

Highlights

On September 24 Kazakhstan changed its government for the second time this year. Former prime minister Karim Masimov resigned from his post to lead the presidential administration, a body that determines major directions for the entire country. He succeeded Aslan Musin who was transferred to the accounts committee. The new prime minister Serik Akhmetov is an experienced manager with substantial political experience. Akhmetov's cabinet remained the same except for the much-criticized minister of labour and social protection Gulshara Abdikalikova who was replaced by Serik Abenov. Political reshuffling will not change President Nazarbayev's course of reforms, but allowed him to rotate officials and balance their respective powers. For example, Masimov gained substantial political resources but lost access to economic resources, which were transferred to Serik Akhmetov, who is now also a chairman of the sovereign wealth fund Samruk-Kazyna. The rotation allowed Nazarbayev to exhibit his complete control over politics in Kazakhstan and introduce a new system of power balance.

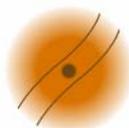
Internal affairs

Big corruption scandal involving several high-ranking officials in western Kazakhstan dominated the political scene in September and October 2012. Former governor of Atyrau region Bergei Ryskaliyev was investigated on multiple counts of bid rigging and embezzling public funds.

The corruption scandal unravelled with President Nazarbayev's working visit to Atyrau region on 16 August, during which Bergei Ryskaliyev was dismissed as regional governor for 'health reasons'. Although as governor he had been highly praised for quadrupling regional budget size to over \$1 billion (KZT174 billion) in 2012, by 22 September the financial police had sanctioned the arrest of the former governor, he and his associates being the subject of 13 investigations in relation with the embezzlement of over

\$100 million (KZT16 billion). The scale of corruption was appalling: on 3 October alone, the financial police discovered that over \$1 million (KZT176 million) had been stolen during the gasification process of Kurmangazy District and \$51 million (KZT7.7 billion) was stolen during construction of two bridges across the Ural River. 208 items of property worth \$140 million (KZT21 billion) were returned to the state, among which 45 land plots, 50 facilities of various types and 10 vehicles. By 23 October, the list of damages had increased to \$200 million (KZT30 billion) and 298 property items had been attached. Associates in these criminal activities included the ex-governor's brother and a former municipal member of Ak Zhol party, Amanzhan Ryskali, charged with bid rigging and embezzling nine apartments from the regional budget worth \$1.3 million (KZT200 billion), and Ryskaliyev's son-in-law Rustem Al'bakasov who is incriminated in the embezzlement of over \$2.3 million (KZT343 billion). Although eight people have been arrested, seven people are still on the wanted list, including Ryskaliyev's brothers, his son-in-law and close associatesⁱ who most probably fled the country.

This scandal attests both to the scale of corruption in Kazakhstan and the incapacity of law-enforcement bodies to punish high-ranking officials, in which respect the financial police distrust their own employees and have sent additional teams of experts to check the validity of the initial claims and to investigate further potential fraud in the oil and gas sector.ⁱⁱ Meanwhile, Ryskaliyev's brothers, who have transferred their entire families abroad, were seen in Zuma, a posh Japanese restaurant in London.ⁱⁱⁱ



Foreign and international policy

President Nazarbayev and President Putin met twice in the past two months to mark the 20th anniversary of the Agreement on Friendship, Cooperation and Mutual Assistance, as well as to resolve outstanding differences regarding the Customs Union, energy sector and space exploration research.

The first visit took place on 19 September with President Putin visiting Pavlodar for the Russia-Kazakhstan interregional cooperation forum, which attracted much attention from business partners on both sides of the border with over 600 participants. Nazarbayev noted that in 2011 the volume of bilateral trade between Russia and Kazakhstan came to \$23 billion with 76 out of 83 regions in the Russian Federation involved.^{iv} Twelve documents were signed during the forum fostering cooperation in the areas of environment, natural disasters and car manufacturing. 'Innovation Cooperation' was chosen as the motto of the Forum. Linked by similar sets of vulnerabilities, the governments of the oil-dependent economies of Russia and Kazakhstan looked for ways to diversify the structure of their economies away from hydrocarbons without upsetting the pace of economic growth. In order to escape this dilemma, the two leaders expressed their desire to develop scientific, technological and infrastructure projects involving small and medium-sized business across the border.^v In this spirit Nazarbayev proposed turning Baikonur, a space launching pad that is currently rented by Russia until 2050, into an international innovation brand by creating the Baikonur Innovation Fund to support research projects outside Baikonur city and open laboratories in Astana.^{vi}

The second visit took place on 9 October when President Nazarbayev accepted a personal invitation from Putin to visit Moscow to celebrate his birthday.^{vii} However, despite warm personal relations between the two leaders, several problems in the sphere of bilateral relations remain unsolved. The first concerns the trans-boundary rivers cutting Central Asian states into upstream Kyrgyzstan and Tajikistan and downstream Kazakhstan, Uzbekistan and Turkmenistan, with downstream countries reaping the most benefits from agriculture. In an effort to balance economic benefits upstream countries are engaged in constructing hydroelectric dams to become self-sufficient in energy. However, Uzbekistan has threatened to start military action if both projects

proceed.^{viii} In this regard, Putin made several visits to Central Asian countries in September and October signing agreements with Kyrgyzstan on the joint construction and exploitation of Kambar-ata and Verkhne-Naryn hydropower plants,^{ix} while proposing that downstream countries become investors in dams in order to have an influence over water management in the future. Upstream countries have been wary of Russian participation since in exchange for economic help in resolving energy issues, the Russian government wants to strengthen military relations. Kazakhstan's position in this conflict was carefully tailored to emphasize brotherly spirit and the importance of water for millions of people in the region.^x Putin's visit did not elicit a change in Kazakhstan's official position.

The second issue that remains unresolved is the question of Baikonur. Baikonur, a space-launching pad in Kazakhstan costs Russia \$165 million a year.^{xi} As Kazakhstan presses Russia to allow access to space research and training of its local cosmonauts, Russian space agency RosKosmos is trying to find alternative ways of preserving sole ownership of space research and operations at Baikonur. Specifically, Russia altered its desire to test Angara rockets (it currently uses Proton rockets with highly toxic fuel components) at Baikonur and scheduled testing at Plesetsk, an alternative space launching pad located on Russian Federation territory.^{xii} Although both presidents addressed the issue during their visits, there is no indication that the problem of space cooperation has been solved.

The last issue remaining on the agenda concerns the implementation of Customs Union agreements and the establishment of the Common Economic Space between three countries, Kazakhstan, Belarus and Russia. Although major agreements on tariffs have been signed and ratified, the governments of Kazakhstan and Russia cannot agree on the distribution of tariffs for the transportation of hydrocarbon resources.^{xiii} Kazakhstan buys around 7 million tons of crude oil from Russia for an oil refinery located in Pavlodar, of which 4.7 million tons are refined to produce gasoline for local consumption. Kazakhstan sells the rest of its tariff-free oil to China. Although Kazakhstani sales of Russian crude oil to China are legal within the framework of the Customs Union, the Russian



government loses around \$1 billion a year from the potential tax.^{xiv} Russian parliamentarians were dismayed about Kazakhstani actions and prompted Putin to investigate the issue. Possible compensation mechanisms might include Kazakhstan shipping extra oil from Kashagan field to Russia or transferring export duty payment to Russia from Kazakhstani products.^{xv}

Whatever scheme emerges, both leaders must negotiate balanced solutions.

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ⁱ Atyrau Department for Economic and Corruption Crimes (2012), 'Wanted by FinPol', *West Kazakhstan Today*, Atyrau, 22 October 2012, available at <http://azh.kz/en/news/view/298>, accessed on October 30, 2012.

ⁱⁱ Murat Sultangaliyev (2012), 'FinPol Sends Another Audit Team to Atyrau', *West Kazakhstan Today*, 31 October 2012, available at <http://www.azh.kz/en/news/view/363>, accessed on October 31, 2012.

ⁱⁱⁱ Central Asian News Service (2012), 'Ex-Governor of Atyrau Region Bergey Ryskaliev are Spotted in London', 5 October 2012, available at <http://newen.ca-news.org/news:516857/>, accessed on October 30, 2012.

^{iv} Sergey Blagov (2012), 'Increased Trade Between Russia and Kazakhstan Slow to Materialize', *Eurasian Daily Monitor*, 9(175), Washington DC: Jamestown Foundation, 28 September 2012, available at: [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[swords\]=8fd5893941d69d0be3f378576261ae3e&tx_ttnews\[any_of_the_words\]=SCO&tx_ttnews\[tt_news\]=39886&tx_ttnews\[backPid\]=7&cHash=8399c71b58980cdfc34ae6d4f9d5b998](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[swords]=8fd5893941d69d0be3f378576261ae3e&tx_ttnews[any_of_the_words]=SCO&tx_ttnews[tt_news]=39886&tx_ttnews[backPid]=7&cHash=8399c71b58980cdfc34ae6d4f9d5b998), accessed on October 30, 2012.

^v Official Website of Russian President (2012), 'IX Russia-Kazakhstan Interregional Cooperation Forum', 19 September 2012, available at <http://eng.kremlin.ru/news/4423#sel=9:1,11:44>, accessed on October 30, 2012.

^{vi} TengriNews (2012), 'President Nazarbayev Suggests Launching a Baikonur Innovation Fund in Partnership with Russia', 19 September 2012, available at http://en.tengrinews.kz/industry_infrastructure/President-Nazarbayev-suggests-launching-Baikonur-Innovation-Fund-in-partnership-13090/, accessed on October 30, 2012.

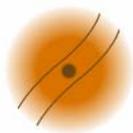
^{vii} Official Website of Russian President (2012), 'Meeting with President of Kazakhstan Nursultan Nazarbayev', 9 October 2012, available at <http://eng.kremlin.ru/news/4501>, accessed on October 30, 2012.

^{viii} Joanna Lillis (2012), 'Uzbekistan Leader Warns of Water Wars in Central Asia', *Eurasianet.org*, 7 September 2012, available at <http://www.eurasianet.org/node/65877>, accessed on October 30, 2012.

^{ix} Elmurad Kasym (2012), 'Russia's Putin Eyeing Military Dominance in Central Asia amid Water Quarrels', *Registan*,

^x Official Website of the President of the Republic of Kazakhstan (2012), 'Following the Talks President Nursultan Nazarbayev and President of the Republic of Uzbekistan Islam Karimov Make Joint Press Statements', *Akorda*, 7 September 2012, available at http://www.akorda.kz/en/page/page_following-the-talks-president-nursultan-nazarbayev-and-president-of-the-republic-of-uzbekistan-islam-karimov-make-joint-press-statements_1347087709, accessed on October 30, 2012.

^{xi} Georgiy Voloshin (2012), 'Farewell to Baikonur? Russia Confirms Intension to Move Away from Space Cooperation with Kazakhstan', *Eurasian Daily Monitor* # 9 (194), Washington DC: Jamestown Foundation, October 24, 2012,



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[http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=40015&tx_ttnews\[backPid\]=381&cHash=d5c99b5ada69eb197b01e168ba09ae43](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=40015&tx_ttnews[backPid]=381&cHash=d5c99b5ada69eb197b01e168ba09ae43), accessed on October 30, 2012.

^{xii} Georgiy Voloshin (2012), 'Farewell to Baikonur?...

^{xiii} TengriNews (2012), 'Russia against Oil Supplies to China Across Kazakhstan at Current Export Duty Rate', 8 October 2012, available at <http://en.tengrinews.kz/markets/Russia-against-oil-supplies-to-China-across-Kazakhstan-at-current-export-duty-13556/>, accessed on October 30, 2012.

^{xiv} TengriNews (2012), 'Russia...

^{xv} Matthew Sagers (2012), 'Eurasian Customs Union: Implications for Oil and Gas', KIOGE-2012, Astana: CERA, 2 October 2012, available at kazenergy.com/images/stories/VII_forum/matthew_sagers.ppt, accessed on October 30, 2012.