

THE U.S. CHAMBER OF COMMERCE



in cooperation with
The American Chamber of Commerce in Kazakhstan

The Challenges of Kazakhstan: Regional and Global Impact

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Presentation Summaries

Panel I:

Kazakhstan's strategic involvement in the fight against terrorism, global threats, and maintaining regional stability

Richard Perle, Resident Fellow, American Enterprise Institute for Public Policy Research, (former Assistant Secretary of Defense & Chairman, Defense Policy Board)

Kazakhstan is a marvelous and inviting state. But it has to cope with a number of potential dangers and problems: border security, modern command control, infrastructure, logistics, information and communication systems, and other security issues such as radical revolutionary Islamic movements in the world which could influence the Kazakh population (over 50% are Muslims) and destabilize the country. The challenge for Kazakhstan is to be ready and capable to deal with these threats when they come up. Building a security system and the infrastructure to beat potential problems is essential.

The right approach to deal with these dangers is "integration rather than isolation". However, Kazakhstan with its huge land, its small population, and its growing economy has to be aware of a possible exploitation from richer, populated and self-serving countries. Furthermore, it is important for Kazakhstan to work closely with its friends, which share the same values and are eager to see progress and development of the country. Especially, the cooperation with the U.S. must grow and deepen. This lures more foreign direct investments and has a stabilizing effect.

The Kazakh government has to also think through its immigration policy, reform the Kazakh military, and modernize the intelligence structure. High quality intelligence can help prevent and deal with the current threats and security issues.

Col. Vladimir Reichel, Head of International Programs, Kazakhstan Armed Forces

Kazakhstan is faced with a lot of dangers and challenges in Central Asia. We have to deal with international terrorism, drug trafficking, instability, insecure boundaries, and potential military conflicts in the region. Kazakhstan joined the antiterrorist coalition and has provided critical assistance in both Afghanistan and Iraq. The Kazakh government contributes free over flight rights for coalition aircraft. Furthermore, the Almaty airport is available to the U.S. Air Force for emergency landing and refueling as part of operations in Afghanistan.

The Military Doctrine, covering the period from 2000-2005, includes several efforts to improve security and stability in Central Asia. With the improvement of the armed forces, our high potential military force will be more effective in fighting threats and terrorism. There are also plans to continue to strengthen the Kazakhstan Peacekeeping Battalion (KAZBAT) with the aim of making this unit interoperable and deployable for participation in NATO-led operations.

Kazakhstan has to adopt five basic tasks in the future: (1) enhance military training to fight effectively against terrorism, (2) modernize the military, (3) improve the battalion in order to decrease drug trafficking, (4) grow cooperation and strategic partnerships with U.S. and other countries, and (5) reconstruct military buildings and the central command.

Donald S. Rice, Sr. Vice President, National Committee on American Foreign Policy

A functioning and strong military is a critical aspect if we are talking about security and stability. Military is essential to create the right circumstances for reforms and changes. In this regard, the development of the Kazakh army is so impressive that even the American military in the Pentagon is favorably impressed with its progress.

President Nazarbayev has a great vision, and one of his most imposing achievements is his tremendous effort to denuclearize the country, which means to renounce all nuclear weapons and sign the NPT treaty. But, U.S. interest in Kazakhstan goes well beyond natural resources and the war on terror. Kazakhstan's strategic importance as a moderate pro-western secular Muslim state with a huge non-Muslim population is extraordinary. It can function as a model stabilizing force in Central Asia.

Another remarkable point of President Nazarbayev's great vision is his attempt to create a Kazakh national identity. On the one hand, Kazakhstan is faced with decreasing help and interest from the European continent, and on the other hand the country has to deal with an emerging Muslim majority.

Kazakhstan's national interest is stability in the area. In this regard, Kazakhstan makes remarkable investments in its neighbor states like Georgia and Uzbekistan. At the same time, Kazakhstan has a lot of workers from outside, which may pose a problem in the future. If there is any explosion or breakout of revolutionary movements in the region, Kazakhstan will be faced with millions of refugees coming across the borders.

Panel II:
Kazakhstan's role in world energy security & stability

William C. Veale, Executive Director, U.S.-Kazakhstan Business Association

Since its independence in 1991, Kazakhstan has risen to a world class supplier for international energy demands. There is no doubt that Kazakhstan has the ability to play a major role in the energy market. The country has incredible resources of oil and gas and the infrastructure to distribute these resources is expanding and developing. The pipeline to China is in construction and will be completed this year. Today, the production of oil and gas is 1.22 million barrels per day, and by 2015 is expected to increase to 3.50 million barrels per day.

American energy companies are ready to fulfill their tasks with high technology, professional management practices, and a successful track record of investment in the local workforce and infrastructure.

Kazakhstan is faced with many challenges: economic reforms, contract stability (which is jeopardizing potential investments), insufficient transparency, as well as Kazakhstan's global competitiveness to other oil producing countries. Another choice the government is confronted with is whether to work with credible international companies that bring world class management and other project executive abilities into the country which offer (maybe not in the near future but in long term) more benefits to the Kazakh economy.

**Judge William Webster, Member, Presidential Homeland Security Advisory Council;
Director, Security Review Commission**

From the end of the cold war, the United States has supported Kazakhstan's determined march to economic and social stability and more liberty for the Kazakh population. There is no question that economic growth leads to liberty, stability, and prosperity.

For 10 years, Kazakhstan has experienced tremendous economic growth. Over 60 % of its workforce is employed in the private sector providing over 85 % of its revenues, income, and wealth. In 2010, Kazakhstan plans to have a GDP per capita comparable to that of Poland and of the Czech Republic.

Due to its dangerous and unstable location, Kazakhstan struggles with potential delivery problems. There is a new pipeline to China in construction, but that might shift the leverage of interests and influence in this region. In this regard, of concern is a possible pattern of taxation through neighboring countries, which would make business unprofitable and unattractive for U.S. companies and other firms to invest in the area. This will be a significant challenge for Kazakhstan in the future.

The world has to understand that Kazakhstan exists in a complex and difficult world; therefore, the country must make its decisions based on its own considerations and interests..

Kairat N. Kelimbetov, Minister of Economy and Budget Planning of Kazakhstan

Kazakhstan is confronted with many social and economic challenges, and our geographical location makes our situation even harder. Nevertheless, Kazakhstan has witnessed tremendous growth due to natural resources in the past decade. But there is good and bad news following such oil wealth.

The good news is the impressive record of macroeconomic performance and the extraordinary economic growth, which is one of the highest in the world. In 2004 the economy grew by 9.3% and this year analysts expect a similar growth rate.

In contrast, there are also problems linked with too much oil such as overheating. Therefore, Kazakhstan has to address a new competitiveness agenda of raising productivity by diversifying the economic base away from oil, enhancing education and industry specific skills, promoting innovation, research and creativity and supporting entrepreneurship.

Anvar Saidenov, Chairman, Kazakhstan Central Bank

The major factor of stability and security in oil production and transportation into the global energy market is macroeconomic stability. In this respect, Kazakhstan has made great achievements not just with its tremendous economic growth rate but also with keeping inflation under 7% in the last 4 years. Unfortunately, the inflation rate could be higher this year, because of the common global trend very much linked with the rising oil price.

An important aspect for macroeconomic stability is the foreign currency controls and regulations which are executed by the Kazakhstan Central Bank. Furthermore, macroeconomic stability is related to the stability of the population who is employed in the oil and gas sector. Beside the growing GDP per capita, the consumption behavior of the Kazakh people is increasing, due to rising wages and salaries in all sectors. This year the Kazakh government increased the income in the public sector as well as in the fields of education and health care.

The financial sector, especially the banking sector, also makes a huge contribution to the stability and security of the energy market. In the last decade a lot of institutions were established in the financial sector drawing from foreign models such as the United States, Germany, and Malaysia. Incorporating these different approaches has provided more transparency, accountability and cooperate governance in the country.

Ariel Cohen, Sr. Policy Analyst, Russian and Eurasian Studies, The Heritage Foundation

It is essential for the United States and the rest of the western world to have natural resources which are not in the Middle East. Almost every major oil producing country like Nigeria or Venezuela is struggling with instability and insecurity. Kazakhstan is an exception which the U.S. needs to cherish and support. Indeed, the country is a marvelous opportunity for the United States to diversify sources of oil for the global energy market.

However, Kazakhstan is surrounded by two large countries – Russia and China which have their own self-interest in mind. Russia is providing different models of economic, military, and political integration. At the same time, China with its rising energy demand sees the region as a potential supplier for its increasing consumption.

Security challenges are also fundamental because of the unstable region and the rising Islamic and terrorist movements in northern Caucasus. For that reason, it might be beneficial for Kazakhstan to transfer parts of its oil into the west by connecting the pipeline through the Caspian Sea.

Energy security is essential. On the one hand, it consists of physical protection of pipelines and transportation facilities. On the other hand, the investment environment is very important to secure the world energy market. In this regard, Kazakhstan has achieved great success, but there is still a lot of space for improvement.

Nevertheless, the United States of America should provide further assistance in fields like education and training of the Kazakh work force, technology and agriculture. Last but not least, the U.S. should support Kazakhstan's application for membership in the WTO. In spite of some setbacks, the economic outlook for Kazakhstan is extremely positive and prosperous.

Panel III:

Kazakhstan's democratic reforms through economic and social progress

Gen. Wesley Clark, Distinguished Senior Adviser, CSIS, (former NATO commander)

Kazakhstan is on a path to democracy. We must realize that every country has its own unique path to follow, one that is not prescribed. We must realize that Kazakhstan has the stability that will allow it to have participation and ownership in the state. Before Kazakhstan can have full democracy, it must first have a free and fair elections. But democracy is not just about voting. Democracy is when power is balanced and restrained. The opposition voice must be permitted and there must be freedom of the media. I congratulate President Nazarbayev for all his efforts. Although, he has done much to move the country to a democratic path, there are still many obstacles ahead. The tough part is to let go, to allow the formation of institutions that he may not be comfortable with. If he does not do this, he will retard the progress of Kazakhstan. It will take courage and good judgment to keep it moving forward.

Matthew J. Bryza, Deputy Assistant Secretary of State, European and Eurasian Affairs, U.S. Department of State

While President Nazarbayev views freedom in terms of economic growth, the United States believes that political and economic freedom should move simultaneously. We are not ashamed to say that we have a strategic energy interest in the Caspian region, centered in Kazakhstan. This nation is emerging as one of the world's great producers of hydrocarbons.

The United States praises the Kazakhstan government for their work and success in giving up weapons of mass destruction. Kazakhstan has been a great partner of the U.S. in security and nonproliferation.

The hope of the U.S. is that security – part of which deals with counterterrorism, energy, and internal transformation will foster economic reform. Kazakhstan has made many reforms in the past especially on security issues, but democratic reform is still one that the U.S. is waiting on.

The United States sees Kazakhstan as a potential locomotive for economic growth in Central Asia and hopefully for democratic growth in Central Asia as well. The U.S. also hopes to strengthen economic ties with Kazakhstan and its central Asian neighbors. We know that Kyrgyzstan and Tajikistan require energy sources and investments from Kazakhstan. Kazakhstan could help these countries emerge from the worst poverty in the OSCE. Kazakhstan may also help to stabilize Afghanistan and stimulate economic growth in that country.

Finally, Kazakhstan is a state with secular democracy and predominantly Islam society. It has traditions of classical Islam, which blended tolerant faith with scientific learning and religious faith with reason dating back 1000 years. This tolerance and reason shields it from Islam

extremism. The U.S. has allies in the Muslim world, and one of them is President Nazarbayev, who is a world leader in fostering interfaith dialogue.

Vladimir Foos, Secretary of Kazakhstan's Central Election Commission

Free and fair elections are one of the basic pillars of democracy. The Republic of Kazakhstan has made building a democratic state a strategic long term priority. Gradually improving democratic mechanisms and legislative basis for nation building, the Republic has established an election system that is close to international standards.

Elections through secret ballot are held regularly in Kazakhstan, including elections for local assemblies, the Parliament and the President. On September 7, the Majilis of the Parliament of Kazakhstan announced the next election for the President of Kazakhstan for December 4, 2005.

The CEC has registered five persons as candidates for President, including Erasyl Abylkasymov, a leader of Communist People's Party of Kazakhstan and a deputy of the Parliament, Alikhan Baimenov, the leader of the Ak Zhol political party, Mels Eleusizov, leader of the Tabigat environmental movement, Nursultan Nazarbayev, the President of Kazakhstan, and Zharmakhan Tuyakbai, the leader of *For a Fair Kazakhstan* political movement.

The Constitutional Law on Elections in Kazakhstan has undergone considerable improvements during the past decade. We have reviewed measures to improve transparency, guarantees of objectivity, expansion of participation of political parties in the electoral process as well as the activities of the news media during election campaigns.

A number of changes in the election legislation are aimed at raising responsibilities of candidates for elected offices. The law obligates candidates, and their spouses, to provide declarations on revenues and property before registration. Tax authorities then have the responsibility to set and verify the order and form of declaration and the correctness of data on revenues and property presented by the candidates.

The recognition of the results of the election as valid by all interested parties comprehensively promotes stability and harmony in a society. To ensure the election in Kazakhstan is honest, transparent and fair, the President signed a Decree on Realizing Voting Rights of the Citizens of Kazakhstan on October 9, 2005.

The Central Election Commission is taking all the necessary measures to hold the election campaign within the framework of Kazakhstan's election legislation meeting the OSCE standards.

Luncheon Presentations

Dr. Karim Massimov, Assistant to the President of Kazakhstan

Central Asia has become a strategic focus for the international community for both economic and political reasons. The countries in the region are rich in resources, and, at the same time, it has been a setting for political developments and upheavals that are a matter of concern for the major international powers, such as the United States, Russia and China. It has also been a testing bed for the various paths that democracy can take, as indicated by events in Kyrgyzstan, Uzbekistan and Azerbaijan.

Kazakhstan has to take a leading role in Central Asia. Not only does it have a strong economic backbone, but it is also furthest on the path towards political and social modernization that is expected of an emerging democracy. The international community also has specific expectations of Kazakhstan that are stricter and more exacting than for any other country in the region.

Kazakhstan is taking very seriously its role in addressing major concerns of the international community in the areas of international energy security, the fight against terrorism and religious extremism and development of a democratic society.

Under the leadership of President Nursultan Nazarbayev, the Kazakh government has pursued a balanced course of development, establishing a burgeoning market economy, consistently improving the standard of living in the country and modernizing its political system. It is becoming a state with a Western-style democratic system of government that incorporates the experience of the rest of the world, but in particular that of the advanced Asian democracies.

Kazakhstan has vast economic and natural resources and substantial “human” capital, and occupies the leading position among the Commonwealth of Independent States countries in respect of economic development, growth and productivity. The economic progress of Kazakhstan to date has been predicated on the abundant energy resources of the country. Being aware of the inevitable pitfalls of oil dependency, President Nazarbayev has directed the government towards developing a strategy to diversify the economy, and in particular to strengthen the non-oil sector.

Another element of the future economic development of Kazakhstan is the establishment of preconditions to encourage the rise of medium and small-sized businesses in the country, as a critical factor for the nurturing of an internal market and the establishing of a middle class in Kazakhstan.

Last, but not least, Kazakhstan is looking forward to a much greater integration in the global economy. The foremost step in that strategy is the accession to the WTO, which is a major imperative for the government, and we are well on the way of achieving it.

The foreign policy of Kazakhstan has always been open and cooperative. That is why Kazakhstan is engaged in active dialog with all its neighbors, as well as with the international community and its major players, such as the U.S., Russia, China and the European Community countries.

The wide-ranging democratic reforms envisaged by President Nazarbayev are aiming to address the issues of democratic rights and freedoms, as well as matters of government efficiency and the cutting of red tape, which hinder the progress of government reform. Most importantly, these reforms will not be entered into blindly, but on the basis of broad public debate and analysis of the goals that they aim to achieve, and the way in which these goals may be reached.

Most importantly, President Nazarbayev has put forward the proposal for the implementation of a National Program of Democratic Reforms. Among others, the Program targets the division of authority between central and local agencies of the executive branch and institutions of local self-government; expanding the jurisdiction and oversight authority of the Parliament in the formation of the government; strengthening the role and functions of all political parties; development of non-governmental organizations in line with the universally accepted democratic norms; combating corruption; establishing formal guarantees for the freedom of speech of Kazakhstan's citizens, and perfecting the current system of protection of citizens' rights and freedoms.

The government of Kazakhstan is fully aware of the heavy responsibility it faces, and is determined to tackle the challenges in a manner that conforms with the goals that President Nazarbayev has set out for the country – to ensure the sustained build-up of democratic values that can serve as an example to the region and the emerging democracies throughout the world.

E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs

Our nation's foreign policy and economic/commercial interests are intricately tied together. U.S. businesses have and continue to demonstrate a commitment to expanding investment in, and trade with, our friends and allies around the world. In doing so, the U.S. business community has played a key role in sustaining long-term growth in the global economy, creating jobs and improving the standard of living of nations around the world. Domestically, increased exports and foreign investments have led to the creation of new businesses, good jobs for American workers, and better choices for U.S. consumers.

Kazakhstan's economic and political well being is of interest to the United States. Kazakhstan is an important example of hope and economic prosperity to its neighbors. Since its independence, Kazakhstan has set examples in this region with bold economic reforms that have attracted investment, created jobs, and established a vibrant banking system. The Government of Kazakhstan has also made wise choices to begin diversifying its economy and ensuring that its vast oil wealth can become a source for social mobility, not social stagnation.

To this end, Kazakhstan has taken commendable steps in implementing market reforms, particularly in terms of privatization and liberalization of financial markets. Such efforts enable it to play a special role in demonstrating that economic, and for that matter democratic, reforms are a way of mitigating sources of conflict and instability by creating the foundations of prosperity.

Central Asia has a long history of hosting some of the world's richest trading centers and trading routes. Today, regional economic trade can once again be a powerful engine of economic growth and opportunity. The United States is committed to high-level engagement with Kazakhstan and with its neighbors to stimulate cross-border trade and investment in energy, transportation, agriculture, and other sectors.

The State Department's economic team works closely with other U.S. economic agencies to partner with our counterparts in the Kazakhstani government to bolster trade and investment and to promote growth. The Central Asia Trade and Investment Framework Agreement, or TIFA, which we signed with the five Central Asian states in 2004, offers promise as a vehicle for removing trade and investment barriers in the region and accelerating economic integration. We held constructive consultations under the TIFA in May 2005, and look forward to further work in this area.

As we work toward reform it is essential that Kazakhstan's actions meet their commitments. I'd like to take a moment to urge Kazakhstan to honor its obligations under our Bilateral Investment Treaty or BIT. This includes promptly paying international arbitration awards. In one such case an American insurance company won an \$8 million award arising from an expropriation but after almost two years it still has not received payment. After several consultations between our governments, Secretary Rice raised this case with President Nazarbayev and the Government of Kazakhstan promised to pay the award. Although we are encouraged by this progress we also know that Kazakhstan can do better. Additionally, Kazakhstan must do a great deal more to fight corruption, which is simply a tax on the poor.

Despite some challenges, the U.S. remains the largest foreign investor in Kazakhstan, with FDI of nearly \$9 billion. Chevron's and ExxonMobil's investments in the Tengiz oil field are the largest; AES Corporation and Phillip Morris are also big investors in Kazakhstan. Kazakhstan purchased \$320 million worth of U.S. goods and services last year, and shipped \$540 million worth of exports, largely energy-related, to the United States.

We support Kazakhstan's accession to the World Trade Organization and want to work with Kazakhstan to strengthen its protection of intellectual property and create a modern and open economy that offers a level playing field for foreign goods and services and a dynamic environment for innovation.

Given the scope of the energy challenge we face both today and in the years ahead, Kazakhstan has the potential to play a critical role in addressing the world's energy needs. The US Energy Information Administration forecasts that the world is likely to consume over 120 million barrels per day of oil in 2025, an increase of about 50% from today's global consumption of 80-85 million barrels per day.

The challenge for Kazakhstan is whether it can continue to build on both momentum and resources to realize its potential as one of the world's elite energy suppliers. Given Kazakhstan's reserves, there are two major variables that will determine the pace and extent of Kazakhstan's growing role in the global oil equation over the decades ahead.

First, is developing and expanding transit options for its energy reserves. The second, also critical, is the climate for investment in both production and transit capacity. With an aggressive and flexible approach to expanding new and existing pipeline capacity and adherence to a predictable and reliable investment regime, Kazakhstan will increase production dramatically, and both Kazakhstan and the global economy will benefit.

I would like to add one strong note of caution. High oil prices can reduce the incentive for governments in major oil exporting nations to continue with economic reforms and liberal investment regimes that promote the efficient development of natural resources. However, it is precisely with the boost of added income that governments should move boldly with economic reforms as well as domestic investment in infrastructure. Energy producers need to avoid backtracking on reforms and be sure to maintain a central role for private investment, which fosters efficiency and increases benefits available to the general population.