

Kazakhstan Benefits From Russia's Misfortune

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On Nov. 11, Kazakh President Nursultan Nazarbayev unexpectedly delivered a major speech to his people in which he unveiled a "new economic policy" that he dubbed "The Pathway to the Future." Even the name itself is ambitious — a direct reference to the famous NEP that Vladimir Lenin proclaimed in the early 1920s. Nazarbayev introduced his NEP as a response to the cyclical downturn in the global economy, the drop in oil prices, Russia's conflict with the West and the economic sanctions against Russia.

Kazakhstan finds itself in a fundamentally new situation this year. On one hand, it is closely linked to Russia's economy, and that country's recession and the sanctions against it have a negative impact on the Kazakh economy. The falling price of oil, Kazakhstan's chief export, also inhibits the country's economic growth.

On the other hand, new prospects are opening up for Kazakhstan. It is not involved in the struggle of sanctions and counter-sanctions, it has full access to the Russian market as a member of both the Eurasian Economic Community and the Customs Union and has

excellent relations with everyone.

Kazakhstan maintains its previous goal of becoming one of the 30 most economically developed countries by 2015. That is no pipe dream. Kazakhstan's gross domestic product will grow by 4.6 percent this year, and it grew by 5 percent in 2013, 5.1 percent in 2012 and 7.5 percent in 2011. An increase of 4.8 percent is expected for next year. Kazakhstan has the same per capita GDP as Russia, as well as low unemployment, little foreign debt, a balanced budget and significant foreign currency reserves.

Kazakhstan is developing within the highly advantageous framework of the Customs Union and Eurasian Economic Community, and is preparing to become a member of the World Trade Organization in the near future.

Kazakhstan has attracted more foreign direct investment per capita than any other country in the Commonwealth of Independent States, including almost twice more than Russia and four times more than Ukraine. The World Bank's authoritative "Doing Business" report, which evaluates business conditions in each country, ranked Kazakhstan in 50th place, Belarus in 63rd and Russia in 92nd this year. And ever since 2005, Kazakhstan has outpaced Belarus and Russia for the speed at which its business environment has improved.

According to surveys of businesspeople, Russia places first in the CIS as an attractive country for investment, while Kazakhstan placed a strong second. But all these surveys were conducted prior to the start of the Ukraine crisis and the imposition of sanctions. This year's events have undoubtedly shifted those positions — and not in Russia's favor.

Kazakhstan is attractive to investors for three main reasons: its macroeconomic stability, political and social stability and low taxes. Those factors take on added importance against the backdrop of Russia's increasing turbulence. Kazakhstan also has weak areas: its transport and logistics infrastructure, its lack of openness in all aspects of trade policy, corruption, bureaucracy and inflexible labor laws. Nazarbayev's economic plan sets out to energetically correct those shortcomings starting in January 2015.

Nazarbayev announced his decision to open access to Kazakhstan's National Reserve Fund and allocate an additional \$3 billion annually for priority projects, especially in infrastructure such as highways, airports, seaports and housing and public utilities. Asian and European banks will help provide outlays totaling \$25 billion on roadworks alone over the next three years. Kazakhstan seeks to position itself as a key transit center in Eurasia.

Kazakhstan plans to drastically improve or rebuild its national infrastructure in just a few years. This includes a network of modern highways, power lines, ports and ferry services in the Caspian Sea, a transport hub on the border with China and municipal infrastructure for the country's rapidly growing urban agglomerations.

In addition to infrastructure, Kazakhstan wants to eliminate its shortage of human capital and professional expertise. The country will allocate additional funds to build new schools and kindergartens and to speed up the development of 10 key universities. And unlike Russia, Kazakhstan does not sink an increasing amount of money into its military and siloviki law enforcement structures, focusing instead on economic and social development. Kazakhstan devotes only 1.2 percent of its GDP to military spending, as compared with more than 4

percent in Russia.

Kazakhstan's dynamic development and Nazarbayev's ambitious economic program intensify the growing competition between that country and its partners Russia and Belarus. There is not only economic competition, but a competition between different models of state, national economy and society.

All three countries are authoritarian states. Nazarbayev has ruled Kazakhstan for 25 years, Belarussian President Alexander Lukashenko for 20 years, and President Vladimir Putin for 15.

At the same time, each has a different economic model. Russia is an example of classic state capitalism, with its huge monopolies growing fat on raw material exports and profiting from such basic industrial products as metals and chemicals. The Belarussian economy survives by selling mid-level engineering products on the Russian market and coasting along on Russian loans and non-repayable subsidies. Kazakhstan bases its economy on raw material exports and by developing its agricultural sector, actively attracting foreign investment in all economic sectors and developing its potential as a transit center.

Kazakhstan and Belarus do not have geopolitical ambitions — unlike Russia — and therefore do not spend enormous resources on such pursuits. Belarus is doing a booming business as a conduit for European foods banned in Russia, deceptively labeling them as Belarussian products. For its part, Kazakhstan actively promotes itself as offering a more attractive business climate than Russia — even while it retains full access to the vast Russian market.

Compounding this contrast, Belarus and Kazakhstan have even become more favorable locations for Russian companies to do business. Russia's business ombudsman Boris Titov warned as much even before the outbreak of the Ukraine crisis. It is significantly less expensive for Russian firms to do business in Kazakhstan, and statistics already show that Russian companies have begun shifting operations to their southern neighbor.

Just as Russia has earned a reputation as the "bad guy" of Eurasia this year, Nazarbayev and Lukashenko have made it equally clear that they are the "good guys" of the post-Soviet space, presenting themselves as predictable and reliable partners. Even while Moscow descends into madness and builds a new Iron Curtain around itself, Kazakhstan and Belarus have pragmatically invited rich merchants from around the world to make themselves at home. In anticipation of company, they have thrown open their doors, set the table and are busy making tempting treats in the kitchen.

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