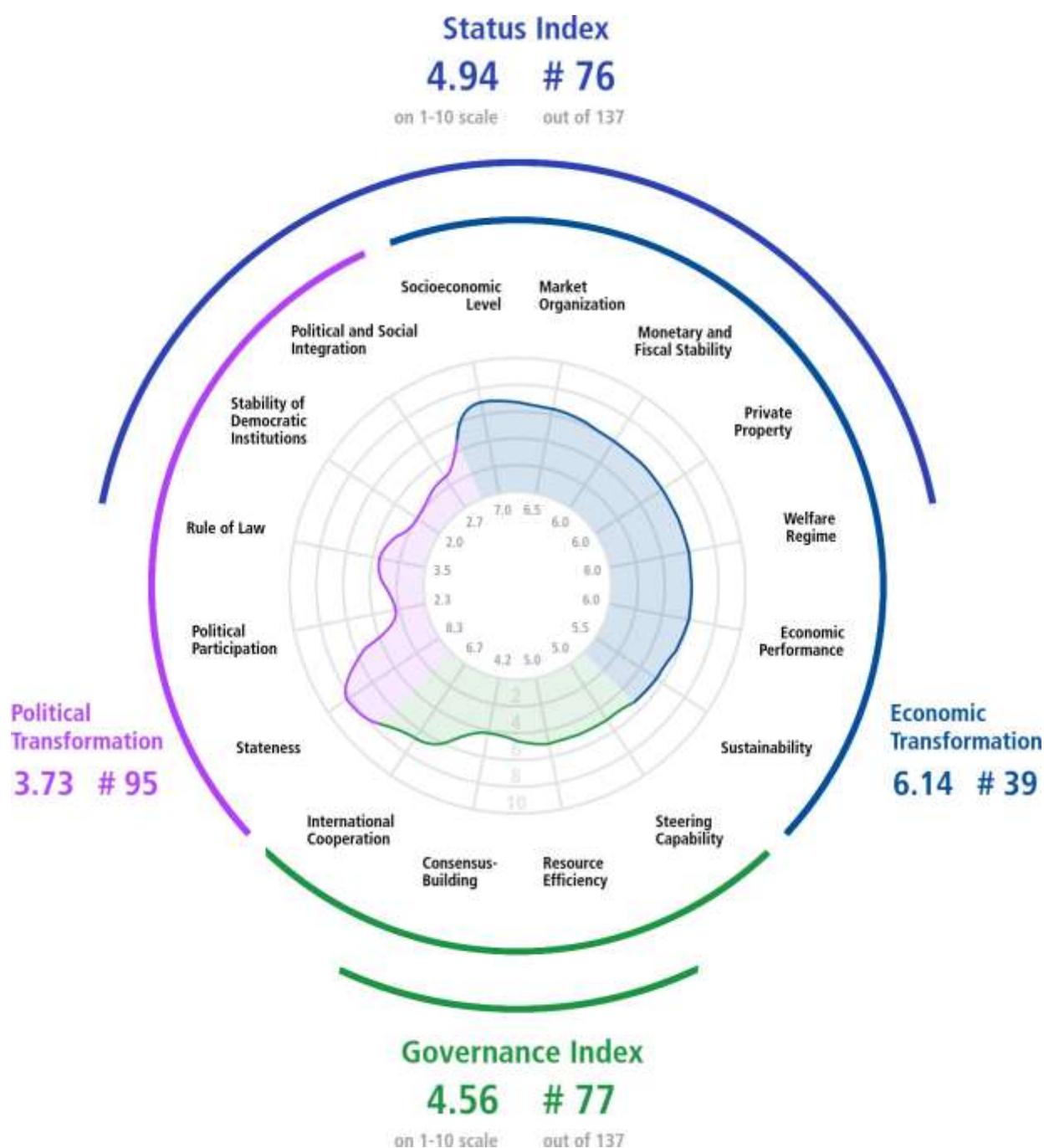


BTI 2024 Country Report

Kazakhstan



This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

| | | | | | | |
|--------------------------|--------|-------------|--------------------------------|--------------|------------------------|--------------|
| Population | M | 19.6 | HDI | 0.811 | GDP p.c., PPP \$ | 30810 |
| Pop. growth ¹ | % p.a. | 3.2 | HDI rank of 189 | 56 | Gini Index | 27.8 |
| Life expectancy | years | 70.2 | UN Education Index | 0.850 | Poverty ³ % | 0.5 |
| Urban population | % | 58.0 | Gender inequality ² | 0.161 | Aid per capita \$ | 2.9 |

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

The 2021 to 2023 reporting period was marked by Kazakhstan's largely lackluster efforts to shore up the economy amid the continuing COVID-19 pandemic, as well as – more strategically – the beginning of former President Nursultan Nazarbayev's definitive and irreversible departure from political life. Since March 2019, Nazarbayev has wielded power as chair of the ruling Nur Otan Party, which again won a majority in the Majilis in January 2021, as chair-for-life of the National Security Council – a constitutional body that had effective veto power over key policy decisions – as Leader of the Nation (Elbasy, since 2010), and as an honorary senator.

The civil unrest in January 2022, partly directed against Nazarbayev and his clan, allowed Tokayev to quickly dispose of the remaining vestiges of his predecessor's personal power. Nazarbayev was initially removed from his position as chairman of the Security Council and subsequently resigned from the ruling party, which was renamed Amanat. The capital city was restored to its previous name, Astana, in September 2022. By January 2023, members of parliament collectively voted to strip the former autocrat of his Leader of the Nation status, which had granted him and his household lifelong immunity from prosecution. As a result, in a significant departure from the Nazarbayev era, Tokayev announced the establishment of a New Kazakhstan based on principles of equal opportunity, political liberalization, economic diversification and social justice.

The June 2022 constitutional reform enabled Tokayev to run for a new term of seven years, which he triumphantly secured in an early election in November 2022. The mid-year referendum also reformed the electoral system of the Majilis and created the Constitutional Court. In mid-January 2023, President Tokayev called snap parliamentary elections for March 19, 2023. Altogether, six parties (instead of three, as before) entered parliament, with Amanat winning about 54% of the vote. In spite of slight improvements appreciated by the ODHIR, there is little expectation that the ruling party will lose its grip on power amid the growing centralization of policymaking. Tokayev and his close team of advisers are working to dismantle Nazarbayev's networks of influence and replace them with their own.

On the economic front, Kazakhstan returned to growth in 2021 and 2022, albeit weak and overshadowed by global recessionary fears. The biggest macroeconomic challenge is rising inflation, which set a multi-year record in 2022 after breaking the 20% ceiling. The war in Ukraine only added fuel to the fire, as Kazakhstan was also affected by the economic crisis in Russia amid unprecedented western sanctions. Serving as a hub for Russia's "parallel imports" and benefiting from skilled Russian emigration to some extent alleviated the adverse effects of Russia's war.

Food price inflation is a major concern in a country where a majority of households allocate a significant portion of their income to food and essential items. Budget deficits have persisted, and government borrowing has only slightly decreased since the peak of the pandemic. The riots in January 2022 can be attributed directly to deteriorating macroeconomics, along with inadequately coordinated policy decisions pertaining to historically problematic western Kazakhstan.

International organizations continue to call on the executive to start implementing much-needed structural reforms to address issues such as weak domestic competition – resulting in so-called zombie companies – the state's continued high degree of involvement in the economy, low labor productivity and extremely low spending on research and innovation.

In an effort to emphasize the disparity between Tokayev's previous promises and the actual situation, the OSCE was particularly critical of the absence of competition in the November 2022 presidential election, provoking strong disapproval from Kazakhstan's Foreign Ministry. Despite the government's increased endeavors to publicize its campaign against bribery and corruption, significant hurdles remain in the form of widespread political corruption and nepotism.

History and Characteristics of Transformation

Following Kazakhstan's independence in 1991, President Nursultan Nazarbayev, a former Communist Party chief who had been at the helm of the country since 1986, took steps to liberalize the economy. By the mid-1990s, economic growth had been restored. Nazarbayev's authoritarianism became apparent at the end of 1994, when he dismissed parliament on a pretext and ruled by decree for nine months until new elections were held. In May 1995, his term in office was extended by a national referendum, followed by a constitutional referendum in August 1995.

Kazakhstan is arguably one of the most successful post-Soviet republics in terms of making the transition from a centralized economy to a relatively free market. After a steep economic downturn, Kazakhstan achieved economic growth for the first time in 1996 and maintained it for 10 years. The discovery of the giant Kashagan oil field off the Caspian shore in July 2000 marked the beginning of a new chapter in the country's economic history. A new deal was brokered in 2008 to the clear advantage of Kazakhstan's government. Kazakhstan set up a national oil fund in January 2001 to reduce its vulnerability to price swings in world energy markets and to accumulate funds for future generations.

In May 2007, parliament approved an unprecedented legislative change, lifting the two-term restriction on the presidency and allowing Nazarbayev to be president for life. At the same time, the president was granted the official position of heading the ruling Nur Otan Party, further strengthening the presidency at the expense of the government, parliament and civil society. Presidential authority was also enhanced by increasing the number of senators from seven to 15 and incorporating nine members of parliament into the Assembly of the People of Kazakhstan, a consultative body with nominal powers.

In December 2011, at least 14 protesters were killed by the police while demanding unpaid danger money, higher wages and better working conditions. Kazakhstan experienced its first-ever suicide bombing that same year, in the western oil city of Aktobe, with another attempted suicide bombing occurring later the same year in Atyrau, also in the west. Additional acts of terrorism took place in 2012 and 2016, revealing Kazakhstan's vulnerability in the face of a deteriorating socioeconomic situation. In response to the economic downturn that began in 2014 when oil prices started to decline, the Kazakhstan government implemented urgent anti-crisis measures by injecting billions of dollars into the troubled banking, agriculture and construction sectors.

The country's 2017 constitutional reform reallocated a certain number of responsibilities from the presidency to the government and parliament, thereby boosting the latter two's autonomy. However, none of these otherwise significant changes have been implemented in practice. In March 2019, Nazarbayev abruptly resigned, leaving the door open for a much-awaited succession. Senate Speaker Kassym-Jomart Tokayev inherited the top job and was elected for a five-year term in an early election of June 2019. The lower chamber of parliament was renewed in January 2021, with Nur Otan still chaired by Nazarbayev, maintaining a majority of seats and full control over the agendas of two minor winning parties.

The civil riots in January 2022 significantly weakened Nursultan Nazarbayev's remaining influence, leading to President Tokayev assuming the position of chairman of the Security Council and gradually stripping his predecessor of numerous privileges. The ruling party was renamed Amanat from Nur Otan, and in January 2023, Nazarbayev's Leader of the Nation status was eliminated. In September 2022, the capital city reverted back to its previous name, Astana, after being known as Nur-Sultan since 2019. In response to elevated societal expectations, Tokayev initiated a more robust reform agenda, including the June 2022 constitutional referendum, which established the Constitutional Court and formalized electoral reforms in the Majilis. In November 2022, Tokayev was re-elected for a final seven-year term. However, despite Tokayev's extensive commitment to reform, Kazakhstan's political system remains unchanged, and its economy remains undiversified and heavily reliant on oil exports.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

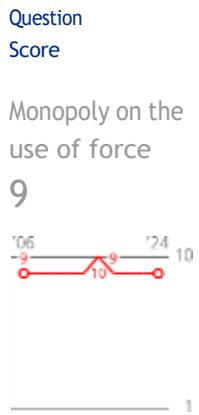
I. Political Transformation

1 | Stateness

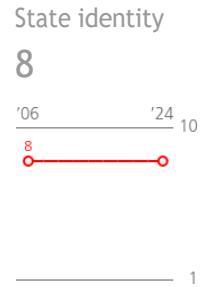
The central government is in control of most of Kazakhstan's territory and relies on a powerful security and law enforcement apparatus to maintain law and order. The January 2022 civil unrest, known as Bloody January, which lasted from January 2 to January 11, entailed a temporary loss of control by the government over the former capital of Almaty and in several provinces. The historical center of Almaty was ransacked by armed protesters, with the presidential residence and the city government headquarters burned down beyond repair. Following a bloodless intervention by the Russia-led Collective Security Treaty Organization (CSTO), at Kazakhstan's request, public order was swiftly restored throughout the country.

President Tokayev promptly initiated a root-and-branch reform of the security apparatus, especially in light of the poor showing of the National Security Committee (KNB). The KNB's local leadership team in Almaty had ordered no resistance against the protesters and effectively allowed them to take possession of a significant number of firearms. Also, the National Guard – mostly consisting of inadequately armed young men, many of whom sympathized with the mob – was severely manhandled by swelling crowds and had done little to prevent the violence from spreading.

Limited areas, especially in western and southern Kazakhstan, continue to be partly controlled by organized criminal groups, which derive revenue from oil theft, arms smuggling, contraband and tax fraud. The authorities further continue to conduct regular arrests of suspected members of terrorist and extremist organizations. In January 2022 alone, over 10,000 people were detained, often on terrorism charges. The president himself warned on Twitter of an assault by more than 20,000 foreign-trained terrorists but later deleted his post. The government has since acknowledged its mistaken assessment of the situation.



The concept of a nation-state remains widely accepted within Kazakhstan's society, based on the moderately nationalist post-independence model that has been left unchanged by Nursultan Nazarbayev's successor since March 2019, President Tokayev. The authorities continue to cater mostly to the Kazakh ethnic majority, which accounted for almost 69% of the total population in January 2022, up from 63.1% in 2009 and 53.4% in 1999. Meanwhile, the share of ethnic Russians decreased from 23.7% in 2009 to 18.5% by early 2022.



In February 2018, then-President Nazarbayev approved the final version of a new Latin-based script of the Kazakh language, which is the only official language under the constitution. In late 2019, Kassym-Jomart Tokayev called that version "unfortunate" and called for revisions. A modified script was presented to the president in November 2020. The full transition from Cyrillic to Latin, currently in limited use through government communications, is supposed to take place by 2025. This shift may not have a significant impact on the Russian-speaking portion of the population, which will continue to use Russian in everyday communication.

The increased role of Kazakh in education, public service and the media contributes to the further marginalization of non-Kazakh-speakers, mainly Russians and other Slavic and Turkic ethnicities, including Kazakhs. Yet, this has not translated into an organized protest activity. At the same time, Candaces (former Oralmans), ethnic Kazakhs who have repatriated from China, Mongolia, Central Asia and Afghanistan, continue to face certain challenges integrating into a new society where spoken Russian and basic education are prerequisites for improving their social status. Other groups, such as returnees from Syria and Iraq and former violent extremist offenders, continue to face stigma and lack basic rights.

Besides the linguistic divide, there is no consensus within society as to how to define the "Kazakhstan nation," a concept first mentioned by President Nazarbayev in 2004. In 2010/2011, the concept was openly opposed by nationalist forces, which staged peaceful rallies against it, claiming that it undermined the central role played by Kazakhs in Kazakhstan's developing statehood, leading to the concept being abandoned.

Russia's all-out invasion of Ukraine in February 2022 has revealed some cleavages in Kazakh society. According to the first opinion survey in March 2022, only 10% of the respondents supported Ukraine, versus 39% that were for Russia. By December 2022, as the next survey showed, support for Ukraine rose to 29% and declined to 13% for Russia. However, 59% said they were neutral and did not support either side.

Kazakhstan remains a fundamentally secular state, and the influence of religion on state politics is heavily constrained. The state regulation of religious affairs is currently based on a law adopted in late 2011 in the wake of the first post-independence terrorist attacks earlier that year. The law aims at better regulating the activities of religious associations by subordinating their registration to the Ministry of Justice and their day-to-day operations to a dedicated public organ. In September 2016, then-President Nazarbayev decreed the establishment of a ministry for religious affairs, which has been known as the Ministry of Information and Public Development since 2019.

During 2017, the authorities suggested amending the Law on Religious Activities by strengthening some of its provisions and introducing new ones, such as a total ban on niqabs in public places. Conversely, hijabs, which do not fully cover a woman's face, would not have been banned. As of 2019, the law had been recalled from parliament without explanation.

The government's cautious attempts to regulate religion should not obscure its readiness to deal vigorously with potentially destructive religious movements, such as Salafism. The authorities remain prepared to defend the secular nature of the Kazakhstani polity against possible encroachments by religious dogmas.

Kazakhstan has a relatively well-developed system of public administration and public service provision across the country, especially in comparison with the less developed economies of southern Central Asia. The health care and educational sectors still largely rest on Soviet legacy infrastructure, which has been supplemented by new facilities mainly concentrated in Astana, Almaty and regional capitals. However, the COVID-19 pandemic revealed weaknesses in the education system in terms of access to and availability of technology and internet across the country and poor health care capacity in terms of manpower and technology.

Nevertheless, a non-negligible part of the population lacks access to basic utilities such as water, electricity and gas for heating or cooking. Official figures show access to a basic water source (95.4%), access to basic sanitation (97.9%) and access to electricity (100%). Yet, despite the abundance of natural gas in western Kazakhstan, the central and northern portions of the country have yet to gain access to the still-planned gas distribution infrastructure. In March 2018, the Energy Ministry estimated total costs at almost \$1 billion, but no progress has been made to date. As of early 2022, only 59% of Kazakh households had access to gas. Tax administration is another example of uneven policy implementation: while tax collection is generally good at the corporate level, the informal economy remains significant, as represented by "self-employed" individuals. Income declarations have been postponed multiple times due to significant corruption.

The COVID-19 pandemic, which led to a national emergency from mid-March to mid-May 2020, laid bare the state of unpreparedness of Kazakhstan's public administration for the digital age. While official statistics say that 70% of Kazakh citizens have access to the internet, few have broadband internet, especially in rural

No interference of religious dogmas

9



1

Basic administration

7



1

areas. The egov.kz portal, through which the government decided to make one-time relief payments of about \$100 per eligible person, crashed on day one. Public Services Centers (PSC) were able to deliver only those services that could not be digitized, leaving many users in a state of limbo.

2 | Political Participation

General elections are conducted regularly at the national level, and universal suffrage by secret ballot is ensured. In March 2019, President Nazarbayev abruptly resigned from the presidency and was succeeded by Senate Speaker Kassym-Jomart Tokayev, who was subsequently elected to the presidency in June 2019 for a five-year term. Tokayev won nearly 71% of the popular vote. As in past elections, the Office for Democratic Institutions and Human Rights (ODIHR) Election Observation Mission commended the general quality and efficiency of voting process organization. But it was again heavily critical of the ruling regime's extensive use of administrative leverage to favor Nazarbayev's anointed successor.

In October 2020, President Tokayev called for a regular general election for January 2021. The COVID-19 pandemic allowed the authorities to implement safety measures, which served as an additional barrier for opposition-minded activists and likely limited post-election protests to a bare minimum. As a result, elections to the lower chamber of parliament, the Majilis, occurred peacefully and mostly uneventfully. The ruling Nur Otan Party (since renamed Amanat) maintained its grip on power with 71% of the vote and 76 seats out of 107, followed by two pro-regime parties: Ak Zhol (11% and 12 seats) and the People's Party of Kazakhstan (9% and 10 seats). The Nationwide Social-Democratic Party, the only opposition party with nationwide representation, boycotted the elections.

President Tokayev was re-elected for a second (and final) seven-year term in November 2022, following the June 2022 constitutional referendum, which, among other things, limited the presidency to a single term of seven years as opposed to two consecutive five-year terms (except for Nursultan Nazarbayev, although this constitutional exemption was annulled by the referendum). Tokayev won 81.31% of the vote. The ODIHR criticized the election for its lack of real competition, drawing heavy criticism from Kazakhstan's Foreign Ministry, which even called into question the quality of the office's work.

Following Bloody January 2022, which stripped Nursultan Nazarbayev of his life chairmanship of the Security Council and associated veto powers, there have been no political groups, enclaves or vested interests with the ability to seriously interfere with the domestic political process over the heads of formal institutions.

The main source of representative democracy, the Majilis (lower chamber of parliament), lacks independence. Its oversight of the executive, including the government and the presidency, is inefficient. Since the last parliamentary elections, the Amanat party (ex-Nur Otan), chaired by Nursultan Nazarbayev from 1999 to

Free and fair elections

2

'06 _____ '24 10



Effective power to govern

2

'06 _____ '24 10



January 28, 2022 and later by President Tokayev from January 28 to April 26, 2022, has had 76 members in parliament out of 107. Ak Zhol and the People's Party of Kazakhstan (ex-communists) divided the rest of the seats and are largely aligned with Amanat on the majority of issues.

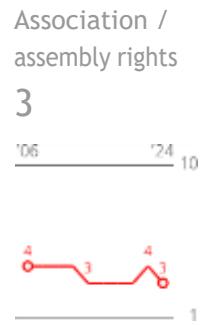
The upper chamber of parliament, the Senate, has 50 members, 10 of whom are directly appointed by the president, including five upon recommendation from the People's Assembly of Kazakhstan. Given that 40 members are chosen by local councilors (who form maslikhats or local legislative assemblies) rather than the general electorate, the Senate is widely perceived as undemocratic.

Kazakhstan's legislation guarantees the freedom of association and assembly to all citizens. As of December 2022, there were around 21,000 non-governmental organizations officially registered in the country. Of those, only 17,000 or so are active. Less than half of the latter are registered in a governmental database as recipients of or applicants for public grants. The NGO sector is heavily dependent upon international or state grants, with international funding not readily available to all organizations. Moreover, the recipients of international grants are subject to more stringent controls by the government.

The May 2020 law on peaceful assemblies, which was developed in response to President Tokayev's "listening state" doctrine, contains some improvements on earlier versions ("Everything is allowed by law is not banned," notification in lieu of authorization, and a decreased window for notification), but is still structurally flawed. Authorities can still prohibit a peaceful assembly on 13 legal grounds (Article 14); when they allow a protest to take place, they can require a specific location.

During the COVID-19 lockdowns, the government was able to restrict much of the street protest activity. The first post-lockdown rally was held in Almaty in September 2020, and only about 100 people attended. The authorities actively used sanitary restrictions to limit the scale of protests following the January 2021 parliamentary elections, which saw only a very limited outpouring of discontent compared with the previous presidential election of June 2019.

Since the civil unrest in January 2022, the authorities have been particularly vigilant with respect to mass public rallies, especially if they are of a protest nature. The president himself, the Ministry of Interior and the General Prosecutor's Office have repeatedly warned citizens of administrative and criminal liability for taking part in demonstrations that violate the 2020 law. Right after Bloody January, a series of small protest actions were held by journalists and civil society activists, always under close police surveillance. Unsurprisingly, none of them took aim at the Tokayev administration.



Media freedom in Kazakhstan is severely limited by the authoritarian nature of the ruling regime, which, despite the 2019 change of president, remains fundamentally undemocratic. The 2013 clampdown on the few remaining independent media, such as *Golos Respubliki*, resulted in the near disappearance of dissenting voices from Kazakhstan's media landscape.

In December 2017, then-president Nazarbayev signed amendments to the media law, which were widely criticized by defenders of press freedom. The amendments ended anonymity for online commenters, who must register with each media outlet using their real names; obligated journalists to seek approval before publishing personal, family, financial or medical details about individuals; and introduced the term “propaganda” as the spreading of false information in furtherance of an illegal cause. In June 2020, defamation was decriminalized, but the other obstacles remain.

COVID-19 created additional challenges. In March 2020, President Tokayev called on the authorities to stop the dissemination of rumors and provocative reports. Many journalists and bloggers were harassed by the authorities for their critical coverage of the pandemic, especially if it involved talking to medics. In April 2020, a journalist in the southern city of Shymkent was interrogated for seven hours about a Facebook post he made. In the same month, two reporters were briefly detained in the western city of Atyrau for covering the dire working conditions at a local hospital.

Reporters Without Borders have regularly denounced Kazakhstan's treatment of journalists during opposition rallies and major elections, such as the parliamentary elections in January 2021. Most recently, they have criticized the physical harassment of journalists. In October 2022, the *Orda.kz* news portal received a package containing a pig's severed head. One month later, a window at the offices of *El Media* was broken with a brick. In December 2022, Mikhail Kozachkov, a well-known investigative journalist, was arrested for alleged ties to organized crime, causing widespread criticism from fellow journalists and civil society. In early 2023, several other journalists had their property destroyed or damaged by unknown individuals.

3 | Rule of Law

The separation of powers is formally established but remains very weak. Even though the Majilis has no longer been a one-party chamber since 2012, the ruling party Amanat (ex-Nur Otan) dominates and directly translates the will of the executive. The executive branch, especially the presidency, concentrates most power and relies on a docile parliament and a loyal judiciary to further its goals. From the time of his resignation until January 2022, the former President Nazarbayev and his close circle of advisers exercised outsized influence over the Tokayev administration. For instance, as lifetime chairman of the National Security Council, Nazarbayev could veto most key decisions by President Tokayev and his government, which prevented genuine political transformation and derailed many formal constitutional advances.

Freedom of expression

2

'06 106 — '24 10



Separation of powers

2

'06 106 — '24 10



In January 2023, parliament voted to strip Nazarbayev of his exclusive status as Leader of the Nation (Elbasy). Since 2010, this status had guaranteed him (and his immediate family) immunity from prosecution and an active political role, even in retirement. While Nazarbayev is still entitled to special treatment guaranteed by the government, it is more limited than previously and circumscribed by a law applicable to all current and future retired presidents.

In 2017, Kazakhstan enacted a sweeping constitutional reform, which shifted certain responsibilities from the presidency to the government and parliament. For instance, parliament can remove ministers from office; furthermore, ministers must be appointed by the president after consultations with both the prime minister and parliament and at the prime minister's recommendation. The president can no longer issue decrees with the force of law. Nor can parliament temporarily delegate a lawmaking mandate to the president. However, few of these amendments have been implemented in practice.

In June 2022, 77% of Kazakh citizens said yes to the nationwide referendum organized by the Tokayev administration to usher in a post-Nazarbayev era. Among the key changes: the president can no longer be a member of any political party; the president's family members are prohibited from holding leading offices in the public sector; the Constitutional Council has become the Constitutional Court and can consider claims from citizens. Furthermore, the referendum has simplified the registration of political parties and lowered the threshold for winning seats in the Majilis from 7% to 5% of the total vote. In reality, though, as many local observers point out, Kazakhstan's political system is still locked to outsiders and leaves little space for political competition.

Similarly to parliament, the judiciary remains dependent on the executive, and its decisions are often politicized. The president continues to pick the chairpersons of key courts at the central and regional levels and appoints the chair of the Supreme Court with the approval of a rubberstamp parliament.

The 2017 constitutional reform focused little on the judicial branch of government, although the Constitutional Council, placed outside of the judiciary, saw its status moderately boosted. The president lost the power of veto over council decisions and had to seek its opinion every time the constitution was amended.

The 2022 constitutional reform upgraded the council to a Constitutional Court, which can review complaints by ordinary citizens, the Prosecutor General and the Ombudsman. This fairly symbolic change will have little effect on the country's judiciary and political system as a whole, given the new court's limited purview and many constraints imposed on private individuals' right of direct appeal. The judicial system remains nontransparent, and acquittals are very rare, at a rate of approximately 2%.



The fight against corruption has been a perennial slogan of the Kazakhstan authorities for several decades. Yet, political corruption and nepotism remain rampant and undermine the country's efforts to optimize public spending, eradicate wasteful managerial practices and professionalize public administration. A total of 1,500 corruption crimes were recorded in 2022, up by 11% from the previous year.

In 2022, several high-profile government officials were arrested in connection with the January 2022 unrest (Bloody January). The powerful head of the National Security Committee (KNB), Karim Massimov, who earlier headed Kazakhstan's government twice, was accused of high treason, abuse of power and corruption and placed under arrest in the midst of the unrest. Two of Massimov's deputies and the minister of defense were also detained. The Financial Monitoring Agency subsequently arrested two relatives of former President Nazarbayev – his nephew Kairat Satybaldy and the father-in-law of his late grandson, businessman Kairat Boranbayev. In September 2022, Satybaldy was sentenced to six years in prison after having agreed to return over \$60 million in ill-gotten gains.

The above cases demonstrate the extent to which Kazakhstan's judiciary is subject to political interference in corruption cases against high-ranking officials and other high-profile figures, especially if they have fallen out of favor with the ruling regime.

On a separate note, Kazakhstan's authorities have been struggling to demonstrate sufficient accountability for the brutal crackdown on peaceful demonstrators during Bloody January. The families of victims, some of whom were tortured, have so far had no justice, with only a small number of law enforcement officers and senior officials facing prosecution for office abuse.

The protection of civil rights and liberties is codified but poorly enforced in practice. Freedoms of expression and association are curtailed when it comes to independent-minded journalists, protest groups or public associations critical of the government and the ruling regime or anyone holding different religious beliefs. Inciting hatred has become a way to dampen independent voices, to hunt members of militant religious movements online and to violate freedom of religion.

The government actively discriminates against independent trade unions, especially since the 2011 Zhanaozen and the 2019 Tengiz riots, which made clear the need to keep them in check to avoid large-scale social unrest. In December 2018, the International Trade Union Confederation suspended the Kazakhstan Trade Union Federation's membership, citing its total loss of independence. It has not been restored since.

Discrimination based on gender and sexual orientation is pervasive. Discrimination based on race, ethnicity and religion (within a secular state) is rare. Citizens with poor knowledge of the Kazakh language are unable to acquire public service jobs above a certain level, however, which mostly impacts those of Slavic descent and some urban

Prosecution of office abuse

4

'06 '24

10

1

Civil rights

4

'06 '24

10

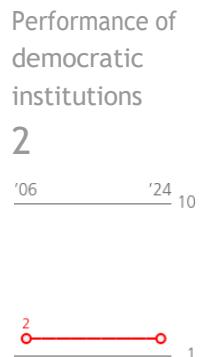
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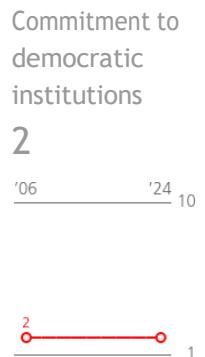
Kazakhs. High levels of corruption within the judiciary constrain equal access to justice, systematically allowing those with greater resources to win against their opponents. The use of torture in the penitentiary system is systemic and constitutes a particular danger to active critics of the regime.

4 | Stability of Democratic Institutions

The existing democratic institutions are directly subordinated to the ruling regime; Kazakhstan has a façade democracy, which has grown more apparent in recent years with the intensification of crackdowns on “non-systemic” opposition. Parliament and local legislative assemblies are dominated by the presidential party, Amanat (ex-Nur Otan), while other political formations that are allowed to compete in local and national elections profess open allegiance to the ruling regime.



The 2017 and 2022 constitutional reforms have de jure laid the groundwork for a democratic transformation by endowing parliament with more extensive powers, the right of censure vis-à-vis the government and greater independence from the presidency, as well as fortifying the judiciary. However, as long as the authoritarian regime remains in place, little practical change is to be expected. President Tokayev has focused on consolidating power in his own hands since the January 2022 civil unrest, which allowed him to break free from the grip of his predecessor, Nazarbayev, unceremoniously shunted aside and relieved in stages from the various privileges he had previously accumulated.



Democratic institutions enjoy limited legitimacy amid the passivity of the majority of the population, as far as participation in politics is concerned, and the lack of pre-independence democratic experience. According to a 2012 survey sponsored by the U.S. National Science Foundation and analyzed in a 2018 article by two U.S. scholars, including a Kazakh-born professor, the Nazarbayev generation is more ambivalent about democracy, the fight against corruption and political liberalism than the older generation. It is more concerned with economic wealth than democratization, they conclude. No further social research has been conducted to date to analyze a possible change in attitudes.

Forces that are viewed as a threat to the regime have been traditionally excluded from the political arena via administrative and judicial means, for example, registration denied to the Alga! Party by the Ministry of Justice or a court ban on Mukhtar Ablyazov's Democratic Choice of Kazakhstan, which is on Kazakhstan's official list of extremist organizations. No domestic force, whether a party, an association, a business lobby or the military, could challenge the Nazarbayev clan's hold on power. Following Nazarbayev's definitive departure from politics in early 2022, his anointed successor Kassym-Jomart Tokayev – who successfully won re-election in November 2022 – has been actively seeking to assert himself in the same authoritarian way as the former president.

5 | Political and Social Integration

Kazakhstan's party system is underdeveloped and lacks real competition for the hearts and minds of the electorate in a climate of political illiberalism and social anemia. Parliamentary elections are largely perceived as a formality and the dominance of the ruling party, Amanat (former Nur Otan), is neither questioned nor actively contested through democratic means.

The country is currently home to six registered political parties, of which three – Amanat, Ak Zhol and the People's Party of Kazakhstan (former communists) – have seats in the Majilis. The latter two position themselves as opposition forces but vote largely in line with Amanat. The political spectrum has no distinct division into the right, left and center, although Amanat can be characterized as center-right. In addition to the six registered parties, two more were registered in November/December 2022 – Respublika and Baitak (The Greens), but they will have to be pro-regime to survive.

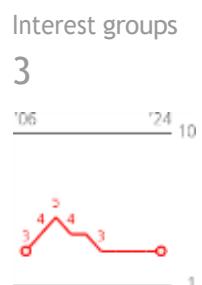
A member of parliament's job is widely viewed as a sinecure, allowing its holder to exercise lucrative business activities through family and close associates. In the present authoritarian regime, which has been barely transformed by President Tokayev's overcautious, piecemeal reforms, political parties are inefficient at properly translating the electorate's will and aspirations into effective lawmaking.

Kazakhstan's authoritarianism relegates the few active interest groups to the fringes of political and civil society activism. Hence, their actions are mostly focused on implementing apolitical, social aid projects in areas where the government has no means or appetite for action.

A multitude of registered and unregistered associations, active on issues ranging from environmentalism to animal rights to economic nationalism, have emerged since Kassym-Jomart Tokayev's accession to the presidency in March 2019. However, their low impact on society and their lack of cooperation undermine their efficiency.

The Kazakhstan Trade Union Federation, a successor to its Soviet parent, is tightly controlled by the state and lacks organizational and financial independence. The International Freedom of Speech Foundation, Adil Soz, and the Kazakhstan International Bureau for Human Rights and the Rule of Law were both very active in the 2000s. However, since then, under pressure from the authorities, they have lost much of their ability to prevent arbitrary policymaking.

The only two powerful interest groups with a real ability to influence decision-making are the Kazenergy Association of big energy businesses and the Atameken Business Chamber. Kazenergy has been chaired since 2005 by Nursultan Nazarbayev's son-in-law Timur Kulibayev. The Oyan, Qazaqstan Movement (Wake Up, Kazakhstan), established in mid-2019 in the context of the previous presidential election, has not been banned (yet), but its activists are regularly harassed by law enforcement.



There have been no recent surveys of public opinion in Kazakhstan regarding the general perception of democracy as a form of government and/or democratic institutions, more specifically among the population. In 2012, a pair of U.S.-based sociologists conducted a poll on a grant from the U.S. National Science Foundation. Its results were published in an academic journal in October 2018. The poll showed that most young Kazakhstan citizens were rather indifferent to democratic reform and were primarily preoccupied with material wealth and social status.

Approval of democracy

n/a

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The government actively hailed the 2017 constitutional reform, which implements – at least on paper – some democratic changes, as enjoying wide support from ordinary citizens, based on “thousands” of letters received from all corners of the country. The reliability of this assessment is obviously subject to significant doubt. The 2022 constitutional reform also benefited from state-sponsored media hype, although it carefully omitted the most egregious aspects of Soviet-style window-dressing.

n/a _____ 1

Unlike its less developed Central Asian neighbors (as in GDP per capita), Kazakhstan relies to a much more limited extent on social aid organizations and local community associations to deliver basic services and strengthen social cohesion. The social action landscape is fragmented, and no nationwide association of cultural, environmental or social organizations is currently in existence.

Social capital

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Despite the post-independence return of religiosity and greater insistence on traditional family and social values, Kazakhstan’s society is characterized by a high degree of individualism. Loyalty and mutual help are most often delineated by extended family or clan lines, resulting in a fragmentation of social capital. This is probably one of the reasons Kazakhstan is still at the stage of nation-building and has trouble defining a nation-state, as reflected by recurring debates over the most appropriate way to call the country (Kazakhstan vs. Qazaq Republic) and its population (e.g., the failed “Kazakhstan nation” doctrine).

The 2019 power transition provided a long-awaited impetus for social activism, for example, with the creation of the Oyan, Qazaqstan Movement, which advocates for root-and-branch political reform. Despite its popularity among youth, it is mostly limited to large urban centers, with little to no traction in rural areas and no readily available platform for promoting its views and its popularity sagged considerably during the pandemic. President Tokayev’s reluctance to carry out profound reforms of Kazakhstan’s political system, evidenced by his cautious approach to change, has been a drag on the flourishing of grassroots initiatives, which fear the consequences of becoming too outspoken.

II. Economic Transformation

6 | Level of Socioeconomic Development

According to the UNDP's latest update to its Human Development Index (HDI) database, Kazakhstan ranked 56th out of 191 countries in 2021, achieving the best result in a decade. Taking inequality into account, its HDI decreased by only 6.9% (2021), placing the country between Estonia and Croatia, both EU members, and ahead of Latvia, Lithuania and Bulgaria. In contrast, back in 2011, the estimated loss to human development due to inequality was 10.2%.

Discrimination is irrelevant when considering race, religion or political affiliation (among the general population). While Kazakhstan's position in the UNDP Gender Inequality Index has consistently improved over the years (0.161 in 2021 compared to 0.269 a decade earlier), disparities remain in terms of accessing economic resources and political representation. Additionally, linguistic exclusion is becoming increasingly noticeable. According to the World Bank's World Development Indicators from 2003 to 2021, the percentage of the population living on less than \$3.65 a day was 0.5% in 2018 (adjusted for 2017 purchasing power parity at international prices). No data is available for subsequent years.

Kazakhstan also has a relatively low Gini coefficient, 27.8 in 2018, according to its National Statistics Bureau. The proportion of people living below the national poverty line, which was approximately \$100 in Q3 2022, was 5.3% in the same period. This percentage was highest in the southern regions of Turkestan and Mangistau. Meanwhile, a survey funded by the World Bank found in August 2022 that 23% of Kazakhstan's population identified as poor.

The government has proven largely inefficient at addressing nationwide poverty. Its inflexible approach to managing socioeconomic crises has remained unchanged since the January 2022 civil unrest, as the Tokayev administration favors the use of centrally allocated handouts and subsidies to quell protest sentiments.

According to official data, 6.2 million Kazakhstani have bank loans and more than 1.5 million have debts. In December 2022, the country adopted a law on bankruptcy. Based on international experience, three types of bankruptcy for individuals were introduced: out-of-court, judicial and a special procedure for restoring solvency. The latter procedure allows for creating an installment plan to repay debt over a period of up to five years, provided the individual has a stable income.



| Economic indicators | | 2019 | 2020 | 2021 | 2022 |
|----------------------------|----------|----------|----------|----------|-----------------|
| GDP | \$ M | 181667.2 | 171082.4 | 197112.3 | 220623.0 |
| GDP growth | % | 4.5 | -2.5 | 4.3 | 3.2 |
| Inflation (CPI) | % | 5.2 | 6.8 | 8.0 | - |
| Unemployment | % | 4.8 | 4.9 | 5.2 | 5.0 |
| Foreign direct investment | % of GDP | 2.1 | 4.2 | 2.3 | 2.2 |
| Export growth | % | 2.0 | -11.3 | 2.0 | - |
| Import growth | % | 14.9 | -9.0 | -2.7 | - |
| Current account balance | \$ M | -7027.7 | -10961.8 | -2558.7 | 7816.2 |
| Public debt | % of GDP | 19.9 | 26.4 | 25.1 | 23.5 |
| External debt | \$ M | 159248.2 | 161488.5 | 159754.7 | - |
| Total debt service | \$ M | 32781.4 | 30788.0 | 30910.8 | - |
| Net lending/borrowing | % of GDP | -0.9 | -6.7 | -4.4 | - |
| Tax revenue | % of GDP | 11.8 | 8.3 | 9.4 | - |
| Government consumption | % of GDP | 9.1 | 12.7 | 11.4 | - |
| Public education spending | % of GDP | 2.9 | 4.4 | 4.4 | 4.2 |
| Public health spending | % of GDP | 1.7 | 2.5 | - | - |
| R&D expenditure | % of GDP | 0.1 | 0.1 | 0.1 | - |
| Military expenditure | % of GDP | 1.0 | 0.9 | 0.8 | 0.5 |

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Kazakhstan has made significant progress in terms of opening up its economy and liberalizing cross-border trade and investments, as evidenced by its continuous advancement in the Fraser Institute's Economic Freedom of the World report. In 2020, Kazakhstan had an overall score of 7.35, slightly lower than in 2019 but significantly higher than the average of the previous 10 years.

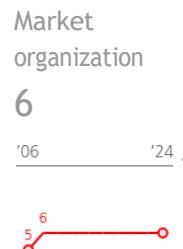
Still, there are fundamental deficiencies at a structural level. Notably, the high share of state-owned enterprises (SOEs) contributes to low competition. In addition, price controls and non-trade barriers hinder Kazakhstan's commerce with its close trade partners. Another important factor to consider is the widespread presence of the informal economy. According to press reports from August 2022, citing the head of the Agency for Financial Monitoring, the informal economy in Kazakhstan decreased from approximately 23% of total economic activity in 2019 to 19% in mid-2022. However, the IMF's assessment in 2018 was much less optimistic, indicating that it was as high as 39%.

By law, foreign and domestic private firms may freely establish and own businesses. There are certain restrictions on foreign ownership, including a 20% ownership ceiling in the media sector, a limit of 49% on domestic and international air transportation services and a limit of 49% on telecom services. Licensing procedures are often slow and nontransparent, although the "one-stop shop" model has clearly improved the process.

As noted in the World Bank's Systematic Country Diagnostic, dated April 2018, Kazakhstan suffers from the excessive burden of state-owned enterprises (SOEs) on the economy, resulting in low competition and weakened incentives for private investment. The state's participation in GDP generation is significantly higher than the OECD average and even more than in resource-intensive countries such as Russia and Venezuela.

The government has thus far failed to reduce the footprint of state-owned enterprises (SOEs) to the level of 15% of GDP, as it initially announced it would in 2015. However, according to governmental statistics from 2019, it came close to the target that year at 16%. This high percentage presents significant challenges to the growth of small and medium enterprises (SMEs), which lack access to affordable bank funding, encounter difficulties in expanding their operations and lack political connections. Similarly, foreign-owned companies encounter comparable hurdles unless they reach a size the government deems strategic.

Kazakhstan's primary antitrust legislation dates from 2008. Its new competition law was enacted in 2016. In 2020, President Tokayev established an agency for the protection and promotion of competition in the National Economy Ministry as a component of his reform agenda. In 2014, two state agencies were consolidated into the less influential Committee for the Regulation of Natural Monopolies.



Kazakhstan has made significant progress in recent years in terms of trade liberalization. In 2015, after 20 years of negotiation, it became a member of the WTO. A year earlier, it played a leading role as a founding member of the Eurasian Economic Union. As of 2019, Kazakhstan implemented an average most-favored nation tariff rate of 6.1%, aligning with the 6.1% average final WTO-bound tariff.

The OECD considers border agency cooperation and formalities areas where Kazakhstan still lags behind considerably.

Liberalization of foreign trade

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The OECD's FDI Regulatory Restrictiveness Index of 2019 ranked Kazakhstan 42nd out of 84 economies, with a level of restrictiveness two times higher than that of Chile but two times lower than that of Russia. According to Kazakhstan law, foreign companies are not restricted from operating in the country, although certain limitations apply to foreign ownership of media assets (20%), domestic and international air transportation (49%) and telecoms (49%).

In March 2017, the government established a new state-owned company, Kazakh Invest, with a mandate to attract foreign direct investments. Similar institutions, like the Foreign Investors Council under the presidency of Kazakhstan, had already been in existence for years. In 2015, the minister of investment and development also assumed the role of the first investment ombudsman.

In 2017, the authorities adopted the National Investment Strategy (2018 – 2020), drafted with assistance from the World Bank. The strategy aimed to increase foreign direct investment (FDI) by a quarter by 2022. However, in reality, the volume of gross FDI grew much more modestly, from \$20.76 billion in 2017 to \$23.7 billion in 2021. In June 2022, the government presented a draft of a new investment strategy through 2026, which aims to increase the level of FDI to \$25.5 billion in its final year.

Kazakhstan's banking sector is highly concentrated. In 2021, 61% of the total profits from the sector went to two financial institutions – Halyk Bank, majority-owned by former president Nazarbayev's middle daughter Dinara and her husband Timur Kulibayev – and Kaspi Bank. Halyk Bank and Kaspi Bank are currently the largest and second-largest domestic banks in Kazakhstan, respectively. Bank CenterCredit, state-owned Otbasy Bank (fully known as Housing Construction Savings Bank) and Forte Bank, owned by the family of Kazakh billionaire Bulat Utemuratov, follow them. The sixth largest bank, Jusan Bank, is under the ownership of entities ultimately controlled by Nazarbayev and his family.

Banking system

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The Kazakhstan banking sector experienced a significant boost in 2021 following the relaxation of most COVID-19 restrictions and benefited from pent-up demand from both businesses and households. During 2021 and Q1 2022, retail lending underwent a remarkable growth of over 40%, breaking a five-year record, while corporate lending increased by 30%. By the end of 2021, banks' total assets reached an unprecedented level, approximately \$81 billion.

Growth was made possible by the government's generous support during the pandemic of all forms of lending, including home mortgages, car loans and business loans. This support spilled over into 2022, with second-tier banks allocating as much as \$215 million to the population in low-interest loans, despite significant inflation pressure. Client deposits increased by 20.7%, while the banking sector's profits jumped by a record 73.4% in 2021 alone. The banks' shareholders' equity jumped by 14.7%.

In November 2022, nonperforming loans accounted for only 5.6% of the banks' total loan portfolio, a decrease from 8.1% at the end of 2019. In early 2023, the financial authorities stated that the sector's capital adequacy ratio was well above the prudential minimums. Overall, the sector is extensively regulated and subject to meticulous supervision.

In 2022, the United States sanctioned three Kazakh banks, all of which are subsidiaries of Russian banks. One of these, Sberbank Kazakhstan, was acquired in September by the government-owned financial holding company Baiterek and subsequently renamed Bereke Bank. VTB Bank Kazakhstan signaled its intention to operate independently and received recapitalization from its parent company, although its future prospects remain uncertain. Lastly, AlfaBank Kazakhstan was purchased by Bank CenterCredit and rebranded as Eco Center Bank. In May 2022, Home Credit Bank, which was not subject to sanctions, was sold by its Russian parent to PPF Group, an international investment group based in the Czech Republic.

8 | Monetary and fiscal stability

Inflation accelerated in 2021, reaching 8.4% by the end of the year. Food inflation steadily outpaced general inflation, further accelerating to 10% that year. However, the genuine inflation shock occurred in 2022 amid global inflationary pressures resulting from a combination of factors: higher consumer demand compared to the first two years of the pandemic, COVID-19-related supply disruptions, the significant proportion of foreign-made goods in the average consumer basket and the war in Ukraine.

According to the National Bank of Kazakhstan (NBK), the annualized rate of inflation surged to 20.3% in 2022, including 25.3% inflation for food. Non-food inflation also rose notably to 19.4% on an annual basis. In 2021, the NBK raised the benchmark interest rate three times, from 9% to 9.75%. The subsequent year witnessed six rate hikes, with the rate increasing from 10.25% to 16.75% within a ±1% range.

Although Kazakhstan switched to free-floating foreign exchange rates in 2015, the exchange rate of the tenge is still actively managed by the NBK, which is by far the largest player in the local forex market, along with second-tier banks. Capital controls also exist for specific transactions over certain thresholds.



Besides the burden of external economic factors, various structural weaknesses constrain the NBK's actions. In March 2022, Kazakhstan's media reported that over \$3 billion in government support was obtained by Jusan Bank (owned by Nursultan Nazarbayev and his clan) through its earlier acquisition of two struggling banks, ATFBank and TsesnaBank. In June, Jusan Bank announced that it would not distribute dividends for 2021 but reversed its decision several months later. In response to mounting criticism, the bank stated in January 2023 that all previous state assistance would be repaid gradually.

Before the COVID-19 pandemic struck, Kazakhstan's fiscal policy had been gradually stabilizing since 2018, following significant public spending from 2014 to 2017 as part of the government's support for large infrastructure projects (mainly construction), agriculture and the troubled financial sector.

The COVID-19 pandemic had a cooling effect on Kazakhstan's export-driven economy. In 2020, the government had to borrow \$4 billion through treasury sales, equivalent to 5.5% of GDP. Meanwhile, the budget deficit plunged to 4% of GDP. In 2021, the deficit contracted to 3.1% as higher oil prices boosted growth and tax revenue.

According to government estimates, the budget remained in the red in 2022, with the deficit creeping up to 3.3%. But independent estimates point to a reduction to 2.5% to 2.6% of GDP. Kazakhstan's Prime Minister Alikhan Smailov said in January 2023 that the government's 2023 borrowings would reach a record \$12 billion (in the tenge equivalent) through the issuance of new sovereign debt with a view to keeping the budget deficit in check, at an estimated 2.7% of GDP. In 2021, the government borrowed \$8.4 billion.

Massive borrowings have pushed the debt-to-GDP ratio even higher, to over 30%, compared with 25.1% at the end of 2021, increasing additional pressure on the national budget to repay interest at higher rates on both loans and treasuries.

Traditionally, the budgetary equation has heavily relied on so-called mandatory transfers from the National Fund (NF), which were planned deductions from taxes on oil revenue ultimately transferred into government reserves. The NF will continue to serve as the primary source of emergency financial assistance in times of persistently slow growth, instability in debt and equity markets, geopolitical turbulence and the threat of a severe global recession. In 2022, approximately \$10 billion was transferred from the NF to the state budget, as the total assets of the NF decreased from \$61.1 billion in January 2020 to \$55.7 billion in December 2022.



9 | Private Property

Private property rights are enshrined in Article 26 of the constitution (which was not affected by the 2017 and 2022 constitutional reforms), the Civil Code and the Land Code. There have been a series of reforms in recent years aimed at strengthening the protection of property rights and streamlining the acquisition and disposal of privately owned property.

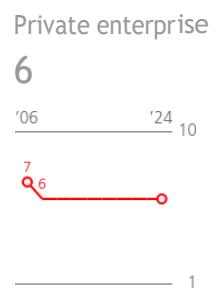
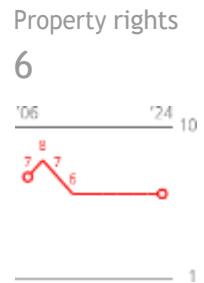
Despite recent progress, structural enforcement issues persist. In November 2018, a U.S. court awarded \$525 million to Moldovan businessman Anatol Stati, who sued the Kazakhstan government in 2010 over a bankrupt gas project. Stati claimed that the authorities deliberately destroyed his business venture. The Stati case is ongoing, with Kazakhstan successfully arguing on several occasions (most recently in January 2023 in Amsterdam) that Stati committed document forgery and falsified other evidence.

In 2017, a Kazakhstan court ordered Forbes Kazakhstan and several other media outlets to publicly retract their statements regarding a former Kazakhstan minister whom they had accused, among other things, of racketeering. The minister's junior business partner had reportedly been deprived of his holdings through extortion. In November 2022, the Kazakhstan Supreme Court definitively sided with the German investor in litigation against the former Kazakhstan minister and demanded that the latter's company reimburse the former €7.1 million.

The wave of voluntary asset transfers throughout 2022 in favor of the state budget from businesspeople who made their wealth during the Nazarbayev era, including the former president's relatives, raised concerns among some. The Tokayev administration apparently used behind-the-scenes settlements to recover supposedly unlawfully acquired assets in exchange for reduced sentences or immunity from prosecution.

Official rhetoric emphasizes the strategic role of private enterprise in socioeconomic development, the creation of new jobs and the diversification of the economy away from the oil sector. However, the state perpetuates historical imbalances through the sovereign wealth fund, Samruk-Kazyna, which still accounts for about 60% of Kazakhstan's GDP. In November 2018, then-Deputy Prime Minister Yerbolat Dossayev described the state's share in the economy as "very high" and stated that 70% of all business activity in the country was directly or indirectly due to government tenders.

Dossayev considered reducing state participation in the economy to 15% of GDP by 2022 (official data in 2019 indicated state participation at 16%, although likely without accounting for the "quasi-state" sector, which includes indirectly controlled companies). The estimate was similar to the estimates in 2015, when the government introduced an updated privatization program, but no reductions occurred. The latest plan seeks to lower the state's share to 14% by 2025.



In January 2021, President Tokayev, who had repeatedly criticized the slow pace of privatization, asked the government to speed up the process. In December 2022, the privatization agency Samruk-Kazyna sold a modest 3% of the stock of the national oil and gas company, KazMunaiGas, in an initial public offering (IPO). KazMunaiGas was included in the comprehensive privatization strategy for 2016 to 2020, implemented in 2015. Prior plans for the IPO were canceled in 2020 due to unfavorable market conditions. In December 2022, it was reported that out of 675 state and quasi-state properties slated for sale under the privatization plan for the period from 2021 to 2025, 253 had already been privatized, contributing \$300 million to the state budget.

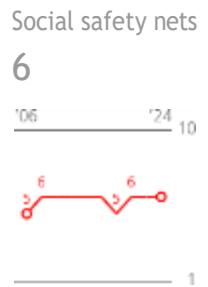
10 | Welfare Regime

Following the economic crisis caused by a drop in oil sales revenue in 2014 and subsequent price volatility, the Kazakhstan government embarked on comprehensive welfare reform. The majority of the reform focused on self-employed individuals who were either seasonal workers or individual businessmen without formal registration and a stable stream of income. Since 2019, these individuals have been required to make “single comprehensive payments” set at the lowest possible level for rural workers. These payments grant access to social benefits and health care. As of Q3 2022, the official percentage of self-employed individuals was 22.6%, down from 35% in 2008. However, the actual number may be higher.

Following the one-time write-off of bank debt in July 2019, which benefited about 500,000 low-income earners, the Tokayev administration announced in April 2020 a package of pandemic support measures. These included offering KZT 42,500 in unemployment benefits to individuals who had lost their jobs or a significant portion of their salaried income, providing food baskets to the most vulnerable, implementing a 10% increase in state pensions and certain benefits, establishing a cap on utility bills for vulnerable populations in areas severely affected by the pandemic, granting access to health services even without valid medical insurance, and allowing deferred interest and principal payments for state-sponsored home loans.

The January 2022 civil unrest resulted in additional state support. For example, the government froze utility tariffs, capped the prices of certain energy products such as diesel, gasoline and lubricants, restricted the export of certain commodities to keep their market prices down and began subsidizing the cost of essential foods. In October 2022, four large sugar factories agreed to cap the wholesale price of sugar. Two months later, the government said it was considering a permanent price cap on fuels after having already extended Tokayev’s January 2022 price freeze once.

Access to social safety nets is, in principle, guaranteed but remains problematic for people who earn just enough to stay above the national poverty line, yet still cannot afford many basic expenses. Other eligibility criteria may include official employment, the ability to demonstrate a history of social security contributions and



an official residential address, while the application process itself is unnecessarily complex. Foreigners and stateless individuals generally have more difficulty accessing social benefits than citizens.

According to the World Economic Forum's 2020 Global Gender Gap report, Kazakhstan ranks 66th out of 146 countries. It is 29th in terms of economic participation and opportunity, 27th in education attainment – Kazakhstan is a top performer in Central Asia and offers equal access to education to both men and women – 44th in health and survival and only 103rd in political empowerment. Disparities in access to quality education mainly exist between urban schools and poorly equipped, often-understaffed rural ones.

As of March 2022, there were only 28 women in the Majilis (out of 107), nine female senators (out of 49), one female minister and one female regional governor. By January 2023, the composition of the cabinet of ministers included three women, all three of whom work in traditionally female sectors: health care, labor and social protection, and environment and natural resources.

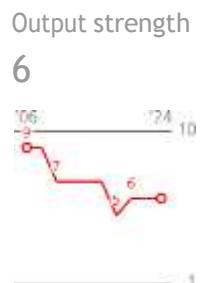
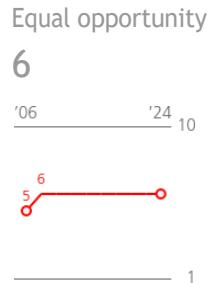
Kazakhstan's official unemployment data are historically biased, but even they show a disparity between men and women, to the latter's disadvantage (5.7% vs. 4.1% in Q3 2022). The real disparity is likely somewhat narrow, given the prevalence of men having precarious self-employed jobs (54.7% vs. 45.3% in January 2022). The UNDP's Gender Inequality Index shows that Kazakhstan has made significant progress since 2011 and especially since 1995.

Although Article 14 of the constitution prohibits all forms of discrimination, inequality and discrimination based on religion, sexual orientation and political convictions exist. For instance, the Amanat ruling party and other state bodies restrict employment opportunities for individuals who openly practice a religion. Ethnic inequality primarily stems from strict criteria for attaining a position in public service, particularly the requirement to demonstrate proficiency in the Kazakh language.

11 | Economic Performance

The COVID-19 pandemic, partly to blame for another oil price crash at the beginning of 2020, created a significant economic disruption with enduring effects. Real GDP contracted by 2.6% in 2020 (but only by 0.9% in nominal terms). The economy quickly rebounded, growing by 4% in 2021 and an additional 3.1% in 2022. However, this growth is still far below the rapid rates experienced a decade earlier. In 2021, Kazakhstan's nominal GDP amounted to \$190 billion, slightly higher than in 2015. Additionally, the country achieved a GDP per capita (PPP) of over \$28,000, the highest result ever recorded.

However, inflation exceeding all expectations has overshadowed the return to a growth trajectory: 8.4% in 2021 (up from 7.5% in 2020), followed by a surge to 20.3% in 2022. Even as the price of oil rose on the back of stronger demand, the budget deficit failed to contract quickly, reaching 3.1% in 2021 and an estimated



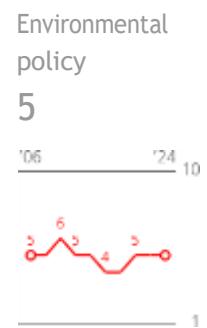
2.5% to 3% of GDP in 2022. The government expects a 2.7% deficit in 2023 amid higher social spending, due to both the lingering effects of the pandemic and the Bloody January riots. In 2021, public spending on education, health care and social benefits exceeded 68% of all government expenses.

Public debt most recently exceeded 30% of GDP after several years of active borrowing.

Official statistics report unemployment at around 5% to 6%, but the reliability of these data is frequently called into question. As for the current account, it experienced a deficit of \$5.7 billion in 2021, lower than the \$6.6 billion deficit of the previous year and the even larger \$7.2 billion deficit in 2019. However, the trade balance experienced a significant turnaround, reaching \$33.1 billion in January/November 2022, compared to less than \$10 billion in the previous year.

12 | Sustainability

Kazakhstan has prioritized more efficient environmental protection in the near and medium terms. Renewable energy (RE) is a crucial part of the overall strategy to diversify energy sources and decrease emissions. In February 2018, the National Economy Ministry announced plans to invest approximately KZT 1 trillion into RE. The goal is to commission 52 new facilities by 2021, in addition to the existing 55 facilities. The European Bank for Reconstruction and Development (EBRD) has committed to investing up to €200 million in priority RE development projects.



The government expects that the country will obtain close to half of its total energy consumption from renewable energy (RE) by 2050 and as much as 15% (up from the previous goal of 10%) by 2030. In January 2022, Tokayev noted that Kazakhstan would commission 6.5 gigawatts of additional renewable power generation capacity by 2035. These are ambitious goals, as the share of renewable energy in the energy mix was only 3% in November 2022. The government is officially supporting renewable energy investments through a special law. In 2017, a new system of subsidies was introduced, replacing the pre-2017 framework in which investors in renewable energy projects obtained fixed tariffs for the sale and distribution of electricity for a period of 15 years.

In early 2018, the government announced the launch of a CO2 emissions trading platform, but implementation had to be postponed until the adoption of the new Environmental Code in 2021. In January 2021, President Tokayev signed into law the new Environmental Code, which allows the largest polluters (50 account for over 80% of total emissions) to modernize production with state support in the form of environmental tax breaks for up to 10 years. The code also introduces the waste-to-energy concept in an effort to incentivize recycling of industrial and household waste.

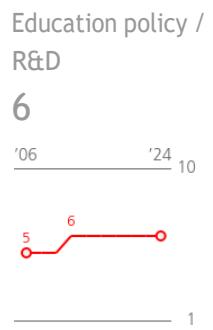
Currently, environmental issues are acute, particularly in relation to air quality, which plays a key role in environmental protection. Since 2018, these concerns have been heightened due to a consistently high level of atmospheric air pollution in Astana, Karaganda, Zhezkazgan and Temirtau, with Almaty ranking as one of the most polluted cities in the world.

Kazakhstan spends about 3% of GDP on public education, while R&D expenditures currently do not exceed 2% of GDP. Thanks to a solid system of secondary and higher education in Soviet times, the country maintains good literacy rates (99.8% in 2018) and has compulsory schooling (UN Education Index 2020 and 2020: 0.850, consistently better in each year since 2011).

The problem of inequality in education, depending on the type of school, language of instruction and location (urban versus rural), remains poorly addressed. The pandemic exacerbated this inequality when thousands of schoolchildren in rural areas struggled to continue their schooling because of inadequate technological infrastructure and a lack of access to broadband internet.

In 1993, then-President Nazarbayev established the Bolashak scholarship program to educate youth abroad. The program's scope was expanded in 2005, and it now emphasizes postgraduate education in technical fields that align with the domestic demand for trained specialists. Nazarbayev University, based in Astana, has become the national center of excellence in higher education, largely thanks to its western-style curriculum and high-caliber staff, who are graduates of some of the West's best universities.

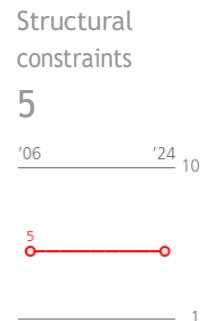
Basic science and research remain underfunded. However, despite the pandemic, the Ministry of Education alone increased the allocation of scholarly grants in 2020 by 63% compared with 2019, while total government funding grew by 42.3%. In 2021, the share of education in total public spending reached a record 24.2%, compared with 22.1% in 2020 and 19.4% in 2019. The share of total spending on education also increased from 4.45% to 4.59% of GDP in 2020/2021.



Governance

I. Level of Difficulty

Kazakhstan has a mixed post-Soviet legacy of resource-intensive economic output, a well-educated workforce and well-developed secondary and higher education as well as health care systems on the positive side, and a landlocked situation, inadequate transport infrastructure for such a vast territory, and weak institutions on the negative side. The abundance of natural resources, which led to annualized economic growth of 23.9% between 2000 and 2009 during the commodities “superboom,” has become a powerful curse in line with the Dutch disease theory. The energy sector has historically attracted the bulk of all FDI, resulting in structural underinvestment and uncompetitive pricing patterns in non-extractive industries.



Weak institutions are partly a result of Kazakhstan’s prior lack of democratic experience since the country directly transitioned from feudalism to tsarism under the Romanovs and later to a command economy and centralized totalitarian governance in Soviet times. However, it is also true that the country’s ruling regime and political elites have not deliberately invested in a democratic transition, so Kazakhstan lags behind its southern neighbor Kyrgyzstan, which has succeeded in building democratic institutions, however unstable and prone to manipulation.

The January 2022 riots unexpectedly ended the Nazarbayev era when President Tokayev rid himself of his rival, the second center of power, by forcing his predecessor to resign his lifelong chairmanship of the Security Council. However, the continued lack of political liberalization is coupled with insufficient progress in economic diversification since Kazakhstan’s economy remains structurally dependent on oil exports. Meanwhile, the domestic banking sector and capital market are both too fragile and small to sustain a multi-year transformation strategy on their own.

Kazakhstan’s civil society is fundamentally weak and is relegated to the margins of political and socioeconomic life, where it is less likely to interfere with the way state policies are decided and implemented by the ruling regime. There is no ingrained culture of civic activism, but it is developing quickly among young Kazakhstanis across the country. Many registered NGOs and public associations have no access to stable funding, lack technical skills and human resources, and are more generally not recognized for their worth. The dependence on state grants creates a vicious circle in which the recipients of state funding find it hard or impossible to criticize the government, whether within the areas of their direct responsibility or on secondary issues.



Access to international funding has been curtailed in recent years since Kazakhstan became an upper-middle-income economy, according to World Bank and IMF data. Foreign donors increasingly insist on greater participation by the local authorities in the development of civil society. In August 2020, President Tokayev promulgated the Civil Society Development Concept until 2025, the official aim of which is to strengthen the “system of partnership” between the state, businesses and civil society. A previous plan by the same name was adopted in 2006 and expired in 2011.

In recent years, a new wave of citizen activism has been emerging. Today, the majority of civic activities take place outside of NGOs. Activism has arisen in various forms, from mass protests (the Oyan, Qazaqstan Movement or Feminita marches) to individual actions such as “You Can’t Run Away From the Truth: I Have a Choice,” solo pickets, art activism and citizen assistance initiatives, including those in support of the LGBTQ+ community.

The growing citizen activism is eclectic and even chaotic. Some activists more directly and openly oppose the state than traditional NGOs, since they do not face the challenge of maintaining permanent dialogue with the authorities. At the same time, civil activism is pragmatic; activists are looking for practical solutions to specific problems as an alternative to involvement in politics.

The authorities maintain a tight grip on protest activity and use all sorts of excuses to ban mass rallies, even if it is understood they will be held peacefully and will be subject to a pre-authorization (or, since 2020, duly filed notification). Labor strife intensified at the end of 2020 and culminated between December 2021 and January 2022, following the overnight liberalization of liquified petroleum gas prices in western Kazakhstan. Mass protests spread across the country, with violent mobs ransacking the former capital of Almaty, where the city government headquarters and the presidential residence were burned to the ground. At one point, President Tokayev declared a state of emergency and a partial curfew; he also warned of the alleged arrival of some 20,000 heavily armed extremists, some of whom were said to be foreign nationals and had been trained abroad.

In Kazakhstan, the events of January 2022 are called Qandy Qantar (Bloody January). According to official statistics, 238 people died and more than 4,350 protestors were wounded, while among law enforcement, 19 people died and nearly 3,400 personnel were wounded. President Tokayev called in a limited military contingent of the Russia-led Collective Security Treaty Organization (CSTO) in order to stabilize the domestic security situation. After that, the protests quickly subsided, and law and order were restored throughout the country. However, thousands of people were arrested and went on trial, most often on charges of terrorism and extremism. Their families claim that they were bystanders or peaceful protesters who were displaced by hooligans, looters and professional criminals.



The situation still remains tense overall. In January 2023, more than 700 employees of KKC-Sicim, an oilfield services company active in West Kazakhstan Oblast, went on strike in protest over high inflation, low salaries and difficult working conditions. They addressed an open letter to President Tokayev, asking for his intervention. Dozens of similar strikes have occurred since Bloody January, mostly in the western regions.

In February and July 2020, interethnic clashes occurred in southern Kazakhstan between Kazakhs and Dungans and Kazakhs and Uzbeks, respectively. The former incident ended with the deaths of 11 people and more than 50 injuries. The authorities consistently deny the existence of interethnic tensions, despite the fact that the February 2020 incident reportedly led to the emigration of 12,000 Dungans into neighboring Kyrgyzstan. In October 2021, a school brawl escalated into violence between Kazakhs and Uyghurs in Almaty Oblast. The Kazakhstan authorities call interethnic conflicts “domestic conflicts” or the “activities of criminal gangs.”

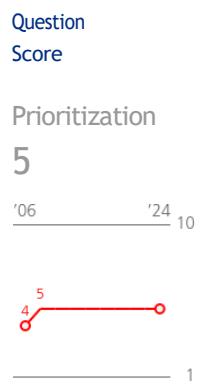
II. Governance Performance

14 | Steering Capability

Kazakhstan's executive regularly sets long-term strategic goals. This most often happens in response to presidential initiatives. These include the Kazakhstan 2050 strategy of 2012, the 2015 announcement of 100 practical steps to implement key five institutional reforms, which should enable Kazakhstan to become one of the world's 30 most developed nations, and the Strategic Development Plan until 2025 (adopted in February 2018).

Goalsetting is rarely done on a systematic basis, with many programs interrupted and replaced by new ones before the end of their term, sometimes generating considerable overlaps. Short-term considerations almost always prevail over long-term ones, often in direct contradiction to previous official announcements.

For instance, in April 2018, Nursultan Nazarbayev publicly pledged that the government would no longer bail out failing financial institutions after having spent over \$10 billion in direct and indirect aid to the sector. Yet, in August 2018, the National Bank of Kazakhstan (NBK) extended an emergency loan to TsesnaBank, Kazakhstan's then third-largest bank in terms of assets and second-largest in terms of loan portfolio, and, in September 2018, agreed to buy its toxic assets. In January 2019, the state extended a further aid package totaling \$3.4 billion to the wholly private bank.

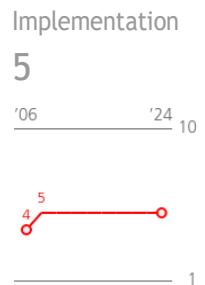


Since taking office in 2019, President Tokayev has decreed the establishment of four new government agencies, including the Agency for Strategic Planning and Reform (September 2020), which has taken over a vast portfolio of advisory, coordination and planning functions from the Ministry of National Economy. In September 2020, Tokayev established the Supreme Reform Council under the presidency as a sign of his personal commitment to long-term transformation objectives. The June 2022 constitutional referendum upgraded the Constitutional Council to a Constitutional Court. At the same time, the Ministry of Education and Science was split into the Ministry of Science and Higher Education and the Ministry of Enlightenment. Proliferating administrative reforms as a substitute for root-and-branch political transformation has been a hallmark of Kazakhstan policymaking since the early 2000s.

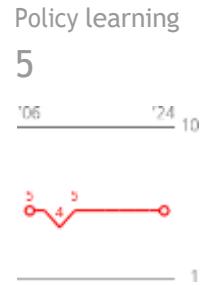
Similarly to policy formulation, policy implementation is often inconsistent with the initial goals set, the interim and final assessment, and the evaluation, and is ultimately subordinate to short-term thinking. The lack of political will to initiate drastic reforms that would more likely than not upend the status quo and lay the foundation for yet-to-be-seen political liberalization is the root cause of Kazakhstan's many woes. This observation remains valid even after the first president of post-independence Kazakhstan, Nursultan Nazarbayev, finally withdrew from political life in early 2022.

Economic diversification is a good example of this. Kazakhstan has sought to diversify its economy away from the oil and gas sector for over a decade now, still with little to show for its efforts as of 2023. In fact, given the turbulent crisis and post-crisis period from 2008 to 2010 and the subsequent economic turmoil from 2014 to 2016, the state has grown increasingly present in the economy instead of retreating from it. So-called parastatal entities, in which the state maintains sizable ownership but which are supposed to operate according to market rules, represent a strong drag on the already-weak reform current. The redistribution of financial flows among state and parastatal entities is a major element of domestic power struggles and naturally tends toward concentration and consolidation within a small circle of powerbrokers.

Another example is climate policy. In its October 2022 country update, the IMF noted: "To meet Kazakhstan's 2030 climate policy commitments, the government needs to start implementing its climate strategy early on. The finalization of this strategy has been delayed. It should be finalized promptly to provide a clear road map, including intermediate targets and investment plans." The IMF also made some critical remarks about the general operation of the state apparatus, particularly concerning policy implementation. For instance, the IMF stated: "Numerous public entities, including state-owned enterprises (SOE), the National Bank of Kazakhstan, and off-budget funds, still undertake quasi-fiscal activities, leading to dispersed and uncoordinated public spending, and weakening accountability."



Policy learning is haphazard and, most of the time, the result of a conjuncture rather than an outcome produced by an efficient, operational and constantly evolving institutional framework. The banking sector reform is a good case in point. The costly bailouts of 2008/2009 and 2017/2018, which included a large number of banks, were supposed to serve as a lesson learned from real-life experience. However, the authorities are still struggling to rein in banks' reckless lending practices and to deracinate their most egregious corporate governance flaws. The government's innovations have been limited to strictly enforcing formal rules on capital adequacy and loan loss provisions in line with international best practices (e.g., Basel III), whereas risk management continues to be extremely deficient, and conflicts of interest abound.

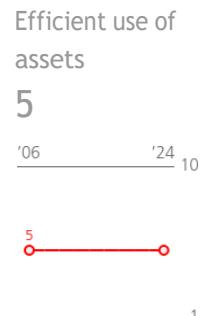


Some successes also must be noted, such as the rollout and enhancement of e-government (Egov.kz) and expanded access to electronic tendering for state contracts. In terms of structural issues requiring corrective measures at a priority level, long-term conjuncture-insensitive innovation has been almost entirely supplanted by short-term opportunistic decision-making.

Shortly before the start of the COVID-19 pandemic, the government approved two new strategic development programs in place until 2025, in health care and education. In October 2021, President Tokayev further promulgated 10 national projects in the fields of health care, education, national and cultural identity, technological innovation and digitalization, entrepreneurship, regional development, sustainable economic growth, green energy, agriculture and public security. These projects follow the familiar pattern of top-down initiatives, many of which become bogged down in a combination of avoidable red tape, underutilization of allocated resources and deficient performance monitoring.

15 | Resource Efficiency

Appointments to and dismissals from key government positions are the prerogative of the president. Although the 2017 constitutional reform endowed parliament with enlarged authority, for instance, to restrict the president's choice of prime minister to the list of candidates fielded by the ruling party, these changes have little bearing on the political situation in the country. The appointment of most ministers, except for the ministers of foreign affairs, defense and interior, is a shared responsibility of the president and premier with a mandatory consultation of parliament. In practice, the prime minister, the entire cabinet, Supreme Court justices, regional and major city governors and many other officials are directly appointed by the head of state.



The context is different for the majority of civil servants whose recruitment and employment are governed by the 2015 Law on Civil Service. Back in 2012, all public servants were divided into several classes, with their career advancement increasingly based on performance. In spite of these reforms, which are based on OECD standards,

public administration is still viewed as clunky and inefficient. In its Global Competitiveness Index reports, the World Economic Forum has repeatedly pointed to “inefficient government bureaucracy” as a structural challenge for doing business in Kazakhstan.

Regulatory and administrative inflation are also prominent issues. Creating a new ministry or agency or adopting new laws and regulations are often viewed as sufficient responses to specific problems.

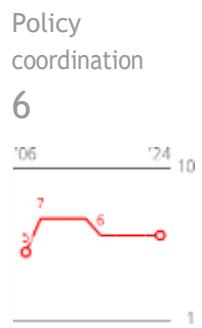
In terms of budget discipline, two factors merit pointing out. Kazakhstan’s high dependence on unpredictable external conditions makes it extremely difficult to ensure sound budget planning and execution without carrying out time-consuming structural improvements. Changing oil prices require regular revisions of growth forecasts, sometimes several times a year, along with inflation, current account deficit/surplus and budget deficit expectations.

Instead of being a collective function, policy coordination is almost single-handedly performed by the presidential administration, which exercises effective oversight over governmental decisions and extends its controlling function to regional governments. Relations between the government and parliament may appear on the surface to be competitive, as cabinet ministers frequently have to justify themselves before members of parliament. Yet, final decisions are almost always driven by the presidential administration and meet little resistance from either members of parliament or the cabinet members concerned. The president always has the first and last word. Relations among ministries and their personnel are very limited, with almost no inter-agency cooperation when it comes to national security.

It is therefore unsurprising that whenever a contentious issue arises that may adversely impact people’s livelihoods, direct appeals continue to be made to the president in his capacity as the last hope and authority for social justice. The incumbent has the authority to scrap draft laws by either vetoing them or making them disappear from parliamentary debates, to revoke or amend existing measures and to suggest new ones that are then quickly approved through formal democratic processes.

As a result, policies are coordinated from the top down, which leaves little room for civil society participation (i.e., public councils under local akimats), institutionalized lobbying (which is nonexistent) or interministerial compromise-seeking. This situation persists in an environment characterized by limited competition regarding policies.

In line with his concept of a “listening state,” President Tokayev established in July 2019 the National Council of Public Trust with the aim of empowering civil society and making it an integral part of the policymaking process. The authorities affirm that the council actively participates in the elaboration of new laws. Nonetheless, it has a



purely consultative function, and many of its most outspoken members' initiatives have been simply ignored. In March 2022, Tokayev decreed that the National Congress (Ultyq Quryltai) under his own chairmanship should replace the council, but this new body appears to have barely done anything since its foundation. The website of Kazakhstan's presidency does not mention it as part of its formal structure as of January 2023, instead indicating the council's continued existence and role as a government institution.

Anti-corruption in Kazakhstan is the prerogative of the Anti-Corruption Agency. It was created in June 2019 as the successor to the National Anti-Corruption Bureau (NAB) under the Agency for Civil Service and the Fight Against Corruption. The agency is subordinated to and reports directly to the president. It has inherited from the NAB the implementation of the national anti-corruption strategy for the period from 2015 to 2025, approved by then-President Nazarbayev in December 2014. In November 2015, Nazarbayev also signed into law a new anti-corruption bill that superseded the 1998 law. In February 2022, President Tokayev endorsed the new anti-corruption strategy for the period from 2022 to 2026.

In recent years, Kazakhstan's authorities have intensified efforts to publicize their anti-corruption policies using a combination of social media, on-site visits and public discussions. Another tool actively used by Kazakhstan is public councils, which operate as state bodies and currently comprise over 4,000 members. As of October 2022, 256 such organizations had come into existence: 35 at the national level and 221 operating locally. In 2015, the Law on Access to Information took effect, but its efficient use has been severely curtailed by various exemptions and contradictions in other legislation.

This is in addition to the wide deployment of e-government, through which the authorities expect to combat corruption by eliminating direct physical interaction between citizens and public officials. In its 2020 assessment report, the World Bank praised the increased alignment of Kazakhstan's mandatory e-procurement rules with global best practices, yet also expressed some criticisms. Wholly state-owned companies still remain largely outside the unified legal framework (which now encompasses parastatal entities as well), while material obstacles limiting competition are faced by foreign bidders.

In January 2020, Kazakhstan became the 50th member state of the Council of Europe's organ in charge of ensuring compliance with and effective implementation of the council's anti-corruption standards. This Group of States against Corruption (GRECO) issued in March 2022 a report resulting from two rounds of evaluations. The report noted, *inter alia*, that "the anti-corruption action taken by the Kazakh authorities, while commendable, needs to translate itself into more impact-driven results" and that "the lack of a developed civil society with truly independent interest groups" made fighting corruption challenging.

Anti-corruption policy
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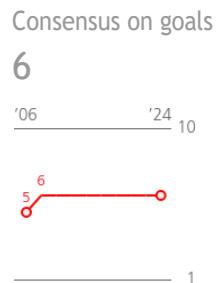


Prior to 2014, the Agency for Fighting Economic and Corruption Crimes was responsible for both anti-corruption activities and fighting organized financial crime, such as money laundering, fraud and terrorism financing. In January 2021, the president instructed the government to lay the groundwork for a new independent agency tasked with preventing economic crimes. The new Financial Monitoring Agency has been leading highly publicized anti-financial crime investigations, such as the one against Kairat Boranbayev, former CEO of KazTransGas. It has since returned to the state significant assets from former President Nazarbayev's cronies.

Also in January 2021, universal asset and income declarations were introduced, with deployment in several stages. In Stage 1 (2011 – 2022), the obligation to declare one's assets applies to public officials and their spouses. In Stage 2 (2023), it will extend to employees of state institutions, quasi-public sector entities and their spouses. In Stage 3 (2024), it will further extend to the managers and owners of legal entities and sole traders, plus their spouses. The declaration will become universal as of 2025.

16 | Consensus-Building

Little has changed over the years in terms of the extent to which the political establishment and ruling elite accept democracy and market economic principles. In 1991, Nursultan Nazarbayev articulated his “economy first, politics later” approach, which has since served as the guiding principle for domestic policymaking. While there remains a consensus on his approach, political actors have not reached a clear agreement on the specific shape that Kazakhstan’s democracy and market economy should adopt. Nazarbayev has repeatedly stated that Kazakhstan will follow its own path of democratization that takes into account its historical experience, the mentality of its people and the hard-taught lessons of instability in numerous democratic countries without a strong leader. His successor, Kassym-Jomart Tokayev, has spoken in similar terms, always stressing his preference for evolution over revolution and intolerance for political radicalism.



Similarly, while the market economy is unanimously accepted as a fundamental virtue (hence the relative unpopularity of communist ideas considered an element of the past), there is no consensus whatsoever on the long-term strategic steps to be taken to arrive at this ideal. Since succeeding Nazarbayev as president in March 2019, Kassym-Jomart Tokayev has made a series of overtures to civil society and pledged that he will take steps in the direction of political and economic liberalization. These developments notwithstanding, Kazakhstan continues along the development path laid out by Nazarbayev, even though he no longer constrains Tokayev politically, having resigned from all his post-retirement posts in 2022.

Largely due to the enduring authoritarian nature of the regime, Kazakhstan's political landscape defies easy categorization into reformers and proponents of the status quo. Kazakhstan's distinctive feature is its sustained political illiberalism, intentionally left untouched by reform and largely insulated from public discourse during President Nazarbayev's tenure. Consequently, no existing political force, formally or implicitly endorsed by the regime, prioritizes democratization in the sense of political liberalization. This situation remains inherently uncertain because a genuine transition to a post-Nazarbayev era – something that might occur beyond President Tokayev's current term unless he takes a more assertive pro-democracy stance – could create an opening for authentic democratization, as has often unfolded in former autocratic regimes worldwide.

Regarding economic reforms, it's evident that liberal-minded elements within the establishment are marginalized. The 2013 pension reform, which merged all private pension funds under state management, prompted National Bank Governor Grigory Marchenko to permanently exit politics. The group of genuinely reformist young officials saw its cohesion fracture in the 2000s following the unsuccessful challenge by Mukhtar Ablyazov, who was then a government minister, and some of his associates against Nazarbayev's rule. Many of these individuals, including former NBK Governor Kairat Kelimbetov, were subsequently co-opted and abandoned their earlier liberal positions.

Nazarbayev's successor, Kassym-Jomart Tokayev, outwardly promotes increased democratization and political modernization. Nevertheless, he lacks both the intention and the capability to deeply reform the existing system. In a prominent article published in January 2021, the president emphasized the need for caution in pursuing rapid reforms, underscoring his reluctance to embark on a fundamentally reformist path. The civil unrest in January 2022 and the approaching Majilis elections in March 2023 have further solidified his cautious approach, essentially ruling out any substantial, enduring political upheaval.

Unlike many other post-Soviet countries, Kazakhstan has been spared protracted instability and has managed to ensure the widespread acceptance of Nazarbayev's "economy first, politics later" principle of 1991 at the cost of continuous maneuvering, consistent state propaganda and adroit image-building. The period of rapid growth in the 2000s benefited large chunks of the population, which still remembered vividly the poverty of perestroika and the first post-independence decade. This result was mostly achieved through the application of trickle-down economics, which simultaneously saw the emergence of a new oligarchic class clustered around the presidential family. Nazarbayev had been efficient at mitigating social conflict by means of generous handouts, inflation-indexed social benefits and the avoidance of inter-elite instability that could have translated into turmoil at lower echelons.

Anti-democratic actors

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Cleavage / conflict management

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The 2011 Zhanaozen protests are a sore spot on this otherwise successful track record. Although the vertically organized political regime that Nazarbayev built has since proved resilient, labor strife continues to pose a challenge. The Bloody January events in 2022 brought this harsh reality again to the fore. Several hundred people died in violent clashes across the country, especially in the former capital, Almaty, the historical center of which was ransacked and looted. Interethnic tensions remain frequent as well, although the authorities seek – rather unsuccessfully – to downplay this phenomenon.

Since Nursultan Nazarbayev's definitive political retirement due to Bloody January, President Tokayev has been careful to consolidate his standing with Nazarbayev-era elites, including the most prominent oligarchs and regional vested interests.

Civil society is a very marginal actor and does not actively participate in the formulation or execution of state policies due to very limited windows of opportunity, even in those areas where it has the most to say. The government is keen to emphasize the direct involvement of civil society members – as expert councils or public councils within ministries – in discussions of new legislative initiatives, state programs or long-term plans, strategies, and concepts, often for show.

During the constitutional reform of 2017, the commission in charge of general coordination, while chaired by the head of the presidential administration, included independent members of the legal profession, scholars and public activists. The same is true for other state commissions or committees organized for a specific purpose. However, these entities or individuals do not exercise any influence over the outcome of the deliberations in which they are called to participate. Nor do they own their results.

In February 2020, political activist Bakhytzhan Bukharbay quit the National Council of Public Trust (formed on President Tokayev's orders in mid-2019) over his opposition to a draft law on assemblies. In his view, the cabinet of ministers had sabotaged the draft law, in contradiction to the president's own wishes.

Since Tokayev's election to the presidency, a new wave of civil society organizations, often informal, has emerged. They include the Oyan, Qazaqstan Movement, which is confined to the sidelines of political life but has nonetheless managed, at least temporarily, to mobilize interest in structural reform, for example, around key national events such as the January 2021 parliamentary elections.



There is no past or ongoing process of reconciliation with the past. Kazakhstan's pre-independence history is for the most part exempt from explicit judgmental references to past injustices, even though such injustices are mentioned as part of the wider historical context. The tsarist and Soviet periods are broadly presented in current Kazakhstan historiography as times of colonization; however, no explicit discourse of victimization exists.

Reconciliation

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This also applied to the mass famine in the 1930s during collectivization, which was brutally enforced by the Stalinist regime not only in Kazakhstan but also in Russia, Ukraine and other Soviet republics. Unlike Ukraine, which long ago chose to commemorate the famine known as Holodomor, thus fostering tensions with neighboring Russia, Kazakhstan took up a non-accusatory approach.

In June 2020, the Ak Zhol Party, which has had only about 11% of members in the Majilis since January 2021, called on the government to seek international recognition of the mass famine in the 1930s, which is believed to have killed half of then-Soviet Kazakhstan's Kazakh-speaking population. The initiative went nowhere because the Tokayev administration's position on the issue remains cautious since it wants to avoid tensions with Russia, a strategic partner. But nationalist civil society organizations, activists and public figures are nonetheless commemorating the Asharshylyk.

17 | International Cooperation

OECD Development Assistance Committee data show that net development assistance inflows to Kazakhstan increased from \$15.4 million in 1993 to a peak of \$338.1 million in 2008 before dropping off every year since then to less than \$60 million in 2017. While Kazakhstan became an upper middle-income country (as per World Bank classification) in 2006, the reduction in foreign aid began to manifest itself with a lag of three years or so. It is now assumed that Kazakhstan should spend more of its own money on domestic development goals. Having spent over \$500 million on humanitarian projects in third countries since 1997, Kazakhstan launched its own official development assistance (ODA) program in April 2017. A special law and a strategic plan through 2025 were adopted.

Effective use of support

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Despite Kazakhstan's high income per capita, China has continued to lend money to the country, notably at preferential rates and increasingly as part of its cross-border Belt and Road Initiative. As of January 2021, Kazakhstan owed over \$10 billion to China in total, half of which was sovereign and quasi-sovereign debt. However, Kazakhstan owes much more to western lenders, mostly due to private sector loans: \$44.1 billion owed to the Netherlands, \$23.4 billion to the UK and \$13 billion to the United States.

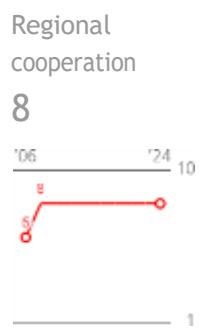
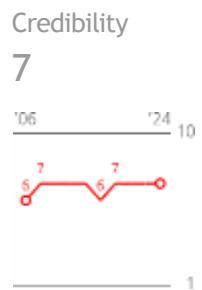
The efficiency of the use of international assistance is hard to quantify in a long-term perspective. The country's failure to implement structural reforms that have been recommended in recent years by international organizations, such as economic diversification, political liberalization and market-based privatization, indicates that most of the funds were used to satisfy short- or medium-term policy goals. On the one hand, international assistance has certainly helped Kazakhstan modernize more quickly and ramp up its GDP per capita to the upper middle-income level within a decade and a half. On the other, its current vulnerability to external shocks is evidence of a systemic lack of strategic focus.

Kazakhstan is traditionally presented as a role model in its regional neighborhood and within the former Soviet Union in terms of its successful cooperation, leadership and mediation with the international community. The country enjoys strong credibility in the global arena and has succeeded in boosting its prestige and visibility through holding such landmark events as the OSCE summit in 2010, the 2011 Winter Asian Games, Expo 2017, the rotating chairmanship of the U.N. Security Council in January 2018, the ongoing quadrilateral Syria peace process in Astana and various global and regional integration initiatives. Kazakhstan is also a member of the U.N. Human Rights Council for the 2022 to 2024 term.

Nevertheless, there have been some issues with credibility. International NGOs regularly criticize Kazakhstan for its authoritarian regime, the impaired rule of law and restrictions on freedoms of expression and assembly. Several legal cases have come before the U.N. Human Rights Council, including those of former Kazatomprom CEO Mukhtar Dzhakishev (imprisoned in 2009 under Nazarbayev and released in 2020 under President Tokayev) and former conscript Vladislav Chelakh (sentenced to perpetuity in 2012).

Kassym-Jomart Tokayev's successful re-election for a second presidential term in November 2022 drew strong criticism from the OSCE Office for Democratic Institutions and Human Rights (ODIHR). This prompted a public rebuke by Kazakhstan's Foreign Ministry, which even called into question the ODIHR's mandate.

Kazakhstan has long advocated for closer diplomatic, trade, cultural, scientific and security ties among its Central Asian neighbors. Multi-vector foreign policy is a hallmark of Kazakhstan's relations with Russia and China as well as with remote partners in Europe, North America, the Near and Middle East and Southeast Asia. The Eurasian Economic Union, which Kazakhstan, Russia and Belarus cofounded in 2014, currently also includes Kyrgyzstan and Armenia. In March 2018, Astana hosted a regional summit limited to participation by the Central Asian heads of state (except Turkmenistan). Such a summit was made possible by the good working relationship between Nazarbayev and Uzbekistan President Shavkat Mirziyoyev.



In November 2019, Nazarbayev continued his personal diplomacy by representing Kazakhstan at the 2nd Central Asian Summit in Tashkent in his capacity as former president. Despite Kazakhstan's decision to toughen customs controls at the border with Kyrgyzstan for several months in 2017 (after Kyrgyzstan President Atambayev openly criticized his Kazakhstan counterpart), the two countries have remained close. President Tokayev extended a warm welcome to the new Kyrgyzstan leader Sadyr Japarov on his second trip abroad in March 2021. Relations are also cordial between Kazakhstan and Uzbekistan, despite a historic rivalry, which has become less pronounced since Mirziyoyev succeeded Islam Karimov in 2016. In December 2022, Kazakhstan's and Uzbekistan's presidents signed a package of agreements on comprehensive cooperation.

Kazakhstan actively participates in various regional organizations, including the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO). In November 2020, Tokayev called the SCO "one of the most successful international organizations." In January 2022, the CSTO intervened at Tokayev's request to quell violent protests during Bloody January but served as a force of intimidation without having to engage in action. Kazakhstan is also committed to closer regional cooperation with Afghanistan.

Strategic Outlook

The political shakeup in early 2022 allowed President Tokayev to begin the gradual elimination of the domineering influence of his predecessor, Nursultan Nazarbayev, who had retained key formal positions since resigning the presidency in March 2019. Tokayev's successful re-election in November 2022 for a seven-year term under the amended constitution – which, unlike his first electoral victory back in June 2019, was not marred by protests – has reconfirmed his new status as Kazakhstan's unchallenged leader with a full concentration of powers. To mark a new chapter in the country's political history, Tokayev first informally introduced the concept of a "New Kazakhstan," effectively signaling a break with the Nazarbayev era, and later – with the help of a constitutional referendum – pushed through some of his most ambitious reforms to date. These reforms included creating a Constitutional Court to take the place of the Constitutional Council and security agency reform.

The young Tokayev regime is at a crossroads. One option is to initiate a comprehensive political transformation that would require empowering parliament to challenge and keep the executive branch in check. Reforming the judiciary would also be necessary. Another option is to maintain the political framework inherited from Nazarbayev mostly unchanged, with only minor superficial improvements like those the Tokayev administration recently made. Instead of granting increased authority to the Constitutional Council, which has yet to prove its efficiency and effectiveness, the president could have aimed higher by ensuring that Kazakhstan's courts at all levels have maximum independence and personal integrity. Constitutional matters represent only a small fraction of court cases. The reform of law enforcement, police and security agencies has long been pending due to existing corruption and the regime's strategic vision.

It seems that President Tokayev prefers the more conservative option to an audacious one. He seems poised to seek an even higher degree of concentration of power in his administration and his close circle of advisers who supported him during the January 2022 civil unrest. None of the several new political parties that came into existence over the course of 2022 seem able or willing to challenge the ruling party Amanat's monopoly in the Majilis. Instead, their political trajectory is likely to follow that of the small parties created under Nazarbayev, acting merely as puppets in the service of a façade of parliamentary democracy. Likewise, any estimation of Tokayev's economic reforms, however ambitious on paper, should entail serious examination due to the absence of the genuine political liberalization he promised upon coming to power in 2019.