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**A Situation Report on the Politics, Economics, and
Foreign Policy of Kazakhstan**

by

Professor S. Neil MacFarlane

(March 1994)

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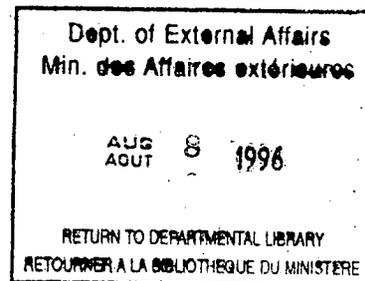
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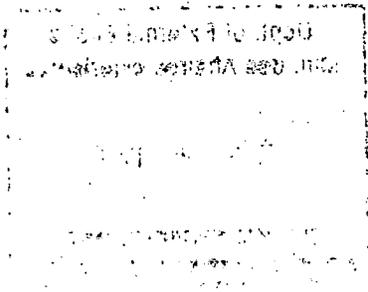
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INTRODUCTION

Kazakhstan, although distant, is of significant interest to Canada in at least six respects. First, it is one of four nuclear successor states of the former Soviet Union. Although, like Ukraine and Belarus, it is slated for denuclearization, it differs from Ukraine in that its approach to the question of nuclear disarmament has been much more co-operative, giving good reason to believe that its prospects for nuclear disarmament are very promising. Successful completion of gradual denuclearization, however, presumes political stability throughout the process, as well as stable continuity of good relations between Russia and Kazakhstan. Increasing influence of more radical Kazakh nationalists might delay, if not halt altogether, the process, as would any significant deterioration in the relationship with Russia.

This brings me to a second point. There is at least some potential for serious tension between Russia and Kazakhstan, particularly given the increasing influence of Russian nationalism. The Russian right has accepted neither the finality of the dissolution of the Russian empire, nor the specific territorial dispensation between Russia and Kazakhstan. The population of Northern Kazakhstan is predominantly Russian. Relations between the Russian population of this area and the government in Almaty are tense. During the Soviet era, the economy of Northern Kazakhstan was closely integrated into that of Western and Central Siberia. The disruption of these linkages has caused significant difficulties for enterprises (and their employees) on both sides of the border.

Likewise, there is some potential for conflict between Kazakhstan and China. The independence of Kazakhstan and the other Central Asian states, and the associated rise of "Turkic self-consciousness" among the indigenous populations of the republics, has important potential ramifications for China, since it may induce a similar politicization of ethnicity among Kazakh, Uighur, and Mongol populations in Xinjiang and Inner Mongolia.

Fourth, the deterioration of the structure of authority and the deepening economic recession have encouraged a return to traditional cultivation of poppies for the production of opium. Kazakhstan and the other Central Asian republics are re-entering the world narcotics market, both as producers in their own right and as conduits for opium originating in Afghanistan.

Fifth, since its independence, Kazakhstan has played an important stabilizing role in the international relations of Central Asia. The broader region is one of considerable economic potential to the West. Moreover, the conflict in Tadzhikistan

displays the close interaction between political process within Central Asia and the stability of neighbouring states with large minorities of Central Asian origin (as in the case of the Uzbeks and Tadzhiks in Afghanistan). Instability or conflict in Kazakhstan would limit that country's capacity to play this stabilizing role in the region as a whole.

Finally, Kazakhstan is extremely attractive in economic terms for Western investment, particularly in the natural resource sector. The Chevron deal with the Kazakh government for the development of the Tengiz oil field by itself dwarfs the combined value of all other joint ventures in the former Soviet Union. Successful conclusion of these negotiations opened the door for a very rapid development of joint venture activity.¹ Kazakhstan — along with the rest of Central Asia — is rich in a number of raw materials in the production and marketing of which Canadian firms are very active.²

Several Canadian firms in the energy and non-ferrous metals sectors (notably Cameco's involvement in Kyrgyzstan and the Canadian gold mining industry's initiatives in Uzbekistan and Kazakhstan³) have already begun investing in production in the region. The extent to which this activity grows is highly dependent on the evolution of political and economic conditions in the region.

ECONOMIC CONDITIONS

The economic situation in Kazakhstan is somewhat contradictory. The resource base of the country is remarkably strong. Kazakhstan possesses substantial reserves of petroleum, natural gas, and non-ferrous minerals (gold, copper, uranium, lead, and zinc).⁴ It also possesses substantial agricultural capacity for grain production in the north (although precipitation is unreliable) and animal husbandry.

¹ An American Embassy official bemoaned the fact that he was assisting one new American firm a week attempting to set up operations in Kazakhstan in an interview with me in Almaty in June 1993.

² In particular, Kazakhstan is a major producer of copper, with 33 per cent (by Soviet estimate) of the former Soviet Union's reserves. It is the third-ranking world producer of uranium, and a major producer of gold. The Kazakh government announced plans at the end of last year to triple the level of gold production by the end of the decade.

³ See David G. Haglund, S. Neil MacFarlane, and Vladimir Popov, *Change in the Former Soviet Union and Its Implications for the Canadian Minerals Sector: The Cases of Copper, Gold, Nickel, and Uranium* (Kingston, Ont.: Centre for Resource Studies, forthcoming 1994).

⁴ Ibid.

That said, the collapse of the Soviet Union and its command economy have had effects here dramatically worse than those associated with marketization in East Central Europe and similar to those experienced elsewhere in the former Soviet Union. National income declined 17.4 per cent, industrial output 16.2 per cent, and trade turnover 40.2 per cent in 1991-2. By 1993, national income had fallen to 1976 levels. Prices grew considerably more quickly than personal incomes in the same period. Inflation in prices exceeded personal income growth by 255 per cent in 1992.⁵

The deterioration continued in 1993, with gross domestic product dropping a further 20-25 per cent, industrial output 20-22 per cent, and retail trade 20 per cent. Overall inflation in 1993 was 142.6 per cent according to sources in Almaty. Between 1991 and mid-1993, investment declined 70 per cent, leading Nursultan Nazarbaev to conclude in a rather understated fashion at the end of 1993 that Kazakhstan had yet to experience any positive economic results from marketization.

The inflation problem worsened towards the end of 1993, when Kazakhstan refused the terms of Russia's proposed ruble zone (see below) and introduced its own currency, the tenge, which rapidly depreciated against the ruble and, *a fortiori*, against the dollar.⁶

The roots of the economic decline lie in the uncompetitive character of much of the Kazakh industrial base, lack of investment funds for modernization, the consequences of declining demand in the defence sector for heavy industrial goods, a tax system that heavily penalizes production as opposed to trading activity, and the rapid erosion of interrepublican trade in the former Soviet Union. The latter interfered with lines of supply of essential inputs while denying many Kazakh enterprises their traditional markets.

Particularly problematic was energy trade. Although, for example, Kazakh trade with Russia in oil and oil products tends to balance out (oil is exported from Western Kazakhstan to Orenburg and imported from the Western Siberian oil basin to refining centres in southeastern Kazakhstan), Russia has manipulated energy deliveries to Kazakhstan for political purposes. Currently, for example, Moscow has halted oil deliveries in order to pressure Kazakhstan into granting the right of dual citizenship to

⁵ Geonomics, *The Russian Economy in 1993: Forecasts and Annual Survey of 1992* (Middlebury, Vt.: Geonomics, 1993), p.39.

⁶ On November 15, a dollar was worth 4.68 tenge officially. The official rate of exchange had declined to 19.94 tenge to the dollar by March 31, 1994. The commercial bank rate of the tenge on November 18, 1993, was 5.5:1. On March 31, 1994, it was 25.5:1.

the Russian minority in the country. Kazakhstan has no means of transporting its own oil from producing areas in the northwest to consuming areas in the southeast.⁷

Finally, in 1993, the Kazakh economy was profoundly disrupted by the country's monetary connection to Russia. The ruble's status as the official currency of Kazakhstan until late in the year meant that Kazakhstan was a captive of Russian monetary policy. They also relied on Russian delivery of new notes to sustain the money supply in the inflationary environment. This tended to be increasingly unreliable over time, as the Russians themselves had trouble keeping up with the demand for notes within the Russian Federation. By mid-1993, many state sector workers in Kazakhstan had not been paid in several months owing to the shortage of currency, causing widespread strikes in the oil and non-ferrous metals sectors.

News of the monetary reform in Russia in July 1993 unleashed a rampage of panic buying in Almaty as people attempted to unload hoarded old notes. The ruble/dollar exchange rate plunged from 1000:1 to 3000:1 before dropping back under 2000 four days after the announcement.⁸ The currency crisis in July fed speculation that Kazakhstan was going to go the way of Kyrgyzstan in issuing its own currency. However, in the autumn, Kazakhstan and Uzbekistan initially agreed to stay in the ruble zone. Both states left the zone in mid-November when it became clear that Russian conditions for membership (and notably, the requirement that member states deposit substantial gold and foreign currency reserves at Russia's Central Bank) were unacceptable.

The immediate consequences of economic distress lie in rapidly increasing unemployment and underemployment. The official rate of unemployment in Kazakhstan in 1993 averaged 1.1 per cent. The real level of unemployment in October 1993 was 2.6 per cent. In January 1994, it had jumped to 9.6 per cent. The latter represents the beginnings of a conversion of hidden to open unemployment, as idle factories finally shed their workers. This is likely to continue and to worsen. In February 1994, it was estimated that 1194 enterprises, with a work force of over 500 000 had completely or partially ceased production and had shifted their workers to part-time status. This was an increase in one month of over 400 enterprises and 150 000 affected workers.

⁷ Kazakhstan has responded to Russian manipulation of energy supplies by building a pipeline from Aktyubinsk to Shymkent. It is due to be completed in July 1994.

⁸ Eric Rudenshield, "Currency is a Tender Issue", *Central Asia White Paper* (Almaty: International Republican Institute, July 1993).

The standard of living of those continuing to work, moreover, has declined drastically. Growing social distress has produced growing strike activity such as that mentioned above in the natural resource sector,⁹ which contributes to the decline in production. Social distress is exacerbated by quite high levels of rural-urban migration, associated largely with the ecological collapse in the Aral Sea area, but also with rapid rates of population growth in the countryside and the limited absorptive capacity of the rural economy.

One obvious consequence of these factors is the rapid rise in the crime rate.¹⁰ Another is the growth of interethnic tensions in the cities. Migrants seeking a place to live see the bulk of apartments in cities like Almaty occupied by Russians and other Europeans. Despite "affirmative action" policies, the public sector retains a strong Slavic presence. It remains a matter of speculation when and how growing privation will spill over into politics.

Before turning to the political situation, it bears mention that the chosen strategy of the government for economic normalization and growth is one of privatization and foreign investment, particularly in the natural resource sector. With regard to the first, Kazakhstan has an ambitious privatization program on the books. As shall be seen below, foreigners have a substantial right to participate in privatization.

Despite this, although significant progress has been made in housing,¹¹ the retail sector and at the level of small enterprises,¹² the pace of privatization of medium and large enterprises has been glacial. It was only at the beginning of 1994 that large scale enterprise privatization was to get under way. Practically all residents of Kazakhstan have by now received vouchers. The first auction occurred on April 29.

⁹ This extended to the military in 1993, with reports of strikes and riots among military personnel at the Baikonur Space Complex. Although living conditions were one cause, the strikes also reflected disillusionment with conscription.

¹⁰ For a good description of the problem, with particular reference to its implications for foreigners, see Sergei Kozlov, "Alma-Ata - Otkrytyi Gorod", *Nezavisimaya Gazeta* (February 16, 1994), p.6. Registered crimes increased between 1991 and 1993 by 15.6 per cent. This probably understates the rise in the crime rate, since many do not see the point of reporting criminal acts.

¹¹ Privatization of the housing stock has essentially been completed.

¹² Since the beginning of the privatization program, approximately 8900 such enterprises have been privatized, slightly over 50 per cent of which through the sale of shares.

Fifty large enterprises were slated for privatization in the first round. By the end of 1995, it is planned that 2500 large enterprises will have been auctioned off.

The delay in large-scale privatization reflected, first, the fact that many of these enterprises were difficult to privatize given their uncompetitive nature. Second, many local authorities have resisted a process that may cause significant disturbance in areas under their jurisdiction, and that runs the risk of creating new centres of economic power at their expense.

Finally, the program of privatization is linked inextricably to the issue of ethnic relations. The bulk of industrial property likely to be affected by privatization is in the northern part of the country in areas populated to a large extent by Slavs. Moreover, the bulk of the workers in modern enterprises throughout the country is also Slavic in origin. It follows that privatization schemes that favour the workers and managers of the enterprise in question (as Kazakh law does) are likely to push a large amount of valuable state property into the hands of the non-Kazakh population. This applies both to industrial enterprises and to agricultural land held in large state farms.¹³ The same is true of urban housing, much of which is occupied by Russians and other minorities. In other words, a strong effort to put privatization plans into effect risked further exacerbation of already strained relations between the titular nationality and other ethnic groups.

With regard to foreign investment, as of the end of 1992, there were 491 joint ventures registered in Kazakhstan (375 more than in 1991).¹⁴ Only 20 were actually in operation, employing 6000 people. Growth of the foreign sector has continued in 1993. The most significant foreign involvement by far has been in the energy sector. In addition to the \$20-billion Chevron deal, a group led by Elf-Aquitaine has obtained exploration rights in the Aktyubinsk Oblast', and a consortium led by British Gas and AGIP has obtained an agreement allowing exploration and development of the Karachanskii oil and gas deposits in Ural'skoi oblast', a project that may ultimately amount to a \$5-billion investment.¹⁵

¹³ As things stand now, there are no plans to privatize agricultural land.

¹⁴ Of this total, 300 are in the area of minerals development. *Far Eastern Economic Review* (February 4, 1993), p.48.

¹⁵ The Karachaganak gas field is one of the largest in the world, possibly containing 20 trillion cubic metres of gas. "The Next Frontier," *Far Eastern Economic Review* (February 4, 1993), p.48.

There has been considerable Western interest in joint venture activity in the minerals sector, though no projects are as yet producing. The closest to production is a joint project between Goldbelt Resources, and Pegasus for the retreatment of mine tailings. A second promising project is that at Bakyrchik, involving Minproc and Chilewich, currently at the financing stage, involving a \$12-15 million investment in mining of refractory ores.

Government infrastructure for foreign investment is more efficiently organized than in Russia, with clearer lines of authority between organizations. Overall policy on foreign involvement in the Kazakh economy is set by the Department of Foreign Economic Ties in the presidential apparatus. The main executive organ within the government for economic ties with other countries is the Ministry of Foreign Economic Relations. In 1992, President Nazarbaev supplemented these structures with a presidential decree forming an international investment agency with a specific mandate to encourage and facilitate foreign direct investment. Foreign involvement in the natural resource sector lies within the purview of the Ministries of Geology and Ecology and Bioresources.

The legal basis for foreign investment in Kazakhstan is composed of the following:

1. the Law on Foreign Investment in Kazakhstan (December 7, 1990);
2. the Law on the Basic Principles of Foreign Economic Activity (December 15, 1990);
3. the June 10, 1991, Law on Investment Activity in Kazakhstan, regulating all investment in the republic, including foreign;
4. the Law on Foreign Exchange Regulation (June 13, 1991);
5. the Law on Concessions (November 23, 1991); and
6. an earlier piece of legislation, the Law on Free Economic Zones (November 30, 1990).

It is supplemented by a number of presidential decrees, including the December 31, 1991, Order on the Preservation of Foreign Economic Activity, and the January 25, 1992, Order on the Organization of Foreign Economic Activity During the Period of Economic Stabilization and Transition to the Market. The second was of particular significance, since it established that all legal persons (independently of the form of

property) had the right to conduct foreign economic activity without special registration, with the exception of the export of some goods of governmental significance (e.g. oil, gas, coal, rolled steel, grain, cotton, and wool). In practice, this means that Western investors must register with the Ministry of Finance and the Ministry of Foreign Economic Relations.

The most significant features of this body of legislation from the point of view of the foreign partner are:

1. Foreign legal persons may engage in joint ventures at any share of ownership, or may operate as fully owned subsidiaries of foreign firms.
2. Foreign legal persons have the same rights and obligations as Kazakh persons, except for areas defined by the laws and international treaties of Kazakhstan (e.g. free economic zone privileges and tax holidays — see below).
3. Foreign investment is permitted in any sphere of economic activity, except for the production of goods of direct military significance.
4. There is a 25 per cent tax on the profits of joint ventures. However, with the exception of the natural resource and fishing industries, joint ventures are exempt from tax on profits for the first two years of profitable production. Joint ventures involved in consumer goods production, agricultural development, biotechnology, electronics, and the copper industry are entitled to a five-year tax holiday and to a 50 per cent reduction in tax in profits for another five years.
5. Nationalization of foreign property is prohibited.

Although this is an impressive and liberal body of legislation, it corresponds only loosely to economic reality. Much has yet to be worked out with regard to the constitutional division of powers between the centre and other levels of government. Projects can be and are blocked or delayed at the national, regional, and local levels. Decision-making authority seems to be distributed informally among office holders, with little indication for outsiders as to who has the power to decide and to make it stick. Formal institutions are paralleled and perhaps eclipsed in significance by informal networks of influence and family and clan ties. The upshot is that while the investment regime on paper is quite liberal, success in the endeavour to arrange joint-venture investment requires considerable patience and persistence to ascertain what the lay of the land really is.

That said, there is an order of sorts, even if largely informal. Here, as elsewhere in Central Asia, the structure of clan and patronage ties inherited from the Soviet era remains intact, unlike in Russia. Once a decision is taken on a particular project, it is generally respected. Moreover, although Kazakhstan, like Russia, faces nationalist pressure directed against foreign involvement in the natural resources sector, the final conclusion of the Tengiz deal and rapid progress since that time in other ventures suggests that this problem is less severe than in Russia.¹⁸

One could summarize the policy side of the economic situation in the following way. The hope is that privatization, growing foreign investment, and the diversification and expansion of trade will eventually provide the motor for economic recovery, while reducing Kazakhstan's economic dependence on Russia. The key political objective is to prevent significant instability during the interval before these factors take hold.

THE POLITICAL ENVIRONMENT

On the surface, Kazakhstan appears quite stable. However, the essentially unreformed political structures over which President Nazarbaev presides face a number of serious problems, in addition to the growing economically based dissatisfaction mentioned above.

i) Ethnic Issues

Currently, the population of the republic is approximately 40 per cent Kazakh, 38 per cent Russian, six per cent German, and five per cent Ukrainian. These proportions are changing, however, as a result of two factors: differential rates of population growth (the Kazakhs well above replacement level and the others at or

¹⁸ That said, to the extent that investment in Kazakhstan depends on infrastructures in other countries, they may be hostage to trends in the foreign relations of Kazakhstan, as well as to the vagaries of decision-making processes in those states. Recently, for example, Chevron announced that it was scaling back its investment plans for Tengiz because of problems in negotiating an agreement with Russia for construction of a new pipeline to the Black Sea at Novorossiisk. *RFE/RL Daily Report*, no. 89 (May 10, 1994).

below it),¹⁷ and emigration (highest among the Germans, with a lesser flow of Russian and Ukrainian emigration).¹⁸

Kazakhstan has been remarkably free of open ethnic conflict since its independence, particularly given the relatively equal proportions of Kazakhs and Russians in the population, the fact that the Kazakhs do not comprise a majority in their own country, and given the territorial concentration of the European population in Northern Kazakhstan along the border with the Russian Federation and in major urban areas of the south.

Nonetheless, there are a number of indications of potentially serious problems. The Kazakh and Russian populations have fundamentally different views of the history of Kazakhstan and their own places in it. Kazakhs view the Russian role in their country's history as a colonial one in which Russian settlers gradually encroached upon the Kazakh steppe, bringing unequal and exploitative political and economic arrangements with them. They blame Russia for genocide against the Kazakhs in 1916 when Kazakhs resisted conscription and again in the 1930s when the nomadic population was forcibly settled and collectivized, a process in which, according to some accounts, 80 per cent of the livestock and up to one half of the Kazakh population perished. Russians, by contrast, take the view that they built the country. When they arrived, there was nothing. Whatever there is now in terms of civilization and economic progress, they built. Now the Kazakhs want to take it from them.

Second, a number of Kazakh nationalist movements (e.g. Alash) call for the expulsion of all Russians from Kazakhstan for the reasons stated above, while some Russians and Cossacks call for the secession of Northern Kazakhstan and its reunification with Russia. Although neither fringe enjoys widespread popular support and the government is extremely careful to control their activities, it is quite possible that with continuing economic hardship, their numbers will grow.

¹⁷ Until the 1989 census, the Kazakhs were the second-largest group in the country, after the Russians.

¹⁸ Migration statistics are generally inconsistent. A recent article in *Le Monde* stated that 500 000 Russians had departed in 1993 alone. Sophie Shihab, "Kazakhstan: un 'autocrate éclairé' face à ses électeurs." *Le Monde* (March 9, 1994), p.5. By contrast, Nazarbaev himself suggests that the Russian population in Kazakhstan is actually growing, in part as a result of immigration from less stable parts of Central Asia. He noted, however, that the German population had declined by 300 000 last year.

Third, the issue of language policy has fostered serious tension between the two communities, not least because less than one per cent of ethnic Russians speak Kazakh.¹⁸ Nazarbaev's government was under significant pressure from the nationalist movement to give the Kazakh language pride of place in the Kazakh constitution. On the other hand, any substantial emigration of Russians would have been economically disastrous. The compromise the Supreme Soviet arrived at was to insert a provision into the state constitution which declared Kazakh to be the sole language of state and Russian the language of "interethnic communication."²⁰ This mollified Kazakh nationalist opinion to a limited extent, but failed to satisfy Russian political leaders who argued that this accorded Russian inferior status.

Fourth, the Russian community (and other Europeans) are disturbed by what appears to be a policy of affirmative action, of gradually filling the upper ranks of the bureaucracy and state enterprises with ethnic Kazakhs.²¹ As a result, they feel that opportunities for advancement on the basis of merit and prior education and experience are being constrained. Some Russian groups also maintain that Russians are discriminated against in housing and access to other resources controlled by the state.²²

Given the potential for interethnic conflict in the country, the government has done a surprisingly good job of holding the lid on. There is some prospect, however, that as political weight in Russia moves towards the right and as Russian foreign policy towards the Central Asian states becomes more assertive (see below), conflict will grow. Aside from the economic issues discussed above, the issue of Kazakh-Russian relations is the most serious one facing Kazakhstan in the near term.

ii) Islam

The role of Islam in the Central Asian republics is generally viewed to be a serious potential source of instability both by Russians and by Western analysts. The

¹⁸ In Almaty, it is estimated that less than 0.6 per cent of Russians speak Kazakh.

²⁰ For Nazarbaev's own justification of this approach, see "Suverennyi Kazakhstan otvechaet za ravnopravie drugikh natsii", *Nezavisimaya Gazeta* (January 6, 1994), p.3.

²¹ This analysis is somewhat simplistic. What appears to be happening is that Nazarbaev is filling government posts with members of the Great Horde of Kazakhs, one of three subdivisions within the Kazakh nation. The other two subdivisions are also being excluded.

²² See the account of a meeting of Russian societies in Northern Kazakhstan, as reported in *RFE/RL Weekly Report* (December 22, 1993).

religion remained quite strong through the Soviet era, particularly in the countryside where the great majority of Kazakhs lived and live. One might expect it to grow even stronger as there is now far greater opportunity to practice and propagate the faith, as well as a greater availability of the tools to do so (i.e. the rising numbers of mosques, and the availability of korans).

There is no question that there is also a revival of interest in Islam in the urban areas of the republic. This is part of a broader curiosity about the heritage of the Kazakh people among a group of the population that was more thoroughly secularized and russified.

On the other hand, there has been little evidence of tension between the secular government and Islamic clergy, and little evidence of Islamic political activity (in contrast to the activities of the Islamic Renaissance Party (IRP) in Tadzhikistan and Uzbekistan).²³ Islam traditionally has been far less doctrinally rigid in Kazakhstan than in Uzbekistan, to say nothing of Iran.²⁴ This reflects the differing nature of religious adherence among nomadic as opposed to settled peoples, as well as the variable experience and date of conversion of the three Kazakh hordes.²⁵

Where the revival of Islam is significant in politics lies perhaps most of all in the perception of it by the Russian community. They are deeply suspicious of Islam, and fearful of an "Islamic threat" not merely to their persons, but to Russia itself. In this sense, the rise of Islam is a significant indirectly destabilizing factor, since it enhances the perceived insecurity of the republic's most substantial non-titular minority.

iii) Political Process

By contrast to states in the region such as Uzbekistan and Turkmenia, Kazakhstan is liberal and democratic, but within bounds. The government displays great sensitivity to potentially destabilizing excesses of pluralism (e.g. expressions of

²³ And to judge from the programmatic statements of the IRP, this is hardly a fundamentalist organization.

²⁴ In fact, the practice of Islam in rural areas retains significant components of shamanism.

²⁵ See Rene Grousset, *The Empire of the Steppes: A History of Central Asia* (New Brunswick, N.J.: Rutgers University Press, 1970), pp.521-7; Martha Brill Olcott, *The Kazakhs* (Stanford, Calif.: Hoover Institution Press, 1987), p.19; and Edward Allworth, ed., *Central Asia: 120 Years of Russian Rule* (Durham, N.C.: Duke University Press, 1989), pp.562-3.

national chauvinism). More generally, it is committed, as are the ex-communist apparat and the clans it represents, to retaining power.

Although there is considerable freedom of expression and association in Kazakhstan, there is little evidence of any willingness on the part of the government to contemplate a transfer of power. This is perhaps not a bad thing. Nazarbaev, although authoritarian and favouring his own ethnic subgroup, nonetheless runs a reasonably efficient government (by former Soviet standards) and is perhaps the single guarantee of civil peace in the republic.

The transition to independence was not accompanied by the rampant popular activism common elsewhere in the former Soviet Union. Most of the parties in Kazakhstan have roots in the antinuclear movement, Nevada-Semipalatinsk, which was formed in the perestroika era to protest continuing nuclear testing and the environmental consequences of past tests at Semipalatinsk, the principal Soviet testing ground. The movement was officially sanctioned by the Kazakh leadership and had representation in Parliament. In other words, it was at least in part a co-opted extension of the communist party structure.

As a result, political groups entered the period of independence with little experience of political organization or building coalitions in pursuit of common interests. They tended to be small, personalistic, politically ineffectual, and frequently organized along ethnically exclusive lines.²⁶ They also tended to be highly unstable, forming, splitting, and reforming continually. Significantly, Nazarbaev and his government have consciously avoided party affiliation.

Parliamentary elections were held in March 1994. Presidential elections are scheduled for 1996. The parliamentary elections were the result of a gradual delegitimation of the previous parliament. In late 1993, in the face of increasing pressure from the state, many local and regional legislative bodies began to dissolve themselves to prepare the way for new elections (and apparently with the encouragement of the president). In November, this spread to the national Supreme Soviet, when 40 members resigned, calling for the replacement of this holdover from the Soviet era with a modern, democratic and professional legislature. This move apparently also had the support of the president. The Supreme Soviet ultimately responded by dissolving itself and setting a date of March 7, 1994, for new legislative elections.

²⁶ Our researchers in Almaty maintain, however, that with the passage of time, ethnically based parties such as Lad and Alash have been eclipsed by larger interethnic movements such as the National Congress of Kazakhstan and Popular Unity.

The election code calls for a mixed electoral system, with the election of 135 members from single member districts and 42 from a list of candidates proposed by the president.²⁷ Registration for candidacy in a single member district requires 3000 constituent signatures.

The parties vary significantly in their financial and administrative strength and in their level of local and regional organization. The most advantaged in this regard are:

1. The Socialist Party of Kazakhstan is the successor to the Kazakhstan Communist Party, renamed in August 1991. Party membership is relatively unrestricted, though predominantly rural. As of August 1992, the party numbered around 50 000 members, although it has since declined. Although it is predominantly Kazakh in membership (65 per cent), it has significant representation from other minorities. Although programmatic statements are rather thin, one may assume that its basic agenda is to retain the social and economic privileges of its members in the face of privatization and marketization. In this, they are markedly advantaged, having inherited much of the media access and property of the communists.
2. The People's Congress Party is headed by the noted poet Olzhas Sulemeinov, who was a leader of the Nevada-Semipalatinsk movement. This group too is self-consciously interethnic and class-neutral, seeking to unite all ethnic and income groups in one organization. Membership numbered approximately 24 000 in late 1992. It is widely believed that Nursultan Nazarbaev promoted the creation of People's Congress at a time when he felt that the stigma of the past rendered affiliation or too close an association with former communists a political liability. As time passed, however, Nazarbaev distanced himself from the movement, largely, it is believed, because of the ambitions of Sulemeinov.
3. The Popular Unity Party, which held its first organizational congress in October 1993, is headed ostensibly by Kuanysh Sultanov, former head of the republic's Komsomol organization, and currently a vice-premier in the government. This is a late entry to Kazakh politics, but is also closely associated with the president, in fact claiming him as their unofficial

²⁷ See *RFE/RL Weekly Report* (December 9, 1993).

leader.²⁸ Because of Sultanov's prior career, and the unofficial patronage of Nazarbaev and the state apparatus, this party too enjoys substantial coverage of the country and significant organizational capability. Also lacking a detailed program, its principal focus appears to be the maintenance of interethnic peace and political stability.²⁸

Significant representation of all three of these parties in the new parliament to be elected in the spring of 1994 was expected. None of the three constitutes a significant threat to Nazarbaev's program of interethnic peace and moderate economic reform, and its subtext of patronage politics. As a result, the state did not obviously impede the operations of any of them in the lead-up to elections.

There are also a number of significant opposition movements that attempted to present candidates either nationally or in specific regions of the country. These are smaller, underfunded, with few organizational resources and limited access to channels of mass information. Although some (e.g. the Social Democratic Party of Kazakhstan, with a membership of under 1000) attempt to transcend ethnic lines, most are exclusive. Among the most important on the Kazakh side are:

1. Azat, formed in 1990 as a coalition of informal groups and parties, is wedded to the awakening of national consciousness among the Kazakh people. Azat is among the more moderate of the ethnic Kazakh organizations. Although committed to the defence of Kazakhstan's territorial integrity and to the equalization of rights among ethnic groups in a society that, they believe, has long suppressed the aspirations of ethnic Kazakhs, they advocate mutual understanding among ethnic groups and accept the permanence of the Russian (and other non-Kazakh) communities. Azat is more of a civil movement than a party in its own right with the requisite difficulties in sustaining discipline within its ranks and developing a concrete political program attractive to the electorate. As such, its prospects were poor.
2. The Republican Party of Kazakhstan, led by Sobetkazy Akataev, is an offshoot of Azat, but takes a harder line on the issue of ties to Russia. While not contesting the right of Russians to remain, the principal objective of the movement is a complete break (politically, economically,

²⁸ Nazarbaev is identified as the party's leader in "Prezidentskaya Komanda nachinaet predvybornuyu bor'bu" *Segodnya* (January 11, 1994), p.5.

²⁸ Ibid.

and psychologically) with Moscow and a reorientation towards the turkic community and Turkey in particular.

3. Proceeding down the track of Kazakh nationalism, the next variant on Kazakh nationalism is Zheltoqsan [December]. The movement was formed in 1989 to commemorate the December 1986 riots in Almaty and the victims thereof.³⁰ The movement views the current regime to be illegitimate as a result of its connection to the repression of the riots and seeks the total independence of Kazakhstan. In this it resembles the Republican Party and Azat, but it differs from them on tactics, many of its members believing that the only way to achieve the ultimate objectives of the movement is through an unconstitutional seizure of power.
4. At the extreme end of the Kazakh nationalist spectrum is Alash, a movement comprised predominantly of rural Kazakh youth and recent migrants to urban areas formed in April 1992. Although official statements remain ambiguous, the movement stands at the very least for a radical redressing of what it perceives to be inequities in incomes and privileges between Russians and Kazakhs. Many have gone further to argue for the expulsion of ethnic Russians and other non-Kazakh groups from the republic.

On the Russian side of the fence, the first major movement for the defence of the rights of the Russian-speaking population was Unity, founded in mid-1990. Not surprisingly the movement's agenda focussed on human and minority rights, and in particular the defence of Russian cultural, economic, and political rights against what they perceived to be a groundswell of anti-Russian nationalism. After substantial pressure from the government, the movement ultimately waned,³¹ to be replaced by Lad, a group with an ostensibly similar ethnically based agenda.

There are thus two levels in the party competition. There are those groups whose programs and personnel are not perceived as threatening to the president.

³⁰ In December 1986, students and other youth in Almaty rioted to protest the appointment of an ethnic Russian as First Secretary of the Kazakhstan Communist Party. The authorities responded forcefully, killing many and imprisoning others. The event is seen as the moment at which modern Kazakh nationalism was reborn.

³¹ Its prospects were not improved by its leaders' support of the August 1991 coup in Moscow, which was a criminal act, providing a pretext for dissolution.

These have substantial resources and face limited interference in their activities. On the other hand, there is a broad group of parties who constitute a more obvious challenge to Nazarbaev's view of the future in Kazakhstan. The electoral system was used to limit their prospects for success.³² And when the law was insufficient to limit the prospects of the opposition, it was simply broken.³³ When they became too troublesome they were essentially suppressed.³⁴ Outsiders helping to assist smaller Kazakh parties in organizing were also actively harassed.³⁵ Some 220 candidates were denied registration in the lead-up to the elections. This combination produced a situation in which only Popular Unity, the National Congress, the Socialist Party, the Republican Party, and Lad effectively contested seats in the election.

By early 1994, the independent press was predicting that in the March 7 elections, at least 100 candidates supported by the president would win, turning the parliament into an "administrative department" of the presidency.³⁶ Not surprisingly, the elections produced a parliament strongly supportive of the president. In addition to 42 seats reserved for presidential nominees, Popular Unity received 33 seats, and

³² For example, the presidential election law was finally published on October 21, 1991, with a requirement that candidates for president collect 100 000 nomination signatures. The closing date for nominations was October 31, 1991. The advantage obviously lay with those who controlled deep political organizations. Not surprisingly, Nazarbaev was the single candidate. In the recent elections for the new national legislature, the registration requirement of 3000 signatures obviously favoured those parties, including the president's, with substantial organizational and financial resources.

³³ In a pre-election press conference by representatives of the Green Party, the independent trade unions, and the Russian movement Lad, it was claimed that local election commissions were arbitrarily pushing aside the instructions of the Central Election Commission and the electoral code. See "Nachalas' predvybornaya kampania," *Nezavisimaya Gazeta* (January 12, 1994), p.3.

³⁴ This was the fate of Edinstvo. Alash militants are plagued by arrests of their leaders, secret police surveillance, and police interference with their assemblies.

³⁵ Local representatives of both the National Democratic Institute for International Affairs and the International Republican Institute (American organizations funded by the U.S. Agency for International Development [USAID] involved in the promotion of democratic political development in other countries) have had serious problems in registering their offices, have had their power and water interfered with, have had great difficulty in arranging meetings within Kazakhstan, and have been threatened. The local director of the International Republican Institute was severely beaten in early 1994. As a matter of course, they both now hold training seminars and other activities for Kazakh party activists in Bishkek, Kyrgyzstan.

³⁶ "Nachalas' predvybornaya kampania" (note 33). See also *Le Monde* (March 9, 1994), p.5.

independent candidates close to the president received around 60.³⁷ This gives him effective majority control. By contrast, the Socialist Party received eight seats, the National Congress nine, the Republican Party one, and Lad four.³⁸

Also noteworthy was the ethnic mix of candidates. Russian politicians complained in advance of the election that the system was designed to ensure Kazakh preponderance in the parliament, despite the fact that Kazakhs comprise only 40-41 per cent of the population. In fact, this is what occurred. Preliminary data from the elections suggested that 105 Kazakhs and 49 Russians were elected. The Russian share was 28 per cent of the total, whereas their share of the population is 37-38 per cent.

Conference on Security and Co-operation in Europe (CSCE) and Russian observers declared subsequent to the election that it did not meet the "free and fair" standard on numerous counts, but notably the short campaign period, the registration requirements, arbitrary refusal to register candidates, the fact that in some cases electoral commission members were also candidates, and inadequate control over voting procedures, among others. That said, it bears repeating that at least so far, the president enjoys fairly broad popular support as a proven commodity and as a lesser evil. It appears that many Russians, for example, voted for supporters of Nazarbaev, because they view him as preferable to the more nationalistic alternatives on the Kazakh side of the fence.

In short, although Kazakhstan may be miles ahead of an Uzbekistan or a Turkmenistan, democracy is fragile and limited, circumscribed by the presidency's close control of electoral apparatuses, and of the resources necessary to compete effectively. One might well argue that this is a necessary evil in the turbulent economic and ethnic conditions prevailing in the republic. However, the danger is that such activities delegitimize the political process among the public and drive opposition outside the normal political process and into clandestinity. This is not a good recipe for long-term political stability.

³⁷ See *Le Devoir* (March 10, 1994), p.A5.

³⁸ For a final listing of results including breakdowns by party or social organization, profession, occupational affiliation, gender, and region, see "Soobshchenie Tsentral'noi Izbiratel'noi Kommissii ob Itogakh Vyborakh VSRK," *Vremya*, no. 5 (March 19, 1994), p.1.

FOREIGN AND SECURITY POLICY

There are five main directions to Kazakh foreign policy: towards the Russians; the Chinese; the other Central Asian republics; Turkey and Iran — the principal regional powers along the southern periphery of the FSU; and towards Europe and the transatlantic community. The principal preoccupations of the Kazakh government are economic stabilization and recovery, and regional security.

With regard to Russia, Nazarbaev was unenthusiastic about the dissolution of the Soviet Union and since that event has made a sustained effort to ensure that relations between Russia and Kazakhstan remain stable and strong. This reflects not merely concerns about ethnic peace in the country, but also the heavy economic dependence of Kazakhstan upon the Russian Federation, the questionable loyalty of the army of Kazakhstan — 90 per cent of the officer corps of which is Russophone — and his awareness that there are significant forces within Russia that do not accept the territorial settlement between the two countries. The desire for solid relations with Russia has been accompanied by a durable commitment to strengthening the Commonwealth of Independent States (CIS). In pursuing this line of policy, Nazarbaev has been willing to accept the cost of alienating much of the nationalist fringe of Kazakhstan's politics.

Despite Nazarbaev's preferences, there was a significant deterioration in Russian-Kazakh relations in 1993. This was the result of a number of issues. First was the issue of monetary relations discussed above. The terms associated with the post-July reform Russian proposal of monetary union involved the surrender of a substantial portion of Kazakhstan's limited foreign currency and gold reserves to the control of the Russian Central Bank. This resulted in the collapse of the proposed union in late 1993, the premature issue of a national currency, and its rapid depreciation.

This was associated with broader economic disputes. On the Russian side there was serious concern with the mounting Kazakh trade debt. This, however, was a two-way street. Kazakhs complained bitterly about simple Russian non-payment for goods imported from Kazakhstan (and notably coal), and the substantial delay of ruble-denominated payments, which, in the Kazakh view, amounted to a net transfer of real resources to Russia owing to rapid ruble inflation.

Second, the increasing attentiveness of the Russian leadership to the rights of Russian minorities in the "near abroad" had a substantial negative fall-out in the relationship. Nazarbaev responded to the dual citizenship proposal by comparing Kozyrev's attitude to Russians in Northern Kazakhstan to that of Hitler regarding

Sudetenland.³⁹ This is connected to a third factor. The election campaign in Russia in November and December was replete with rhetoric concerning the illegitimacy of the Russian-Kazakh border, and indeed of Kazakhstan's independence, and the necessity of restoring Russian control in Central Asia. Kazakh leaders expressed deep concern and annoyance with the tenor of the campaign debate.

Fourth, the issue of the treatment of minorities is also a two-way street. In October 1993, the Russian authorities adopted new and more stringent regulations governing the status of citizens of non-Russian CIS republics. They claimed that new restrictions on residency and also the right to detain non-Russians without hearing were part of an effort to control the rise of crime in Russian cities. In fact, it was probably as much an effort to curry favour with Russian nationalists by being seen to be harsh on non-Russians. Although aimed primarily at Caucasian nationalities, it also covered Kazakhs.

Fifth, there have been serious disagreements between Kazakhstan and Russia over the issue of nuclear disarmament. In particular, the Russian military has complained that Kazakhstan is reneging on a prior agreement that Russian forces in Kazakhstan had complete jurisdiction over the weapons.⁴⁰

Although the chill in the relationship reflected all of these factors, it may also have suited Nazarbaev's electoral purposes to be seen as a defender of Kazakhstan's national interests against an intrusive and unfriendly Russia. This suggests an important point about Kazakhstan's policy towards Russia. For the Kazakh leadership, relations with Russia are a two-level bargaining game. At one level, the game is played with Russia, the principal issues being economic and ethnic. At the other level, the game is played with Kazakh nationalists. The tendency in the first game is towards greater integration and co-operation based on Kazakhstan's dependence. The tendency in the latter is towards distancing Kazakhstan from Russia.

That said, the realities of dependence are such that it seems improbable that Kazakhstan could sustain a long-term effort to get out from under the Russian mantle,

³⁹ By January, 1994, however, his position had become less inflammatory, and he was proposing that Kazakhstan and Russia deal with the issue of the rights of their citizens in each other's country by bilateral agreement. See "Suverennyi Kazakhstan," op.cit. (note 20).

⁴⁰ Symptomatic of the decline was Kazakh co-operation in the preparation of an American television documentary in which Kazakh officials claimed that the Soviet Union had deliberately exposed the Kazakh population in proximity to Semipalatinsk as guinea pigs to observe the short-, medium-, and long-term effects of massive exposure to radiation. *Sixty Minutes* (March 28, 1994).

particularly since, as shall be discussed below, no other power or powers is in a position to replace Russia. Kazakhstan's dependence was recently underlined by the Russian "blockade" on petroleum supplies to Southern and Eastern Kazakhstan, and by the problems in the Tengiz project with pipeline access in the Russian Federation. The strength of dependence and the absence of alternatives was evident in Nazarbaev's visit to Moscow after the elections in March, during which he signed an array of agreements strengthening co-operative ties with Russia.⁴¹

1993 also witnessed a deterioration in relations with China. Underlying this trend is a fear that China perceives Central Asia as a vacuum into which it can move, and that it is likely to flood the Central Asian states with illegal immigrants in this effort. There is a widespread belief in Kazakhstan that Chinese are already settling illegally in large numbers.⁴² It is noteworthy that Kazakh authorities closed the Chinese market and other Chinese concerns in Almaty in the summer of 1993. Relations have also been troubled by Chinese nuclear tests in Xinjiang in proximity to Kazakh territory.

Problems in the relationship with Russia and a perception of threat from China (shared by other Central Asian states) have strengthened another policy of long standing — that of seeking to enhance co-operation with neighbouring Central Asian states. Kazakhstan began to characterize itself as one of the Central Asian republics in 1992 and has been a strong proponent of an economic union among them. Kazakhstan and Uzbekistan concluded an agreement on the subject in January 1994 that envisaged the free movement of goods, services, capital, and labour between the two countries by the year 2000. Kyrgyzstan joined a week later.

Farther afield in the region, Kazakhstan has also sought to consolidate durable relations of mutual benefit with Turkey and Iran. The motivations are clear. First there is a hope that building these linkages can balance the pull of Russia to some extent, while reducing the isolation of Kazakhstan. Second, there is a strong interest in exploring the possibility that these countries might provide an outlet for Kazakhstan's exports as an alternative to the above-discussed infrastructural

⁴¹ In a recent interview concerning the agreements, Nazarbaev put forward a vision of Russian-Kazakh relations in terms of the European model — a customs banking, and payments union, defence co-operation, convergence of legal structures, the creation of a common parliament, and the gradual formation of a supranational bureaucracy on the basis of the consultative and co-ordinating committee of the CIS. See "Suverennyi Kazakhstan," *op.cit.* (note 20).

⁴² Interviews in Almaty in June 1993 and also Bess Brown, in *RFE/RL Research Report III*, no. 1 (January, 1994), pp.62-3.

dependence on Russia.⁴³ The relationship with Iran appears to proceed along pragmatic, essentially economic lines, with little concern about the religious factor in Iranian foreign policy.

Similarly, the principal motivating factor of the developing relationship with Turkey is economic, though Turkey is also active in the educational and cultural spheres.⁴⁴ Building close ties with Turkey also plays to that body of nationalist opinion in Kazakh politics attracted by pan-Turkic ideas. The major problem in relations with both Turkey and Iran is that they do not have the economic capacity to provide a credible alternative to reliance on Russia. This places clear constraints on the utility of these other regional options in the effort to balance against Russia.

With regard to the West, the Kazakhs now understand that there is precious little that Western states (or for that matter the CSCE) can or will do to provide meaningful security guarantees and assistance.⁴⁵ The principal thrust of Kazakhstan's policy, therefore, is a pursuit of economic assistance and investment. They take the view that the West has an important role to play in the recovery and further development of the country's economy as a source of capital and technology. This is particularly relevant in the natural resources sector. As a result, Kazakhstan (by former Soviet standards) has been remarkably accommodating to joint venture activity, as was noted above.

Priority has also been placed on securing technical assistance in the modernization of the agricultural sector of the economy. There is also some hope that, either through multilateral organizations or through bilateral agreements, substantial assistance can be obtained to address the countries environmental problems, and notably the Aral Sea crisis.

One substantial irritant in relations with the United States in particular has been political conditionality. The United States has attempted, with some success, to link the availability of economic aid to Kazakh acceptance of political development assistance focussing on party building and the creation of independent functional

⁴³ In this vein, during a visit by Iran's President Rafsanjani in October 1993, the two states signed agreements on the expansion of road, rail, and pipeline links.

⁴⁴ Over 2000 Kazakh students are currently enrolled in Turkish educational institutions.

⁴⁵ Kazakhstan's adherence to NATO's Partnership for Peace does not reflect any strong expectation that this will substantially affect Kazakhstan's security.

groups, such as trade unions. This is clearly viewed with suspicion by the authorities.⁴⁶

The second major issue in relations with the West brings us a consideration of security and defence policy — the matter of non-proliferation and nuclear disarmament. Kazakhstan has agreed in principle to repatriate its strategic warheads to the Russian Federation and signed the Non-Proliferation Treaty on the occasion of American Vice President Gore's visit to the country in December 1993. At the time of writing, however, arrangements for compensation for the warheads have yet to be finalized and the linked issues of the costs of dismantling missiles and cleaning up the nuclear test site at Semipalatinsk have yet to be resolved. The Kazakhs generally mention a figure of \$1 billion in compensation and \$2 billion for dismantlement and cleanup. To my knowledge, few if any of the warheads involved have actually left the country. That said, prospects for a reasonably orderly process of denuclearization are reasonably good. Anti-nuclear sentiment runs deep in Kazakhstan, and, unlike in Ukraine, the president does not face an unruly legislature.

IMPLICATIONS FOR CANADA

In discussing the implications of this analysis for Canada, the first factor to bear in mind is that Canada's capacity to address in any meaningful way the fundamental problems of Kazakhstan in domestic politics and foreign policy is very limited indeed.

Nonetheless, the country has significance for Canada. In particular, it is a potentially promising market for Canadian natural resources technology and expertise. It is also an attractive venue for investment related to natural resources. Thirdly, for climatic reasons, and given the Kazakh crop mix, Canada's agricultural expertise is applicable in Kazakhstan. That is to say, Canada possesses a number of comparative economic advantages in the effort to build a relationship with this state. In some instances (e.g. involvement in the natural resources sector), pursuit of opportunity may result in substantial gain for Canadian enterprises. Kazakhstan may indeed be more promising in the short and medium term in this regard than Russia, because of the openness of Kazakhstan to foreign involvement in the economy. This is an

⁴⁶ When I was in Almaty in June 1993, the USAID administrator, William Attwood, visited to convey, among other things, the message that the United States was unhappy with official interference in the activities of American non-governmental organizations involved in political development and democratization programs, and that if the government was not more co-operative, there might be a reconsideration of economic assistance policy.

argument for more substantial intergovernmental contact between Canada and Kazakhstan.

In the realm of political assistance, although the American experience would suggest that a low profile is desirable, Canada has substantial expertise in a number of problems of crucial importance to Kazakhstan's political development. Notably, Canada has a considerable track record and expertise in the design of political institutions to deal with interethnic relations in multicultural societies. This is a high priority of the Kazakh leadership for reasons amply discussed above.⁴⁷

In the realm of high policy, although Canada can do little to affect the immediate conditions faced by Kazakh national security decision makers, as part of multilateral efforts, Canada can make a difference in the pursuit of a fundamental objective of policy towards the CIS — ensuring the extension of the non-proliferation regime and the exit of nuclear weapons from the non-Russian republics of the former Soviet Union. In addition, through participation in efforts to strengthen and further define the security and peacekeeping role of the CSCE and the United Nations in the former Soviet Union, Canada can contribute to the dilution of Russian preponderance in the national security affairs of the non-Russian former Soviet states, including Kazakhstan.

Canada's capacity to pursue these economic and security objectives is currently seriously constrained by the minimal character of its diplomatic presence in Kazakhstan and Central Asia, and by the concentration of technical assistance programming on Ukraine, the Baltics, and Russia.

⁴⁷ In this vein, it is noteworthy that President Nazarbaev has called for the establishment of a Council on Citizens' Rights with primary responsibility for drafting laws concerning the incitement of ethnic tension.

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