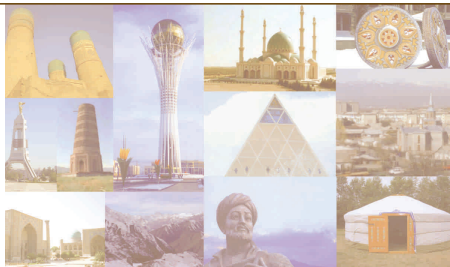


# CENTRAL ASIA OBSERVATORY

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**KAZAKHSTAN**

JANUARY - FEBRUARY 2012

Bimonthly article

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## Highlights

On 27 January 2012 President Nursultan Nazarbayev delivered an annual address to the people of Kazakhstan. He entitled his speech 'Socio-economic Modernization as the Main Vector of Development of Kazakhstan' and outlined ten strategic goals, which are aimed to enhance the prosperity and wellbeing of each citizen. The goals represent micro- and macro-economic changes. At a micro-level the government is required to fight corruption, provide more employment opportunities, improve public services and grant more affordable housing to the needy. At a macro-level, the government of the Republic of Kazakhstan needs to improve the pension system, implement economic reforms in agriculture, industrial sectors and across the regions; enhance governance in the judiciary and law-enforcement sectors and the overall performance of bureaucratic apparatus<sup>1</sup>. It also mentioned desired improvements in the quality of human capital, especially in the sphere of education and healthcare. Acute attention to socio-economic problems is a result of the significant increase in the number of protests and cases of violent acts conducted against local municipalities and law enforcement bodies in 2011.

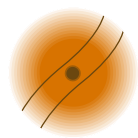
## Internal Affairs

On 15 January, the Republic of Kazakhstan held parliamentary elections six months prior to the official date due to the voluntary dissolution of the previous caucus (please see the earlier brief). The results were generally expected. Three political parties to the lower chamber (Mazhilis) managed to pass the necessary 7% threshold. These are the pro-presidential party Nur Otan which won 80.74% of votes and retained its majority of seats in the new caucus, a former opposition party Ak Zhol which

obtained 7.46% of total votes, and the Communist People's Party of the Republic of Kazakhstan with 7.2% of popular support<sup>2</sup>. Despite the seemingly pluralist composition of parliament, new political parties provided a relatively weak resistance to the majority rule by Nur Otan. Compliance with Nur Otan's initiatives by the new parties in parliament was apparent in re-appointment of Karim Massimov as prime minister. Even the President joked about unilateral support by all the parliamentarians saying "See, Karim? You are even more popular than I am! You managed to get 100% of the votes and I got only 95.5%", citing results from the April 2011 presidential elections.

After Massimov's re-appointment, several ministers have been changed and two ministries were reorganized to optimize government structure from 18 to 17 entities. These changes aim to fulfil the socio-economic goals set by the President's annual address to the people of Kazakhstan without altering overall strategic directions (see highlights in this issue). The Cabinet of Ministers obtained new members from the ministries of culture, environmental protection, economic development and trade and the ministry of justice. All of them are young and were born in the 1960s with a long record of successful public service. The minister of environmental protection, Mr. Nurlan Kapparov was the youngest president and CEO of the national company KazakhOil (1997-98), currently KazMunaiGas. He has a keen interest in 'green economy', waste utilization and solar energy. He is expected to control implementation of natural gas utilization and waste management activities by foreign mining and energy companies. Mr. Bakytzhan Sagintayev, the new minister of economic development and trade is an economist by training and a former governor of Pavlodar region<sup>3</sup>. Mr. Berik Imashev has a PhD in Law from the Lomonosov Moscow State University and comes to the office of

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the ministry of justice with a long record of adopted constitutional and judicial reforms. The functions of the ministry of communication and information have been divided between the ministry of culture and information, which is now managed by Mr. Darkhan Nurbai, a journalist and former member of the presidential administration, and the ministry of transport and communications that kept Askar Zhumagaliev as its senior officer. Mr. Talgat Yermigiyaev, former minister of sports and tourism became the chairman of the agency for sports and physical culture due to the dissolution of the ministry. The rest of the ministries remained intact and kept their top executives.

More changes took place at regional level in customs and anti-monopoly agencies. The new managers are expected to be more effective in providing public services and fighting corruption. Attention to socio-economic order is necessary due to growing public protests and tensions. In January 2012 the workers of the largest copper-producing plant KazakhMys threatened the management with a general strike. They also published an open letter to the company's CEO requesting salary increases and better working conditions for the professional staff. Steel workers at ArcelorMittal plant in Temirtau also asked for 30% salary raise, which was turned down by the management<sup>4</sup>. They are asking MPs for permission to strike. The political opposition also staged protests in January and February bringing together 300-1,000 (sources vary) people in Almaty, the largest city of Kazakhstan. The government increased repression against opposition members, arresting Vladimir Kozlov, the leader of the social movement Alga! (Forward), together with family members. The government also raided their offices across the country. Members of Azat political party were also arrested and fined on multiple occasions in the past two months<sup>5</sup>. Much change is necessary in the domestic realm. Political regime began to correct the pathologies of the socio-economic order by appointing new managers in these crucial governing bodies.

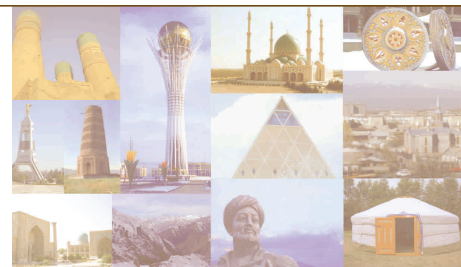
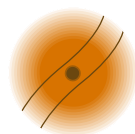
Policies in the strategic economic sectors and international initiatives, such as international integration, oil and gas sector, and finance will remain the same. The government of Kazakhstan will control the value of its domestic currency against fluctuations, pursue its desire to join the World Trade Organization and expand the Eurasian Economic Union (with Russia and Belarus) that came into force on 1 January 2012.

### **Economy and business enterprise**

On 8 February 2012 President Nazarbayev paid an official visit to Germany, which was hailed as the most successful visit since the establishment of bilateral relations in 1992. Despite the signing of 30 interstate agreements since 1992 and more than 1,200 joint ventures operating in Kazakhstan, this visit was special<sup>6</sup>. Fifty commercial documents were signed with cumulative investments of over 4 billion euro. In addition, the Eurasian Club of Berlin was established to enhance bilateral ties beyond the official government interactions.

Most of the signed commercial documents are commercial swaps of 'resources for investments and technologies'. Kazakhstan has large underdeveloped industry of rare-earth metals that are indispensable in chemical industry and electronics. China, which controls 90% of production of rare-earth materials, uses them to exert political pressure on countries that vitally depend on them. For example, in 2010 it boycotted sales of these metals to Japan threatening its domestic hi-tech sector with closure<sup>7</sup>. Since then, countries that export electronics are looking for the new sources of metals and Kazakhstan is one them.

Swaps of resources for investments and technologies are beneficial to Kazakhstan, because German investors will set up training facilities to transfer knowledge and skills to local specialists for a lasting and sustainable production and exports of rare-earth metals to global markets. In addition, Kazakhstan should gain from new sectors due to



the rapidly increasing prices on rare-earth metals. In 2009 global demand on these goods was 134,000 tons, with demand expected to rise to 200,000 tons by 2014<sup>8</sup>. Swaps are also profitable for Germany that is 100% dependent on imports of rare-earth metals. The Federation of German Industries (Bundesverband der Deutschen Industrie) will take the lead in administering Kazakhstani projects.<sup>9</sup>

Besides 'resources for investments and technologies', a potential rise of crude oil exports is expected since Germany imports 97% of its oil, 84% of its gas and 72% of coal for its domestic consumption<sup>10</sup>. Kazakhstan is among the top three largest oil suppliers to Germany. More diversified energy exports from Kazakhstan to Germany are expected in 2013 as the Central Asian republic builds its gas facilities and starts energy production at one of the largest oil fields discovered in the past 40 years, Kashagan.

The second highlight of the visit was the establishment of the Eurasian Club of Berlin. Rather than serving the expected functions of the chamber of commerce, this institution has been conceived as a think tank and staffed with experts from two countries. The Club's major purpose is to brainstorm and propose initiatives beyond diplomatic relations between Germany and Kazakhstan. It is mandated to think large and foster relations between the European Union and Eurasian Economic Union, forging ties between Europe and Asia.

If both initiatives go as planned, we should expect the growing interdependence of Kazakhstani economy with the European Union. Both initiatives should be seen as part of the 'multivectoral' foreign policy approach adopted by President Nazarbayev in 1990s. Multivectoralism is based on the pragmatic defence of national interests via cooperation with all regional partners. Cooperation does not mean blind affiliation and policy

coordination with a single regional power player, be it Russia or China, but foreign policy conducted on the basis of mutual benefit and gain. Development of rare-earth industries by large German companies will offset competition with Russian mineral producers that are aiming for the same markets. It will help to decrease dependence on China that already controls 25% of energy production in Kazakhstan.<sup>11</sup>

<sup>1</sup> Nursultan Nazarbayev (2012), 'Address by the President of the Republic of Kazakhstan Nursultan Nazarbayev to the People of Kazakhstan', delivered in Astana on 27 January 2012. Available at:

[http://www.akorda.kz/en/speeches/addresses\\_of\\_the\\_president\\_of\\_kazakhstan/poslanie\\_prezidenta\\_respubliki\\_kazakhstan\\_na\\_nazarbaev](http://www.akorda.kz/en/speeches/addresses_of_the_president_of_kazakhstan/poslanie_prezidenta_respubliki_kazakhstan_na_nazarbaev) and accessed on 20 February 2012

<sup>2</sup> Embassy of the Republic of Kazakhstan in the United States of America (2012), 'Parliamentary Elections 15 January 2012', Washington DC, available at:

<http://www.kazakhembus.com/index.php?page=parliamentary-elections-january-15-2012> and accessed on 20 February 2012

<sup>3</sup> Official website of the Prime Minister of the Republic of Kazakhstan (2012), 'Government Guide', available at

[http://www.pm.kz/en/government\\_guide](http://www.pm.kz/en/government_guide), accessed on 21 February 2012

<sup>4</sup> Bloomberg (2012), 'ArcelorMittal Temirtau rejects worker demand for 30pct salary increase', available at

[http://www.steelguru.com/russian\\_news/ArcelorMittal\\_Temirtau\\_rejects\\_worker\\_demand\\_for\\_30pct\\_salary\\_increase/252567.html](http://www.steelguru.com/russian_news/ArcelorMittal_Temirtau_rejects_worker_demand_for_30pct_salary_increase/252567.html), accessed on 3 March 2012

<sup>5</sup> For more information, please visit Open Dialogue (2012), 'The Calendar of the Strikes of Oil Workers and Political Persecution in Kazakhstan', available at

[http://www.odfoundation.eu/en/urgents/626/the\\_calendar\\_of\\_the\\_strikes\\_of\\_oil\\_workers\\_and\\_of\\_political\\_persecution\\_in\\_kazakhstan\\_februarz\\_2012](http://www.odfoundation.eu/en/urgents/626/the_calendar_of_the_strikes_of_oil_workers_and_of_political_persecution_in_kazakhstan_februarz_2012), accessed on 3 March 2012.

<sup>6</sup> Vladimir Kuryatov (2012), 'On the Verge of Technological Breakthrough', *Kazakhstanskaya Pravda*, 9 February, 2012, pages 1-2, available at <http://www.kazpravda.kz/print/1328872508>, accessed on 3 March 2012.

<sup>7</sup> For more information, please see Joe McDonald (2011), 'Rare Earths: China's Export Quota Drops 27%', *Huffington Post*, 28 December 2011, available at [http://www.huffingtonpost.com/2011/12/28/rareearths-china-quota-2012\\_n\\_1173452.html](http://www.huffingtonpost.com/2011/12/28/rareearths-china-quota-2012_n_1173452.html), accessed on 3 March 2012

<sup>8</sup> Vladimir Kuryatov (2012), 'On the Verge of Technological Breakthrough'...

<sup>9</sup> Vladimir Kuryatov (2012), 'On the Verge of Technological Breakthrough'...

<sup>10</sup> Vladimir Kuryatov (2012), 'On the Verge of Technological Breakthrough'...

<sup>11</sup> Tengri News (2012), 'No Threat of Chinese Expansion: Kazakhstan's Ministry of Industry and New Technology', 27 May 2011, available at [http://en.tengrinews.kz/kazakhstan\\_news/2062/](http://en.tengrinews.kz/kazakhstan_news/2062/), accessed on 3 March 2012.

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