contacts, to develop an information package for investors by studying and evaluating the resource potential of man-made mineral formations or the raw material of man-made mineral formations; to advise on resource use efficiency and energy efficiency; to advise on the implementation of environmental and social standards in the field of extraction and processing of raw materials; to advise on the creation of industrial clusters, including the involvement of research institutes; to consult in the field of cooperation between research institutes of both countries; to advise on the promotion of investment and innovation, as well as the transfer of advanced technologies.¹⁹

This cooperation scheme meets both the commodity strategy of Germany and the modernization goals of Kazakhstan in the framework of its economic policy and plans for industrial development and country's competitiveness improvement.

The signing of this agreement was initiated by the German side and was followed by great expectations from governments and entrepreneurs, as well as criticism, especially from the civil society of both countries. In general, such partnership agreements are indeed helpful from the perspective of guaranteed raw materials supply, but they could have been more successful, if some other significant points of a different nature had been taken into account. Thus, the strengthening of political components in terms of sustainable

¹⁹ [https://tengrinews.kz/zakon/mejdunarodnyie_organyi_i_organizatsii/mejdunapodnyie_otnosheniya_respubliki_kazahstan/id-O120000001/\(01.11.2018\)](https://tengrinews.kz/zakon/mejdunarodnyie_organyi_i_organizatsii/mejdunapodnyie_otnosheniya_respubliki_kazahstan/id-O120000001/(01.11.2018)).

development, civil society and local people participation, compliance with international standards, the strengthening of the development component to improve commodity management, and open financing could help to ensure that revenues from the primary sector are directed more to the population, contributing to society democratization and development of healthcare, education, and local infrastructure.²⁰

Unfortunately, the Kazakh-German Agreement does not provide clauses to improve the legislative framework and institutional framework conditions for administrative processes in the commodity sector, as well as clauses on training and advanced training for specialists in the primary industry.²¹

Results, problems, potential, and prospects of the Kazakh-German relations under the Partnership Agreement in the commodity, industrial, and technological areas

Currently, there are still few ongoing projects. The sanguine hopes pinned by both sides did not materialize. Kazakhstan hoped for direct investment. German enterprises in the primary sector aim at the reorientation in connection with the energy turn.²²

In the first years after the agreement signing, there was especially no activation of already existing, rather successful relations between Germany and Kazakhstan. First of all, trade relations continued to develop, the commodity partnership remained in the shadow, and the potential hidden in the agreement was not used at all. Unresolved issues regarding obligations under the guarantees of Hermes (Euler Hermes) also do not allow the full use of the potential for attracting investments.²³ Difficulties in implementation also lie in the fact that “there are no more enterprises in Germany that would work in the primary industry,” therefore it is difficult for the German economy to find suitable technologies for investment in Kazakhstan.²⁴

²⁰ https://www.swp-berlin.org/fileadmin/contents/products/aktuell/2012A16_mdn_dnn.pdf (01.11.2018).

²¹ http://www.ressourcenpolitik.de/wp-content/uploads/2013/04/PolRess_ZB_AP2-Kurzanalyse-2_Rohstoffpartnerschaften_final.pdf (01.11.2018).

²² <http://daz.asia/blog/fuenf-jahre-deutsch-kasachisches-rohstoffabkommen/> (15.06.2018).

²³ See P. 17, Footnote 23 in this book.

²⁴ <http://daz.asia/blog/kaum-greifbare-projekte-in-sicht/> (01.11.2018).

However, the implementation of the intergovernmental partnership agreement is in progress. For example, the dialogue platform on commodity issues created in 2012 by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (the German International Cooperation) jointly with the German Eastern Business Association (OAOEV) actively supports projects under the agreement and helps entrepreneurs of both countries to implement them.²⁵

Also, since 2012, under this agreement, the German Mineral Resources Agency (DERA) conducted an analysis of Kazakhstan deposits according to the data provided by Kazgeology JSC, and in 2015 published a special catalog of two hundred and fifty deposits, which was distributed among German companies. Then, fifty of the most attractive projects and deposits were investigated in detail and an analysis and evaluation of their economic potential was provided. It was primarily about deposits of non-ferrous metals such as copper, lead, zinc, and tin, rare metals such as vanadium, tungsten, tantalum, molybdenum, and titanium, as well as iron and fluorite, since Germany from Kazakhstan receives 27% of the necessary ferroalloys, 18% of ferrochrome and noble metals, for example, 28% of the required silver.²⁶

The EXPO 2017 contributed to a certain upsurge in the development of bilateral relations: in the framework of the visit of Federal President Steinmeier to Astana in July 2017, more than 20 contracts worth about \$1 billion were signed.²⁷

The list of priority projects, which are already being implemented under this agreement, contains currently 24 projects, 14 of them were included in this list in July 2017.²⁸

Specific projects are being implemented for the construction of gold mining plants in the Zhambyl region – Aurum Deutschland LLP with the support of the Ministry of Investments and Development of the Republic of Kazakhstan. In September 2015, Aurum Deutschland received the rights to explore

²⁵ https://www.umweltbundesamt.de/sites/default/files/medien/1968/dokumente/2017-02-01_rohpolress_ka_6_rohstoffpartnerschaften.pdf (01.11.2018).

²⁶ https://www.deutsche-rohstoffagentur.de/DERA/DE/Rohstoffinformationen/L%C3%A4nderkooperationen/Laender/Kasachstan/kasachstan_node.html (01.11.2018).

²⁷ <https://kapital.kz/economic/61391/kazahstan-i-germaniya-podpisali-soglasheniya-na-1-mlrd.html> (01.11.2018).

²⁸ Below are given data from the list of priority projects for implementation of the Intergovernmental Agreement on Partnership in the Commodity, Industrial and Technological Spheres between the Republic of Kazakhstan and the Federal Republic of Germany, as of 04.10.2017.

and mine gold and copper deposits in Kazakhstan. This project was included in the list of priority investment projects for the Republic of Kazakhstan and received certain tax benefits, as well as government support at all levels of its implementation. The Federal Republic of Germany, in turn, supports such projects by investment risk guarantee from the governmental side.

In 2016, International Corporation of Metal and Alloy Development Holding GmbH signed an Agreement on the Construction of Ferroalloy Plant on the territory of the Special Economic Zone in Karaganda with an annual capacity of 597,500 tons per year.

In addition, the German Company ULMUS FUND signed an agreement with Kazgeology JSC on copper prospecting works as part of the state geological study of the subsoil in Karaganda region, namely Besshoky area. In this project, ULMUS BESSHOKY LLP owns 75%, and National Geological Exploration Company Kazgeologiya JSC owns 25%. Besshoky area includes six porphyry copper occurrences – Besshoky: Southern, Northern, Eastern; Kaindyshoky, Shatyrsha, and Zhilandy. According to the Besshoky project, 76 core drilling wells were drilled with a total volume of 17,698.4 meters as of August 7, 2018.

In 2017, ULMUS FUND B.V. won a tender for obtaining the right of subsoil use for the exploration of non-ferrous and noble metals also on Medine Area in the Karaganda region. It is located in the central part of the Nurinsky synclorium. Here advanced German technologies will be also applied to extract and concentrate ores. The finished product is supposed to be supplied internationally, not only in the Kazakhstan market. It is supposed to use equipment and modern methods that meet high standards of efficiency and have low environmentally harmful effects.²⁹

LINDE AG implements a project for the production of industrial gases in the city of Atyrau jointly with the United Chemical Company LLP, as a partner from the Kazakhstan side. In 2017, LINDE AG also concluded an agreement on the commencement of a project for the industrial gases supply to Arcellor Mittal Temirtau JSC. A preliminary agreement on the hydrogen supply was also concluded for Southern Kazakhstan region with High Industrial Lubricants & Liquids Corporation (HILL) LLP in 2017. In return, Kazakh Invest National Company supports the investment activities of the LINDE group of companies.

²⁹ <https://www.ulmusfund.com/> (01.11.2018).

To a lesser extent, there is also cooperation with CLAAS GmbH in the construction of an engineering plant in Petropavlovsk for the production of tractors and combine harvesters. At present, the main activities of this company are concentrated mainly in the region of North Kazakhstan. And the untapped potential for the implementation of industrial and innovative projects under this agreement is especially high in the agricultural sector.

In 2017, Kaztekhologii JSC and Spezialtechnik GmbH Dresden signed a Letter of Intent on joint activities for the disposal of ionizing ammunition and the establishment of a center for the disposal of ammunition in Kazakhstan.

At the same time, CHIM-Plus LLP and Chemieanlagenbau Chemnitz agreed to implement the 'Production of Caustic Soda' Project.

Out of the projects that face great challenges and are still not feasible, we should mention, for example, the Frankfurt-based company Ablai Resources established in 2012. It planned together with the Kazakhstan partner Tau-Ken Samruk to evaluate and provide access to the world market for 70 Kazakhstan's potential deposits of tungsten, zinc, and rare-earth metals, the company suspended the planned projects. Risks related to financing and unresolved issues with Euler Hermes insurance tools also played a role here.³⁰

The Fraunhofer Institute and the Kazakhstan Industry Development Institute JSC collaborate on Industry 4.0. The set of measures developed in the framework of cooperation was included in the Digital Kazakhstan State Enterprise, and the Model Digital Factories Project is in progress.

Several Siemens projects are being implemented, for example, the joint project with Kazakhstan Temir Zholy National Company on the modernization of road transformer substations and the management of a signalling system. The project for the supply of two steam turbines with a capacity of 660 MW each to the Balkhash TPP is also in the list of priority projects for the agreement execution for October 2017.

Under the agreement, several very successful projects are being implemented, but there are also failed ones, for example, the project on the construction of wind and solar power plants. Thus, German investors built a 100 MW solar power plant in Saran, Karaganda region under the agreement. NwComp Solar

³⁰ <https://www.wiwo.de/politik/ausland/rohstoffe-aktivitaeten-wurde-eingestellt/8090766-4.html> (01.11.2018).

GmbH concluded three agreements for the construction of a solar power plant: in Otrar district in Southern Kazakhstan with a capacity of 35 MW, in Zhambyl district of Almaty region with a capacity of 25 MW and a solar park in Zhetysai with a capacity of 5 MW. Also, memoranda for the construction of a wind and solar power plants and the construction of a drainage and hydro-electric power plant on the Ugam River were signed with Wind Power GmbH. However, it is currently doubtful, whether these projects will be implemented.

The system development of renewable energy sources with the involvement of private companies could be one of the solutions for the development of Kazakhstan and avoiding the commodity dependence. Germany could also become a partner in the development of this industry, especially given the framework favorable conditions already guaranteed by the existing agreement.

The AIFC, established on the basis of EXPO 2017, intends to develop “green finance”. Thus, debt instruments will be used for environmental projects and support the development of low carbon technologies.³¹

There is also a huge untapped potential for cooperation in waste processing. Germany has successful experience in this field, having one of the highest percentages in the recycling industry in the world. Kazakhstan has an acute problem of landfills. The German know-how would be most welcomed to solve this issue. The Federal Union of German Entrepreneurs also makes this proposal in the framework of the “commodity” partnership.³² Both Germany’s experience in waste processing and the use of slag in mining operations could be useful for Kazakhstan.

Electricity production by burning waste using special German technologies, such as, for example, of Energy from Waste factories,³³ is quite feasible in Kazakhstan. Obvious pluses include the environmental situation improvement, economic strengthening and growth, providing jobs in the regions. The problems lie, first, in the lack of information and knowledge about the aspects and structure of the processing industry in Kazakhstan.

³¹ <https://ism.kz/vie-obzor/> (01.11.2018).

³² https://bdi.eu/media/presse/publikationen/energie-und-rohstoffe/Positionspapier_Recycling_in_Rohstoffpartnerschaften.pdf (01.11.2018).

³³ <https://www.eew-energyfromwaste.com/> (01.11.2018).

One of the positive components of the Kazakh-German Agreement is the central role of industrial clusters. The great potential for the implementation of the agreement, which is also not used fully, is hidden in this direction. The only project in this area is the concluded Memorandum of Cooperation in the field of innovation between the National Agency for Technological Development and the Technical University of Munich (TUM International). The partnership aims to create the "Industrial, Educational and Innovation Center of Kazakhstan" and the "Integrated Training Center of Kazakhstan" to implement TUM International's unique "triple education" program: this is vocational education, training for senior employees, and practical seminars at the existing industrial site.³⁴

The already mentioned, non-stipulated by the agreement, training and advanced training point for specialists in the primary industry also has great potential for cooperation, for example, within the framework of already implemented projects on the introduction of dual education in vocational training of specialists.

The overestimated and unjustified expectations of both parties at the time of the conclusion of the agreement have led to the fact that the potential is still not fully employed. In general, it can be recommended that both German and Kazakh enterprises to pay attention to the incompletely uncovered possibilities of this agreement for successful cooperation, thus contributing to the implementation of both the commodity strategy of Germany and the development of the economy of Kazakhstan.

³⁴ <https://natd.gov.kz/ps/news/648/> (01.11.2018).

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