

Highlights

In November 2012 US company ConocoPhillips announced that it wished to sell an 8.4% stake in Kashagan oil project in Kazakhstan to India's Oil and Natural Gas Corporation (ONGC) for \$5 billion.¹ Although India badly needs access to energy reserves since it imports up to 80% of its oil,² two major hurdles must be cleared. First, Kashagan Consortium partners have right of first refusal, which means that the existing partners may want to buy the stake themselves before ushering in a new member. Kazakhstan's national oil company KazMunayGas has already expressed its interest in increasing its share in the project from 16.8% to 25.2%.³ Other partners including ExxonMobil, ENI, Royal Dutch Shell, Total and Inpex Corporation may also be interested in acquiring the stake. As the first oil extraction date approaches (presumably in March 2013), Kashagan partners may disregard previous cost-overruns and disputes with the authorities

over taxes⁴ and invest more money in increasing their stakes. Consortium members have sixty days to announce their decisions. If none of the partners decide to buy ConocoPhillips' share, then ONGC will have to wait another six months for approval of the transaction by the Kazakhstani government. India's presence in Kazakhstan's energy sector will counterbalance the growing importance of China. According to *Forbes*, China will control more than 40% of oil extracted on the territory of Kazakhstan by the end of 2013, equal to 30 million tons.⁵

Internal affairs

On 14 December President Nazarbayev announced a new development strategy.⁶ The previous Kazakhstan-2030 strategy launched in 1997 was proclaimed obsolete since Kazakhstan has already met its priorities ahead of time, having attracted over \$160 billion in foreign investments, joined the top 50 most economically competitive nations of the world, and completed an industrialization programme

¹ Nidhi Verma (2012), 'Conoco's Kashagan Partners Have Two Months to Pre-empt Stake Sale', New Delhi: *Reuters*, 27 November 2012, available at <http://www.reuters.com/article/2012/11/27/us-conocophillips-assetsale-idUSBRE8AP0IJ20121127>, accessed on 3 January 2013.

² Verma (2012)

³ Robert Paxton (2012), 'Kazakhstan Sets Eyes on ConocoPhillips Kashagan Stake', Astana: *Reuters*, 2 October 2012, available at <http://www.reuters.com/article/2012/10/02/us-oil-kazakhstan-kashagan-idUSBRE89104J20121002>, accessed on 3 January 2013.

⁴ Nathan Reich (2010), 'The 2008 Renegotiation of Kazakhstan's Kashagan PSA Field and the Events That Led to It', *International Association for Energy Economics*, available at <https://www.iaee.org/pt/publications/newsletterdl.aspx?id=106>, accessed on 3 January 2013.

⁵ *Forbes.kz* (2013), 'China Will Control Kazakhstani Oil', issued on 8 January 2013, available at <http://news.mail.ru/inworld/kazakhstan/economics/11526887/>, accessed on 10 January 2013.

⁶ *Kazakh World* (2013), 'Nazarbayev's Major Speech on KZ's Development through 2050', available at <http://kazakhworld.com/category/president-nazarbayev/>, accessed on 3 January 2013.



worth \$12 billion (KZT1.8 trillion).⁷ It is hard to say whether these achievements can be ascribed to the strategy, but it is important to analyse its provisions because they will shape mid-term priorities and will be replicated in all state policies for years to come.

The new three-part programme outlines seven major priorities up to 2050. Since the programme introduces important innovations in terms of each priority, it is worth analysing them. First, it charts economic policy based on pragmatism, profitability, return on investment and competitiveness.⁸ Second, it points to the importance of entrepreneurship. Third, new principles of social policy are drafted. Fourth, development of knowledge and professional skills is deemed to be another vital goal. Fifth, the programme continues to highlight the development of democracy in the years to come. Sixth, it prioritizes foreign policy based on national interest promoting global and regional security. Lastly, the programme calls for increased patriotism based on a multi-ethnic society.

The first priority -economic pragmatism- encompasses several crucial innovations. Specifically, the President proposes a state to manage Kazakhstan as a corporation with the National Fund at the helm of economic policy.⁹ In order to achieve this

goal, the programme provides for a “revision of all existing tax preferences”¹⁰ to make the economy more efficient and socially oriented. This innovation might have a negative impact on mining and energy extracting industries, which frequently use preferential treatment in their production-sharing agreements. In exchange, investors will be able to develop new deposits as the government lifts a ban on the moratorium of mining licenses¹¹ introduced in 2008.¹² In addition, the social orientation of the economy will be achieved by introducing tax exemptions for people and employees who spend their money on education and insurance. Social stability will be guaranteed by stimulating the development of non-mining industries that produce alternative sources of energy, expected to account for half the country’s energy consumption by 2050.¹³ Besides alternative sources of energy, the government wants to enhance Kazakhstan’s energy security by creating strategic energy reserves.¹⁴

The second priority consists of developing entrepreneurship. The revision of taxes will directly affect small and medium-sized firms, for which the government will introduce a ranging scale of taxes depending on the size of the firm. The government will begin to implement this plan by specifying descriptions of the requirements for micro, small, medium or large-sized businesses.¹⁵ The new scale of taxes will be complemented with the abolition of almost all government licenses and permits, so long as the security of Kazakhstani citizens is guaranteed. Entrepreneurs will also have more opportunities

⁷ Nursultan Nazarbayev (2012), ‘Address by the President of the Republic of Kazakhstan, Leader of the Nation, Nazarbayev “Strategy Kazakhstan-2050”: new political course of the established state’, available at <http://bit.ly/10RLmQA>, accessed on 3 January 2013.

⁸ This and all other priorities come from Nursultan Nazarbayev (2012), ‘Strategy Kazakhstan-2050: New Political Course of the Established State’, available at <http://bit.ly/11Ri2LB>, accessed on 3 January 2013

⁹ Nazarbayev (2012)

¹⁰ Nazarbayev (2012)

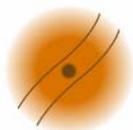
¹¹ Nazarbayev (2012)

¹² Robin Paxton (2012), ‘Kazakh Leader Calls an End to Mineral License Ban’, Reuters, 28 November, available at <http://www.reuters.com/article/2012/11/28/kazakhstan-minerals-idUSL5E8MS0VF20121128>, accessed on 3 January 2013.

¹³ Nazarbayev (2012)

¹⁴ Nazarbayev (2012)

¹⁵ Nazarbayev (2012)



to do business as the government transfers non-strategic enterprises and services to the private sector.

The third priority deals with social policy. The government proposes revising minimum salaries and living costs across the country.¹⁶ The previous method was not a factor in inflation indicators. Another important problem highlighted in the programme is single-industry towns. Today, Kazakhstan has around 20 towns that suffer from unemployment from previously closed enterprises and/or poor working conditions and low salaries from a single enterprise that employs the majority of people. Most of these cities are mining towns, like Zhanaozen where a six-month labour protest ended with 16 people dead (see previous briefs). Revision of social policy is timely, otherwise, Kazakhstan will continue to face strikes and protests from an increasingly dissatisfied labour force.

The fourth priority deals with the education and professionalism of the labour force. The president proposes boosting distance-learning schemes and online education systems to meet the requirement of working people.¹⁷ He also suggested developing a multi-layered system of educational grants. The government has already adopted a law on educational having funds that will allow citizens to save money with a 5–7% premium.¹⁸

The fifth priority deals with democracy. The programme vests democratization process in a 'new type of public management' that forces officials to take more responsibility for developing action plans and programmes.¹⁹ In practice this means that regional authorities will have an expanded list of functions and 2,533 rural governors will be elected by local councils in 2013.²⁰ In addition, a national personnel policy commission will select A-class professional managers who will be responsible for special policy areas and accountable for long-term results and negative side effects of management decisions.²¹

The sixth priority aims to foster foreign policy and especially economic and trade diplomacy. The programme calls for further integration in the Customs Union with Russia and Belarus as well as a desire to establish a Eurasian Economic Union.²²

The seventh priority sets out a description of New Kazakhstan Patriotism, based on pride in Kazakhstan's achievements; specifically, principles of the equality of all ethnic groups and social harmony. In practice this goal reveals a plan to convert the Kazakh language back to the Latin script and the goal of 95% of citizens acquiring Kazakh language skills by 2025.²³ The President paid considerable attention to growing Islamic fundamentalism, questioning the validity of headscarves and religious traditions. "Do we need our mothers, sisters and daughters to wear the clothes of foreign nationals?" he asked.²⁴ Secular traditions based on tolerance and equality of all citizens of Kazakhstan represent

¹⁶ Nazarbayev (2012)

¹⁷ Nazarbayev (2012)

¹⁸ TengriNews.kz (2012), 'Majlis Approved the Law on State Educational Savings System', Tengri News, November 14, 2012, available at <http://bit.ly/QG6cf9>, accessed on 4 January 2013.

¹⁹ Nazarbayev (2012)

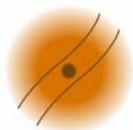
²⁰ Nazarbayev (2012)

²¹ Nazarbayev (2012)

²² Nazarbayev (2012)

²³ Nazarbayev (2012)

²⁴ Nazarbayev (2012)



the pillars of the national programme for the 21st century.

The upcoming reforms have the potential to radically alter the economic and political sphere of the republic of Kazakhstan. Redistribution of economic resources among a wider population coupled with strong support of vulnerable people and elections of regional governors represents a significant shift of ideas away from blind support of market autonomy, efficiency and competition to a more balanced and socially-attentive mode of governance.

Economy and business enterprise

BTA Bank completed a debt-restructuring process on 24 December 2012. After multiple disputes with investors, the creditors committee managed to lower the debt from \$11.1 billion to \$3.3 billion.²⁵ The bank has restored its solvency with a \$1.46 billion capital base and \$750 million of the external debt maturing in 2022.²⁶ The bank also has a trade credit line of \$348 million that will be restructured in the next three years. The Samruk-Kazyna national welfare fund is the bank's primary beneficiary, with 97.3% of shares after the restructuring.²⁷ A successful restructuring process saved BTA and Kazakhstan's entire banking system from disaster. By November 2012, 86% of loans were non-performing leading to losses of approximately \$1 billion (KZT1.411

trillion) from January-October 2012, with only \$1 (KZT1.429 trillion) of assets to cover its debt.²⁸ The next troubled bank is Alliance Bank. However, instead of debt restructuring, its main shareholder Samruk-Kazyna may prefer to merge it with Temir Bank.²⁹ Kazakhstan's banking sector remains vulnerable as banks are overloaded with non-performing loans from corporate and construction sectors.³⁰

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²⁵ *Kapital.kz* (2012), 'BTA's Debt Reduction is Confirmed by Almaty Financial Court', *Finance News*, 29 December 2012, available at <http://kapital.kz/finance/9959/sokracshenie-dolga-bta-utverzhdno-v-finsude-almaty.html>, accessed on 5 January 2013.

²⁶ *Kapital.kz* (2012), 'BTA's Debt Decreased by 70%', *Finance News*, 27 December 2012, available at <http://kapital.kz/finance/9911/dolg-bta-banka-sokracshen-na-70.html>, accessed on 5 January 2013.

²⁷ *Kapital.kz* (2012), 'BTA's Debt Decreased by 70%'

²⁸ *Kapital.kz* (2012), 'Almaty Court Approved Restructuring Plan of BTA Court', *Finance News*, 14 December 2012, available at <http://kapital.kz/finance/9702/sud-almaty-utverdil-plan-restrukturizacii-bta-banka.html>, accessed on 5 January 2013.

²⁹ Dinara Kuvatova (2012), 'A Version of Merger Between Alliance Bank and Temirbank is not Discounted', *Finance News*, 27 December 2012, available at <http://kapital.kz/finance/9910/variant-sliyaniya-alyans-banka-i-temirbanka-ne-isklyuchen.html>, accessed on 5 January 2013.

³⁰ Anna Vidyaynova (2012), 'There Will be No Immediate Effect After the BTA Restructuring', *Finance News*, 12 December 2012, available at <http://kapital.kz/finance/9615/effekt-ot-restrukturizacii-bta-budet-viden-ne-srazu.html>, accessed on 5 January 2013.

