

30 Years of Bilateral Ties: The Special U.S.-Kazakhstan Relationship

by
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Foreword

This is the Energy, Growth and Security (EGS) program's fifth report since its inception three years ago. Under Director Dr. Ariel Cohen, EGS has added a geopolitical and energy-focused perspective to ITIC's investment climate, tax and development work around the world. Founded in 1993, ITIC emerged from consultations with Ministries of Finance and tax authorities and U.S. and European investors concerning legal infrastructure for post-Soviet economies in the newly independent states, Kazakhstan among them. ITIC's extensive work programs supported their successful transition to open market economies.

Independent Kazakhstan emerged in an era of rapidly intensifying global economic integration. Its trajectory, set by First President Nursultan Nazarbayev, was no doubt influenced by its special partnership with the United States (the first country to recognize its independence). This report illustrates, analyzes, and projects the condition of U.S. – Kazakhstan relations.

Upon Kazakhstan's independence, the components of the Soviet-style centrally planned economy needed to be dismantled and replaced by market mechanisms compatible with global trade and ways of doing business. This was not easy as the development of the Internet and other technological advancements altered established business practices. The creation of the World Trade Organization (WTO), the emergence of climate change as a global problem, and the rapid rise of China and other emerging economies all contributed to world economies revisiting how best to succeed in the modern era.

With growth accelerating in emerging markets, Kazakhstan experienced a surge in demand for its primary export commodities: oil, ferrous metals, aluminum, zinc, and uranium. Trade in these commodities – particularly crude oil – formed the cornerstone of Kazakhstan's bilateral relationship with the United States. Kazakhstan was not only fortunate to possess vast natural resources during a commodity super-cycle; its economic trajectory owes much to the policy initiatives undertaken by its first president, Nursultan Nazarbayev, who directed the needed reforms for attracting foreign direct investment beyond extractive industries.

As a result of structural reforms, unemployment in Kazakhstan fell steadily, with real wages doubling from 1999 to 2014 and national poverty almost halving from its 2000 level to 2.7% in 2015. Economic growth contributed to relatively rapid convergence with advanced economies, positioning Kazakhstan as a critical partner for the West in Central Asia. Its accession to the WTO in 2015 – championed by the United States – was an important first step toward deeper international integration and a reaffirmation of the U.S. – Kazakhstan relationship

In addition to economic partnership, Kazakhstan made an important contribution to the nuclear non-proliferation agenda as one of the few countries to voluntarily surrender a nuclear arsenal. As an immediate neighbor to both China and Russia, Kazakhstan has demonstrated a keen understanding of diplomacy and commitment to global peace. Further modernization efforts on the part of President Kassym-Zhomart Tokayev have included the passage of democratic and economic reforms, with more on the horizon. Kazakhstan's future success will hinge on those reforms being sustained and enhanced.

The words of President Jomart Tokayev in his September 1 anniversary address to the nation illustrates how 30 years of sovereignty shaped the trajectory of Kazakhstan's development:

"In unity and harmony, we were able to build a new state – this is our greatest achievement. We have strengthened the spirit of the nation, laying a solid foundation for development. (...) Together, we are building a strong state. Sovereignty is not an empty

slogan or a loud word. The most important thing is that every citizen should feel the fruits of independence – a peaceful life, social harmony, increased prosperity of the people, and the confidence of young people in their future. All our initiatives are aimed at this.”

Today, Kazakhstan’s relationship with the United States remains centered around the same areas of its founding: trade, security, and political and economic reform. America’s withdrawal from Afghanistan after 20 years of war will undoubtedly be a factor in the partnership going forward. However, I am optimistic that both countries can find new opportunities to broaden and deepen their cooperation.

Daniel A. Witt
President
International Tax and Investment Center

I. Introduction

Since the collapse of the Soviet Union thirty years ago, the nation of Kazakhstan has maintained lasting diplomatic, strategic, and trade relations with the United States – the first country to recognize its independence. Two main pillars form the backbone of this partnership: regional security and energy commerce. They were the defining issues during the presidency of the First President Nursultan Nazarbayev. Following the peaceful transition from Nazarbayev to Kassym-Jomart Tokayev in 2019, the legacies of nuclear weapon proliferation, war in Afghanistan, hydrocarbon trade, and economic growth persist as defining bilateral issues. Today, the United States remains as committed to its friendship as it did to the fledgling nation in the winter of 1991.

In his December 25, 1991 Address to the Nation following USSR President Mikhail Gorbachev’s resignation speech, President George H.W. Bush announced the following:

The Soviet Union itself is no more. This is a victory for democracy and freedom.

New, independent nations have emerged out of the wreckage of the Soviet empire. Last weekend, these former republics formed a Commonwealth of Independent States...

The United States applauds and supports the new states on the peaceful and democratic path they have chosen, and for their careful attention to nuclear control and safety during this transition...

The United States recognizes the independence of Kazakhstan that made specific commitments to us. We will move quickly to establish diplomatic relations and build new ties. We will sponsor membership in the United Nations...

This is a day of great hope for all Americans. Our enemies have become our partners, committed to building democratic and civil societies. They ask for our support, and we will give it to them.¹

In the years following independence, Kazakhstan’s leadership committed to building a modern and inclusive economic system at home while pursuing a “multi-vector” foreign policy approach abroad. The former required tremendous work reshaping Kazakhstan into a market economy and natural resource powerhouse, while the latter required deft diplomacy to balance positive relations with competing world powers: its two largest neighbors, Russia and China, as well as the United States. Kazakhstan also managed to maintain positive engagement with the European Union, Turkey, and its Caspian and Central Asian neighbors despite a myriad of adversarial relationships and conflicting interests in the region and beyond.

As part of this defining foreign policy strategy, President Nazarbayev prioritized close ties with the United States. The 1994 *Charter on Democratic Partnership Between the United States of America and the Republic of Kazakhstan* outlined the growing economic and commercial ties between the two nations, the goals of which were underscored in Nazarbayev’s meeting with President Bill Clinton in 1997 under the auspices of the U.S.-Kazakhstan Joint Commission.² These included America’s commitment to Kazakhstan’s economic liberalization, energy development, and democratization. Furthermore, the U.S. and Kazakhstan highlighted the issues of non-proliferation, regional security, and accession into the WTO.

This meeting and Kazakhstan’s support for U.S. foreign policy throughout the 21st century set the stage for a number of critical dialogues, including a 2006 White House meeting between Presidents

Nazarbayev and Bush, the annual bilateral consultations (ABC) which began in 2010, the inaugural Strategic Partnership Dialogue (SPD) of 2012, and subsequent enhanced strategic partnership dialogue (ESPD) established between President Nazarbayev and President Donald J. Trump in 2018.³ Throughout these meetings, energy commerce and global security remained the cornerstone, much as they did in America's initial talks with Kazakhstan decades prior. The Central Asia Investment Partnership – a multilateral framework for economic development between America's Development Finance Corporation (DFC), Kazakhstan, and Uzbekistan established in January 2021 – is the most recent of these cooperative initiatives.

In September 1993 in Almaty, ITIC met with the Kazakhstani Ministry of Finance to provide advice and training in respect of tax policy and law essential to the democratic transition.

Perhaps no achievement is a greater testimony to the U.S.-Kazakhstan partnership than that of their joint non-proliferation initiatives. The U.S. has spent over \$240 million to assist Kazakhstan in its mission of denuclearization, helping to eliminating weapons of mass destruction and their related infrastructure.⁴

The most significant effort to counter the threat posed by nuclear weapons culminated in the closure of the Semey (Semipalatinsk) nuclear test site in August of 1991. During the Soviet-era the test site was used extensively, leading to vast environmental damage and hundreds of thousands of cancer and radiation sickness cases. From 1949 to 1989, there were 456 nuclear explosions within the test site's 18,000 square kilometers,⁵ causing tremendous environmental destruction and health damage.

The site's closure was followed in December 1993 by the creation of the Cooperative Threat Reduction (CTR) program. The CTR program would subsequently come to be known as the Nunn-Lugar program, stemming from U.S. senators Sam Nunn and Richard Lugar's essential participation in sponsoring and promoting the program in Congress. The program focused primarily on destroying vehicles for delivering nuclear weapons, such as missiles, aircraft, launchers, and submarines, as well as their related facilities. The program was also successful in destroying Russian chemical weapons. In 1998, the program was absorbed into the Defense Threat Reduction Agency.⁶

Cooperation in regional security, particularly in Afghanistan, has figured prominently in the U.S.-Kazakhstan relationship since September 11, 2001. Kazakhstan assisted in peacekeeping measures by financing Afghanistan's security forces, participating in Afghan transportation infrastructure development projects, and training Afghan technical personnel. Kazakhstan and the U.S. maintain multiple defense partnerships, formal and informal – among them the Partnership for Peace – and under the State Department's Global Peace Operations Initiative, Kazakhstani troops have been trained as peacekeepers. Nur-Sultan sent its first-ever major deployment to the UN mission in Lebanon, UNIFIL, in November 2018, while a new contingent.⁷

U.S.-Kazakh trade is notable, passing \$2 billion in 2019 and slightly decreasing to \$1.4 billion in 2020 as a result of the COVID-19 pandemic. Comparably, U.S. trade with Uzbekistan amounted to \$315 million and \$262 million in the same years.⁸ U.S. firms have invested billions of dollars in Kazakhstan, chiefly concentrated in the oil and gas sector. The Tengizchevroil LLP (TCO) joint venture between Chevron, ExxonMobil, KazMunayGas, and LukArco formed in 1993, generates roughly 30% of the country's total production with crude production of about 540,000 barrels a day.

In 1994, in partnership with the OECD Centre for Tax Policy and Administration (CTPA), ITIC assisted Kazakhstan in the development and implementation of a pro-Western tax system, replacing 53 Soviet-era laws with one unified tax code.

Kazakhstan has made progress in creating a favorable investment climate, particularly in the areas of ease of doing business, corruption crackdowns, and enforcement of laws and contracts. A U.S.-Kazakhstan Bilateral Investment Treaty and a Treaty on the Avoidance of Dual Taxation have been in place since 1994 and 1996, respectively. On November 30, 2015, Kazakhstan became a member of the WTO.

Overall, the three decades of U.S.-Kazakhstan relations have been constructive and productive, with the two governments cooperating on a variety of timely issues of mutual interest. Kazakhstan's government-sponsored Operation Zhusan, a repatriation program for Kazakhstanis involved in the Syrian and Iraqi conflicts, is seen by Washington as a model in deradicalization and reintegration of violent extremists.⁹

Opportunities exist for the two governments to deepen bilateral relations. *The United States Strategy for Central Asia 2019-2025: Advancing Sovereignty and Economic Prosperity* details Washington's interests in seeing Central Asian states "expand and maintain support for stability in Afghanistan" and "reduce terrorist threats" while "promot[ing] United States investment and development" in the region, among other goals.¹⁰ As Kazakhstan grows and promotes further political and economic reforms, it will continue to be central to U.S. interests in Central Asia and increasingly respected as both a regional and global leader.

This initiative has been followed by other interventions critical to successful economic relations. For 30 years, Kazakhstan has been continuously supported by professional fiscal development programs, delivered with the assistance of ITIC experts.

The newly elected President Kassym-Zhomart Tokayev (2019-present) has emphasized both continuity and reform in the Kazakhstani approach. In his inauguration statement on June 12, 2019, among the "Ten Directions" for his term, the President referenced foreign policy:

Kazakhstan has earned great international prestige and established itself as a peace-loving, open country, as well as a reliable and responsible partner in global affairs. We will continue on our path of a constructive, balanced, multi-vector foreign policy. We will firmly promote and defend our national interests on the global stage. Our foreign policy will bring concrete benefits to the country, national businesses and every citizen.¹¹

Kazakhstan has come a long way in the thirty years since independence. Certainly, more progress can be made, particularly in the speed of its political, legal, and administrative reforms as well as its transition from hydrocarbons to renewable energy-fueled growth. Economic liberalization, political and civil society advances, the strengthened rule of law, and government transparency will further add respect for the

Kazakhstani brand in the international arena. Looking to the future, Kazakhstani policy makers have set forth an ambitious vision for turning the country into one of the most developed in the world. On the road ahead, old challenges will remain and new and unexpected ones will doubtless emerge. Yet, the “childhood diseases” and “teething problems” of the Kazakhstani statehood are already left behind. As for the U.S-Kazakhstan relationship, it will enter a new, post-Afghanistan era that may require more cooperation than ever before. On Sept 1, 2021, President Joseph Biden presented a letter to President Tokayev congratulating Kazakhstan on 30 years of independence where he reaffirmed America’s commitment to the lasting partnership and friendship.¹²

II. Main Pillars of Bilateral Diplomatic and Security Relationship

1. Ensuring Regional Stability After Soviet Collapse

The Leader in Non-Proliferation

President Nazarbayev formally committed Kazakhstan to a non-nuclear future on December 13, 1993, signing an “umbrella” agreement alongside U.S. Vice President Al Gore. This framework most notably enabled the provision of Nunn-Lugar Comprehensive Threat Reduction, which provided U.S. assistance for the dismantling of Kazakhstan’s Soviet-era SS-18 missile silos. On the same day, Kazakhstan’s Parliament voted to accede to the Non-Proliferation Treaty as a non-nuclear weapons state. Nazarbayev subsequently affirmed that Kazakhstan did not want to be a nuclear power; expected to receive security assurances from the nuclear powers, including the People’s Republic of China; and required the country be compensated for the highly enriched uranium in its to-be-transferred nuclear weapons. In committing to those steps, Kazakhstan voluntarily renounced the fourth largest nuclear arsenal in the world.

Since then, Kazakhstan has become a global leader in non-proliferation. Its modern history has been closely intertwined with the nuclear issues, beginning with the first tests of Soviet atomic weapons taking place in the Kazakh steppe in 1949. Over the next four decades, at least 468 nuclear tests were carried out at the Semipalatinsk Nuclear Test Site, with at least 616 nuclear and thermonuclear devices detonated.¹³ The total power of nuclear charges tested on the surface before 1963 was 2,500 times higher than the power of the atomic bomb dropped on Hiroshima.

In the first year of its independence, Kazakhstan joined the Strategic Arms Reduction Treaty (START I) and the Lisbon Protocol, along with Belarus and Ukraine. In a process spanning from 1992 to 1995, all nuclear warheads were removed from the territory of Kazakhstan or destroyed at the test site. The country continues to take part in the work of the International Atomic Energy Agency (IAEA), housing its Low Enriched Uranium Bank in Oskemen, and participate in all review conferences of the Treaty on the Non-Proliferation of Nuclear Weapons.

On December 2, 2009, during the 64th session of the UN General Assembly, Kazakhstan introduced the unanimously passed Resolution 64/35 to declare August 29 the International Day Against Nuclear Tests. In 2016, on the quarter century anniversary of the closure of the Semei Nuclear Test Site, the Kazakh capital hosted an international conference, “Building a World Without Nuclear Weapons,” and appealed for other nations to join Kazakhstan’s initiative, calling for the creation of a Global Alliance of Leaders for Nuclear Security and a World Free of Nuclear Weapons.

Kazakhstan's leadership in non-proliferation has been lauded by American presidents and State Department officials. Having removed 1,410 nuclear warheads and dismantled nuclear test site infrastructure in its territory, Kazakhstan has not slowed its efforts on an international scale. Kazakh-U.S. cooperation through the Nunn-Lugar CTR program has aided this mission, particularly as the countries work to prevent the trafficking of nuclear materials and their potential acquisition by terrorist organizations.¹⁴ Without engaged leadership within the former Soviet Republics, the causes of non-proliferation and nuclear counter-terrorism might have stalled, with consequences deleterious to global peace.

President Tokayev continues the anti-nuclear position of his predecessor. Speaking at the 75th anniversary of the United Nations in the fall of 2020, President Tokayev noted: in the shadow of the pandemic, the crisis of insufficient nuclear non-proliferation and disarmament must not be forgotten. The changes taking place in the world energy and geoeconomics arena suggest that in the future the role of the nuclear factor in global affairs will increase. This process will inevitably affect Kazakhstan, which is an important player in the nuclear field given its control over 12 percent of the world's uranium reserves, 43 percent of uranium ore production, residual nuclear infrastructure, and nuclear industrial facilities and technologies.¹⁵ Ultimately, Kazakhstan has one goal it shares with many, including the United States – to maintain a safe, nuclear-free world for the next generations. Non-proliferation has, is, and will continue to be a cornerstone of the bilateral relationship.

War in Afghanistan and impact on U.S.-Kazakhstani relations

The United States holds Kazakhstan in high regard as a moderate, pragmatic ally situated near centers of radicalism and instability. As such, regional security – with a focus on counterterrorism and peacekeeping – remains a key facet of the U.S.-Kazakhstan relationship. The value of this partnership was proven during the U.S. war in Afghanistan. Kazakhstan contributed troops to the NATO-led International Security Assistance Force (ISAF), sending advisors and medics in 2011, and was the first in the region to offer transit to U.S. cargo planes. Kazakhstan was also deeply involved in capacity building of Afghan National Security Forces through training programs, many of which were co-funded and co-organized by the United States. Most important of all to the coalition war effort, Kazakhstan provided logistical support in the form of air, land, and rail transit routes for ISAF supplies. A formal agreement was signed between NATO and Kazakhstan in 2010 to allow the transport of materiel, though NATO assets were allowed free passage many years prior. In 2018, Kazakhstan's parliament voted to expand the reach of the 2010 agreement to include Kazakhstani seaports of Kuryk and Aktau which enabled NATO allies to ship cargo to Afghanistan from Azerbaijan to Kazakhstan via the Caspian Sea, and then to land-locked Uzbekistan.

In the words of then-Foreign Minister Kairat Abdrakhmanov after the protocol's ratification:

*Kazakhstan is ready to render all possible assistance to the forces of the antiterrorist coalition and those countries supporting peace, security, and sustainable development in Afghanistan.*¹⁶

In addition to bolstering its relationship with the U.S. and her NATO allies, Kazakhstan's role in the Afghan war solidified its identity as a modern secular state. The Kazakh government's actions and policies during the conflict demonstrated that the state's priorities lie with the security of its citizens, rather than with political or religious ideologies. Very few individual Kazakhstani citizens have been linked to Muslim radicalism, and their number is low compared to neighboring and other majority-Muslim countries.¹⁷

The Afghan conflict provided the opportunity for Kazakhstan to affirm its position as a regional leader,

capable of contributing to regional stability. Kazakhstan participated in the 2011 Istanbul Process, an international effort to stabilize the situation in Afghanistan. The government further committed to educate 1,000 Afghans in Kazakh universities.¹⁸ The country's participation in Afghanistan's rebuilding is a testament to its vital role in ensuring peace and spearheading cooperation throughout the region.

CENTCOM and initial U.S.-Kazakhstan military cooperation

Even prior to the September 11th terrorist attacks, Kazakhstan anxiously watched fighters from the fundamentalist Taliban movement sweep from southeastern Afghanistan toward their region's southern borders. Recognizing an opportunity for peace-making, positive contribution to regional security, and strengthened U.S. military ties while taking action against a regional threat, Kazakhstan began expanded military and counterterrorism cooperation efforts with the U.S. in 2003. Since then, this collaboration has increased the capabilities of Kazakhstan's air defense and intelligence units, constructed national military infrastructure in the Caspian region, and boosted Kazakh involvement in the regional peace process.¹⁹

Kazakhstan's proximity to Afghanistan made it a major logistical hub for U.S. and European supplies entering and leaving the region. Washington established the Northern Distribution Network (NDN) to carry cargo through Kazakhstan on its way to Afghanistan.²⁰ The network also proved a major route for bringing foreign non-lethal equipment out of Afghanistan over the drawdowns of the last decade.

For nearly two decades, U.S. defense officials have collaborated with the Kazakhstani Armed Forces to improve the education and training of non-commissioned officers (NCOs). This relationship has been strengthened by exchanges between service schools in both countries, producing a generation of talented and energetic NCOs.²¹ Kazakhstan continues to optimize opportunities to develop human capital in the defense sector.

C5+1, U.S. support of Kazakhstan's OSCE and WTO ascension

In seeking to integrate Afghanistan into the Central Asian regional security and economic framework, Kazakhstan became an early champion of the C5+1 format for dialogue and cooperation between Central Asia's five republics and the United States. Their initiative would promote consultations and collaboration between its member states in five joint projects: counter-terrorism, facilitating intraregional private sector development, promoting "low emission and advanced energy solutions," analyzing environmental risks, and "promoting Afghanistan's economic development within a regional framework."

While the U.S. played a leading role in initiating and funding C5+1 activities, it is Kazakhstan that has recently emerged as the chief unifying force of the region. In 2018, Kazakh Senator Dariga Nazarbayeva proposed a Central Asian visa regime that would serve to augment and facilitate mutually beneficial tourism throughout the region.²² In September 2020, Kazakh Trade Minister Bakhyt Sultanov led the charge on creating a single interstate distribution system in the Commonwealth of Independent States, exchanging data on product information and promoting trade with and between its neighbors.²³

Then-U.S. Secretary of State John Kerry touted the format as a mechanism for deepening U.S. engagement in the region. Geopolitically, the U.S. regards increased economic, political, and military ties with Central Asia as counterweighing Russian and Chinese influence. Its value was not lost on the Trump Administration; in February 2020, amidst intensifying tensions with China, then-Secretary of State Mike Pompeo met with the leaders and foreign ministers of the C5 states in Tashkent. While reaffirming the platform's original pillars of counter-terrorism and Afghanistan's regional integration, its focus shifted to countering China's influence. Pompeo urged the C5 states to denounce Chinese human rights abuses and

offer asylum to those wishing to flee, and warned against over-reliance on Chinese manufacturing.²⁴

On April 23, 2021, Pompeo's successor Antony Blinken joined Central Asian leaders virtually to commemorate the partnership's five-year anniversary. Afghanistan remains its greatest priority moving forward, with the U.S. seeking nearby basing options in light of its withdrawal. Blinken had a call with Kazakh Foreign Minister Mukhtar Tleuberdi ahead of the gathering, emphasizing U.S.'s hopes for Kazakh support on the Afghanistan question moving forward.²⁵ Minister Tileuberdi has made use of the C5+1 format to advocate for region wide investment into human capital as a driver of economic growth, supporting increases in education and joint efforts to combat human trafficking.²⁶

Kazakhstan's ascension to the Chairmanship of the Organization for Security and Cooperation in Europe (OSCE) in 2010 marked an earlier milestone in the country's rise to international prominence and its rapidly increasing political capital. The OSCE, which serves as a platform for dialogue on security issues throughout the wider Eurasian and Trans-Atlantic space, highlighted Kazakhstan's strategic importance and key role in regional and extra-regional security matters by entrusting it with upholding its institutional values and objectives, as Kazakhstan became the first former Soviet Republic to achieve OSCE Chairmanship.²⁷

The U.S. supported Kazakhstan throughout its initial candidacy, the two governments forming a joint initiative dubbed the U.S.-Kazakhstan Task Force with the goal of shaping and supporting the country's chairmanship. The initiative provided expert analysis and policy recommendations for Kazakhstan, with research carried out by the Center for Strategic and International Studies, a U.S. think tank.²⁸

Kazakhstan joined the WTO in 2015, again with the strong support of the United States. Since joining, it has seen a positive trend in foreign investment inflows across all sectors, achieving an export increase of 15.5% and positive growth in three of four reported years.²⁹

The Expo 2017 in Astana, dedicated to energy, garnered international attention, affirming Kazakhstan's tremendous energy and economic potential. The assertive courtship of foreign investors has assisted in its transformation into a regional finance hub, with the launch of Astana International Financial Center.³⁰ In 2019, Kazakhstan's cumulative gross inflows of foreign direct investment surpass \$350 billion, following positive annual growth in FDI inflows in 10 of the past 15 years.³¹ In 2021, membership in Kazakhstan's Astana International Financial Centre reached 792 companies, up from just 50 in 2018.³²

Joint Comprehensive Plan of Action on Iran

Kazakhstan played an important role in the realization of the Iran nuclear deal, officially known as the Joint Comprehensive Plan of Action (JCPOA). Two rounds of negotiations were hosted in Kazakhstan from 2013 to 2015, involving the five permanent members of the U.N. Security Council, Germany (P5+1), and Iran.³³ Kazakhstan's support for the non-proliferation agreement helped in its October 2015 adoption and January 2016 implementation.

The voluntary surrender of the country's nuclear arsenal made Kazakhstan a role model and a natural and fitting site for diplomatic talks. This gesture of peace and the nation's subsequent leadership were not merely idealistic, but a pragmatic choice. President Nazarbayev made note of Kazakhstan's efforts to "show other countries how abandoning nuclear weapons can be good for their security."³⁴ In exchange for nuclear weapons, Kazakhstan became a trusted ally of the globe's great powers. An astute multi-vectored foreign policy and championing of peace have worked to raise Kazakhstan's reputation further, ensuring that its global ties translate into dynamic economic growth. This trajectory stands in stark contrast with

nuclear-capable states such as North Korea and nuclear-aspiring countries like Iran, who have been relegated to the margins of the global economy and international community.

Kazakhstan has leveraged its insider track amidst the pre-JCPOA talks to establish itself as Iran's sole supplier of uranium. As the world's leading uranium producer, Kazakhstan was called upon to provide 60 tons of raw uranium to Iran in exchange for Tehran sending over 300 kilograms of highly enriched uranium to Russia to be converted into fuel rods less easily integrated into nuclear weaponry.³⁵ Kazakhstan's model of diplomacy and economic growth over saber-rattling is one which should be considered by other states eager to shed the specter of nuclear armaments.

The Astana Process

Kazakhstan's position as a bridge between the East and West was never more evident than during the Astana Process talks. The Central Asian peacemaker was chosen as an alternative host for the talks between the Syrian government and the opposition due to its position as a truly credible neutral site for all participants, while maintaining an informal link to the U.N. Special Envoy Staffan de Mistura called the Geneva and Astana processes "complementary and mutually supportive actions."³⁶

Syrian, Russian, Turkish and Iranian delegations gathered ten times in Kazakhstan to work towards de-escalation of the ongoing Syrian conflict. The sixteenth and latest round of talks took place in Nur-Sultan on July 8, 2021.³⁷

The negotiations helped to mitigate bloodshed in Syria, but they also reduced the conflict potential between Russia and the West. Kazakhstan's extensive and trusted diplomatic ties to Eastern and Western powers allowed the young country to act as a trusted mediator between actors with diverging interests. Kazakhstan's ability to bridge ideological and political gaps between belligerents allowed the peace talks to be more productive.³⁸

2. Modern Diplomacy and Security Challenges

Nazarbayev's legacy is multifaceted as a nation builder, but also features his promotion of multi-vector diplomacy. Over the past three decades Kazakhstan has achieved economic and diplomatic successes in a difficult region of the world, with the land-locked country bordering both Russia and China. Kazakhstan has sustained its independence, grown economically through the export of its natural resources, and established a reputation for diplomatic skills and international mediation.

Pragmatism, dependability, and leadership are traditional tenets of Kazakh diplomacy, a style shaped by the people's nomadic history, harsh climate, and challenging geography. Today, against the background of ongoing global geopolitical shifts, Kazakhstan has entered a new phase of its political transformation.

In March 2020, Tokayev approved the new *Concept of Kazakhstan's Foreign Policy for 2020-2030*, based on principles of multi-vectoral, pragmatic relations and a proactive approach to international challenges. His administration's vision for Kazakhstan's next decade of diplomacy prioritizes developing friendly, equal, and mutually beneficial relations with all states, and taking a leadership position in various interstate and international associations. Tokayev has been credited for inventing the concept of multi-vector foreign policy back in 1996, promoting Kazakh language education and cultural independence and building new relationships while retaining close ties with geographic and cultural neighbors.³⁹

Kazakhstan's multi-vector foreign policy will be tested with the challenge of navigating between a more aggressive Russia and a more assertive, powerful China. The new *Concept of Kazakhstan's Foreign Policy*

for 2020-2030 reflects the nation's proactive multi-vector approach, setting the stage for Kazakhstan's rising leadership within the international community.

A career senior diplomat, a distinguished international public servant, and twice-foreign minister, President Tokayev personally leads his country's foreign policy. *The Concept* represents the first strategic high-level document to be approved during his tenure as head of state, making clear Kazakhstan's intention to position itself as an "active and responsible international community participant and contributor to ensuring international and regional stability and security."⁴⁰

Even beyond the Nazarbayev era, the country remains dedicated to effective neutrality in the clashes and conflicts of world powers, despite membership in the China-dominated Shanghai Cooperation Organization and Russia-centered Eurasian Economic Union. Kazakhstan has openly declared its intentions to consolidate its status as a "leading state in the region."⁴¹ In pursuing this, Kazakhstan weighs its partnerships with great powers equally, avoiding favoritism toward China, Russia, the U.S., or the EU. Kazakhstani diplomats have supported the expansion of multilateral dialogue and cooperation amongst Central Asian neighbors, and stand ready to broker and strengthen relationships across and on behalf of the region.

U.S.-Kazakhstani Relations and Withdrawal from Afghanistan

The U.S. withdrawal of forces from Afghanistan presents threats and opportunities for Kazakhstan, both of which will require determined leadership to address. Kazakhstan has acted as a promoter of regional security, cooperation and integration in Afghanistan throughout America's war there. It has long provided financial and organizational support for the reconstruction of Afghanistan and ISAF mission, with a handful of medics and officers rotating through the country during the American presence.⁴² Humanitarian aid has included higher education initiatives; deliveries of food, clothing, and essential goods; and rebuilding infrastructure in a country decimated by decades of war.⁴³ But with America's withdrawal, Nur-Sultan and other countries of the region must prepare to shoulder a larger share of the Afghan burden.

Facilitating Afghanistan's integration into regional economic, energy, and security frameworks is a key component of Kazakhstan's diplomatic agenda. An Afghan observer recently attended the Council Meeting of the U.S.-Central Asia Trade and Investment Framework Agreement (TIFA) in March, a valuable step to strengthening trade and diplomatic ties between Afghanistan and the West, and a success for Kazakh diplomacy.⁴⁴

A peaceful and cooperative Taliban government in Afghanistan, albeit unlikely, would bring with it expanded border cooperation, including the stronger border checkpoint infrastructure and better border policing, protection, and control.

Deeper cross-border cooperation with Afghanistan would open a wide range of new trade and economic opportunities for investment, agriculture, water and energy, social protection, and labor migration. Shorter interstate trade routes would also enhance connectivity between Kazakhstan and the rapidly developing South Asian region, including Pakistan and eventually India. The infrastructure and logistics improvements, reduction in border delays and tariffs, and harmonized rules, regulations, and standards between the neighboring nations could have a significant positive impact on Kazakhstan's economy. Jean-Francois Marteau, the World Bank Country Manager of Kazakhstan, points to a "clear link between investments in infrastructure and the level of the gross regional product."⁴⁵

Unfortunately, the above is the best-case scenario. Higher levels of security turbulence are expected in Q3-Q4 2021 and beyond, and Central Asia is likely to undergo a period of readjustment as the Taliban consolidates its rule over Afghanistan.⁴⁶ There are serious risks to regional security with the withdrawal of forces, including the emergence of violent extremist groups such as “ISIS-K.” The ANA and its counter-terror apparatus are no more, leaving a substantial intelligence and capacity gap in terms of international terrorist containment. Violent extremist groups that have relocated to Pakistan since the U.S. invasion will have the opportunity to return, expanding opium poppy plantations and possibly smuggling opium across Central Asia on their way north, to finance their nefarious activities. Opium and methamphetamine production in the region has hit record highs, fueling the violent groups’ financial reserves.



(Photo by Andrew Harnik-Pool/Getty Images)

President Biden Delivers Address On Afghanistan From White House Treaty Room

WASHINGTON, DC - APRIL 14: U.S. President Joe Biden speaks from the Treaty Room in the White House about the withdrawal of U.S. troops from Afghanistan on April 14, 2021 in Washington, DC. President Biden announced his plans to pull all remaining U.S. troops out of Afghanistan by September 11, 2021 in a final step towards ending America’s longest war.

Kazakhstan has been actively fighting drug trafficking, having established the Central Asian Regional Information and Coordination Center for Combating Illicit Trafficking of Narcotic Drugs, Psychotropic Substances and its Precursors (CARICC) in Almaty.⁴⁷ The Center enables Central Asian governments to coordinate their fight against drug trafficking, part of which has been preventing the desperate circumstances which allow crime to flourish.

Kazakhstan also accomplished important goals in rehabilitation of jihadi fighters and their family members. While remaining neutral in the war, Kazakhstan has taken a humanitarian approach in its repatriation program for foreign ISIS extremists and their families. The program addresses their relocation, medical needs, educational gaps, psychiatric assistance, safety nets, and employment. Then-First Deputy Foreign Minister Yerzhan Ashykbayev, now Kazakhstan’s Ambassador to the U.S., describes the program as “an ongoing long-term fight for the hearts and minds of these people” in an interview with the Atlantic Council.⁴⁸

While the withdrawal of troops from Afghanistan signals a shift in U.S. foreign policy – one that may very well invite instability if not managed effectively – astute policy makers continue to recognize the geoeconomic and geostrategic advantages of continued engagement with Central Asia. Strengthening the existing partnership through diplomacy, investment, and cooperation will be beneficial to both the U.S. and Kazakhstan. For Washington, increased reliance on Nur-Sultan to contribute to regional security signals a new level of trust in the bilateral relationship. For Kazakhstan, the U.S. troop withdrawal is an opportunity to grow to a senior partner in regional security issues.

3. The Democratic Transition Challenge

The March 2019 transition from the presidency of Nursultan Nazarbayev, after twenty-nine years of rule, to Kassym-Jomart Tokayev was a well-planned transfer of power. The ease of this leadership transition may portend a positive future for Kazakhstan. While Nazarbayev has been criticized for weakening the presidency through a series of constitutional reforms that allow him to remain Chairman of the Security Council of the Republic of Kazakhstan for life, the First President has thus far shown full deference to Tokayev with little evidence of post-transition interference.⁴⁹ By all accounts, the Chairman role, historically played by Deng Xiaoping and Lee Kuan Yew after their resignations, appears to suit Nazarbayev.

A key player in Nazarbayev's inner circle, Tokayev brings considerable experience as the former Foreign Minister, Prime Minister, Chairman of the Senate, and Under Secretary General of the U.N. Thus far, Kazakhstan has proven relatively resilient despite an economic recession brought about by declining oil prices, and has continued to expand human rights protection and civic participation. This is an impressive performance in the face of the COVID stress test.

Under his first term, despite COVID-19, Tokayev has taken bold steps to diversify its economy further and advance sustainable development. The country's National Development Plan Through 2025, a medium-term plan for addressing post-pandemic economic recovery and furthering the country's Kazakhstan 2050 plan, lays out Tokayev's ideas for progressive economic growth.

The plan states that the country will look to develop green technologies in coming years, and will secure the necessary financing through "the use of new instruments for financing green projects and the creation of an International Center for the Development of Green Technologies and Investment Projects," to be located in the Expo 2017 facilities in addition to Astana International Financial Center. Digitalization and information and communication technologies are also stated priorities of the post-pandemic economy, such as the acquisition of 3D printers, automated drones, and automation to modernize factories and private businesses.⁵⁰

Public-private partnerships will be further developed as part of the nation's plan to promote economic growth.⁵¹ To ensure socio-economic stability during the pandemic, Kazakhstan has focused on increasing salaries, pensions, allowances and scholarships, supporting small and medium-sized businesses, creating new jobs and affordable housing.

Individual freedom is also moving forward, albeit not too fast. The 2020 Freedom House annual report suggests there has been a trend of improvement in government tolerance for freedom of assembly in Kazakhstan, with small group demonstrations increasingly permitted in recent years.⁵² Should this trend continue, there will emerge a growing space for discussion of democratic reform, including some street protests.

In January 2021, President Tokayev presented his latest initiatives aimed at institutional development of Kazakhstan's political system and enhancing the mechanisms for protecting human rights. The reform package includes a reduction of the threshold for political parties to gain seats in parliament from 7% to 5%,⁵³ adding an "against all" option for future election ballots, streamlining the activities of the Commissioner for Human Rights to maximize efficiency, and the creation of regional offices for the Commissioner for Human Rights.⁵⁴ Quotas for women and youth (under 29) in Kazakhstan's 'high-level decision-making' positions across government were initiated by Tokayev in May 2020. Per the order, political party lists are mandated to maintain a 30% threshold of youth and women.⁵⁵ If successfully

enacted, these admittedly modest reforms will likely expand civic participation, develop parliamentarism, and further democratize Kazakhstan.

That said, implementing major political reforms cannot happen overnight. In order to maintain a meaningful pace of political reform, Tokayev must continue to support and fund his new initiatives, while keeping elite and popular political support and fulfilling promises of a better life for the Kazakh people. The proposed changes to local self-government arrangements and associated reform of inter-governmental fiscal relations would be critical in this regard.

III. Energy and Economy

1. Trade Ties and Economic Development Post-Independence

The quest for economic sovereignty has been central to the emergence of the modern, resource-rich Kazakhstan, both as Kazakhstan SSR since Gorbachev's economic liberalization reforms in the late 1980s until 1991, and then as the independent Republic of Kazakhstan. Amongst its many natural resources, oil has played the central role in Kazakhstan's economic development, with foreign direct investment providing the associated technologies and human capital.

The development of the massive Tengiz and the lesser Korolev fields has been essential for Kazakhstan's economic performance in the 1990s and the early 2000s. The huge deposit's geological challenges, as well as the lengthy negotiations that took place over almost a decade, have been well-documented in declassified official documents and academic studies.

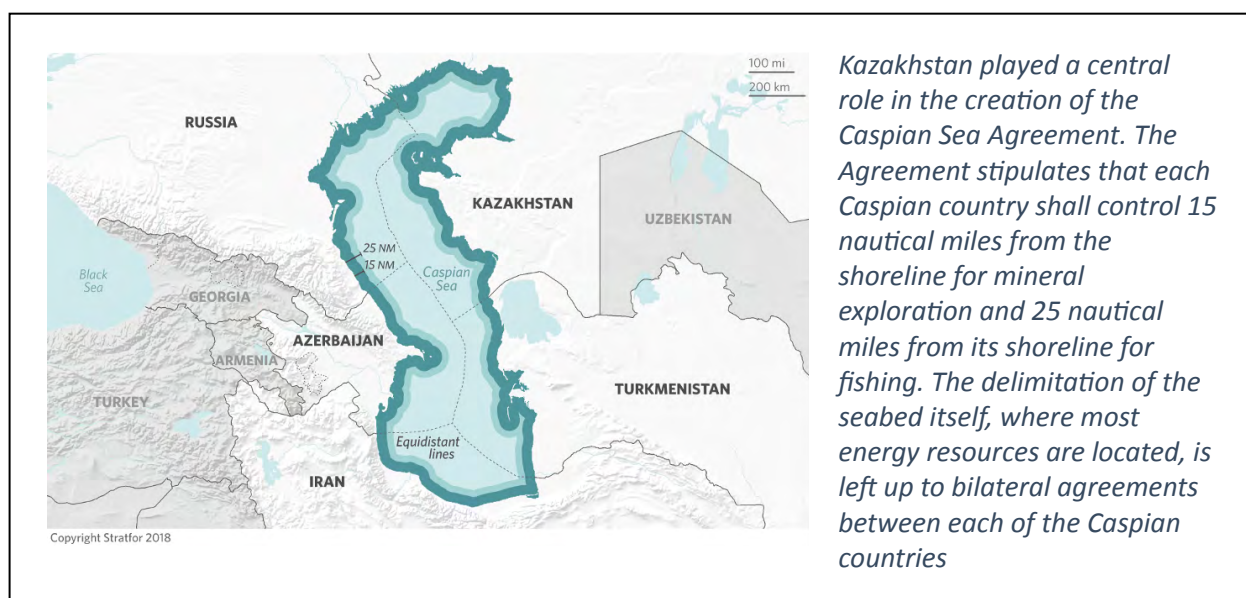
Chevron and ExxonMobil were the leading U.S. companies investing in Kazakhstan's energy sector during this period, having played a special role in the development of Kazakhstan's energy market. Chevron's involvement in the country began with the formation of Tengizchevroil (Tengiz or TCO), a \$20 billion venture started in 1993, jointly owned by the Chevron Overseas Company and a subsidiary of Kazakhstan's national oil company. Over three decades since, Chevron has become Kazakhstan's largest private oil producer, and a partner in other Kazakh ventures such as the Karachaganak Petroleum Operating and Caspian Pipeline Consortiums.⁵⁶ A 25% stake in the Tengizchevroil venture was sold by the government to ExxonMobil in the late 1990s, furthering the involvement of American supermajors in developing Kazakhstan's energy infrastructure. These partnerships became the bedrock of U.S. – Kazakhstan commercial relations.

The Clinton Administration played a pivotal role in the interstate and commercial dealings leading up to the 1996 Caspian Pipeline Consortium Agreement, with National Security Council official Sheila Heslin remarking that "happiness is multiple pipelines." The Consortium bound eight multinational companies by a set of shared understandings and agreements, with the goal of creating pipelines to carry Caspian oil from Kazakhstan's Tengiz Field to Novorossiysk, Russia's Black Sea port. The project would establish a delicate balance between Russia, Kazakhstan, Oman, and shareholders from companies including BP, Chevron and ExxonMobil.⁵⁷

Central to the successful development of the Kazakhstani hydrocarbon industry and of its independent export capacity has been the personal rapport through three decades between President Nazarbayev and investor companies' senior management. However, a primary challenge of Kazakhstan has been striking a balance between satisfying foreign investors and managing domestic and regional interests. Such was the case when usage rights for Caspian Sea oil resources became a point of contention between the five littoral countries: Azerbaijan, Iran, Kazakhstan, Russian and Turkmenistan.⁵⁸

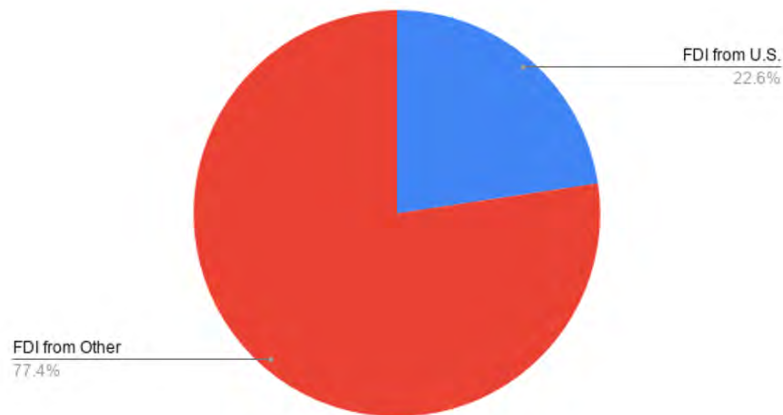
A so-called ‘doughnut’ solution backed by Russia proposed a narrow coastal ‘rim of dominion’ for each of the states, and a large ‘condominium’ for the remainder of the Caspian. When asked for Kazakhstan’s opinion, President Nazarbayev said “I do not like doughnuts.” Nazarbayev instead formulated a new delimitation approach, negotiating bilateral agreements with its neighboring governments.

His diplomatic efforts found expression in the Caspian Sea Agreement of 2018. The international convention’s value lies in its potential to enable cooperation on large-scale energy projects and exploration in previously contested areas. A key clause of the agreement removed the requirement that all five states must approve construction of subsea pipelines, opening the door to a Trans-Caspian Gas Pipeline.⁵⁹ That matter remains a point of dispute between Russia and Iran, however, as the latter has yet to ratify the agreement.⁶⁰

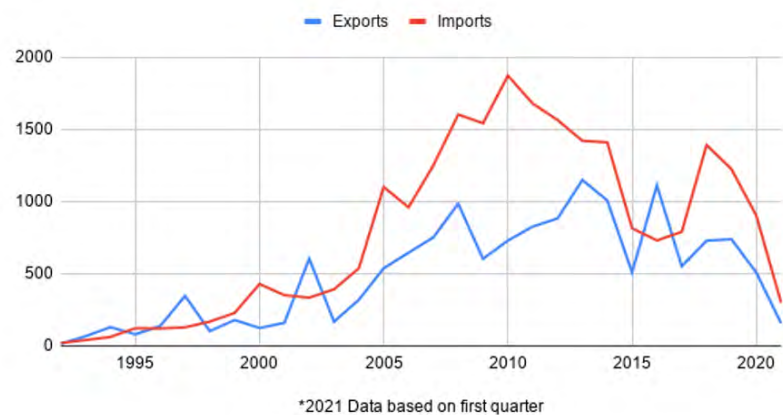


American business are enthusiastic about market opportunities in Eurasia. In September 2020, the U.S. Chamber of Commerce launched the U.S.-Kazakhstan Business Council with the goal of advancing bilateral economic and commercial cooperation between the two nations. The Council builds on the substantial efforts of the American Chamber of Commerce and the U.S.-Kazakhstan Business Association, which laid the groundwork for today’s U.S.-Kazakh economic, trade and investment partnerships.

Through its continual pursuit of economic partnerships and initiatives, the Kazakh government has sought to super-charge investment from U.S. companies. Trade between the United States and Kazakhstan stands at approximately \$2 billion per year.⁶¹ FDI from the United States reportedly exceeds \$53 billion or 15% of the total amount of attracted foreign capital since 1991.⁶² U.S. companies operate across most sectors, notably energy, engineering/rail transport, petro-chemicals, construction, IT, agribusiness, hard-rock mining and metallurgy, and services.

Figure 1.A. Foreign Direct Investment Inflows to Kazakhstan

Data Sourced from World Bank Open Data, 2020

Figure 1.B. U.S. Trade in Goods with Kazakhstan

Data Sourced from United States Census Bureau, 2021

Investment streams to new sectors such as agriculture have formed in recent years. For example, the 2020 deal reached with U.S. food processing company Tyson Fresh Meats⁶³ and the joint venture signed in 2021 by Kusto and Valmont subsidiary Valley Irrigation⁶⁴ will have far-reaching consequences for the development of the whole agriculture sector and its vital water infrastructure.

As proven over three decades of steady economic growth, Kazakhstan has worked successfully with the U.S. to develop into a prosperous market economy. Potential for above-benchmark growth lies in the agriculture, conventional and green energy, services, hard-rock mining, and infrastructure sectors in particular.

2. Energy and Economy in the Modern Era

Despite having fundamentally diversified and modernized its economy since independence, Kazakhstan remains heavily reliant on its natural resources, particularly oil and gas. Fossil fuel revenues form the backbone of the Kazakh economy, encompassing approximately three quarters of exports and 35% of GDP.⁶⁵ While energy exports have helped fuel Kazakhstan's growth, the industry's size leaves the country's economy vulnerable to cyclicity caused by rapid changes in global demand.

This has also been the case amidst the COVID-19 pandemic, with dropping oil and gas prices sending Kazakhstan from +4.5% growth in 2019 to -2.7% in 2020. The IMF forecasts +3.2% GDP growth in 2021, a figure which may be exceeded should smoothly implemented reforms and vaccination rates continue on their current trajectory.⁶⁶ To a large extent, the COVID-19 pandemic and subsequent market shocks have accelerated internal debates in Kazakhstan regarding the "greening" of its economy – transitioning away from hydrocarbon rents towards cleaner energy production.

Kazakhstan remains reliant on foreign capital to fund much of its energy sector development, with a significant portion of FDI directed toward resource extraction. As of January 1, 2019, the stock of foreign direct investment in Kazakhstan totaled USD 166.4 billion, including a figure exceeding USD 53 billion from the United States. The lion's share of this investment has gone towards crude oil, natural gas, and mineral production.⁶⁷ Chevron holds 50% and ExxonMobil 25% of TCO and, respectively, 18% of Karachaganak BV and 17% of Kashagan, the lesser 'giants' of Kazakhstan's hydrocarbons.

The Central Asian country boasts strong trade relations with neighbors China and Russia, with China's Belt and Road Initiative a massive source of infrastructure investment. However, there are concerns among both the elites and the populace about growing overly dependent on China.⁶⁸ A stance of pro-business investment neutrality will allow Kazakhstan to reach profitable agreements with governments and corporations from around the world, including the U.S.

Nur-Sultan has promoted investment-friendly reforms to help attract foreign investment since independence, yet barriers to investment security and predictability remain. In spite of recent progress on the tax decriminalization issue, the legal framework remains incomplete, law application and court practice can be inconsistent, and the budget-inspired aggressiveness of the tax authorities deterring. The Astana International Financial Centre, with its English common law framework, is an exception to the norm.

President Tokayev has prudently stressed economic diversification as essential to Kazakhstan's recovery and evolution into a leader amongst the states of Central Asia. With his new "gas initiative," the President has, however, explicitly acknowledged that the benefits of economic diversification do not mean Kazakhstan should rush to abandon what remains an essential industry, particularly when the proceeds of fossil fuel exports have supported the country through the pandemic. The optimism of a vaccine-enabled return to normalcy has boosted global oil prices from the 17-year low of \$25 a barrel to Brent price over \$70 in June 2021, a surge which saw Kazakhstan negotiate with OPEC+ to boost production by 10,000 bpd in both February and March 2021.⁶⁹ With rich natural resources, such as in the Tengiz, Kashagan, and Karachaganak fields, it is sensible for Kazakhstan to continue exporting.⁷⁰

Kazakhstan's competitive advantage in mineral extraction should also not be abandoned. The mining sector represented an estimated 14% of GDP in 2019 with minerals and metals accounting for 16% of the country's exports by value. In 2020, the country earned \$2.5 billion from exports of refined copper alone.⁷¹ Perhaps most significantly, Kazakhstan is the largest producer and exporter of uranium in the

world, accounting for 43% of global supply in 2019.⁷² Uranium is the fuel for nuclear power plants – a key source of clean baseload electricity across the globe.

However, Kazakhstan must plan for the coming decades, wherein investors and importers will favor alternative energy sources over greenhouse gas (GHG) emitting hydrocarbons. One area in which Kazakhstan can capitalize on this clean energy trend is the extraction of rare-earth elements (REEs): 17 chemically similar elements known as the lanthanoids, which are vital to the production of many modern tech products, from semi-conductors to solar panels to electric vehicle batteries. Because rare earths can also be produced from uranium tailings (waste), Kazakhstan has enormous potential as a rare earth element producer. Leading companies in Germany, Japan, and France are already investing in Kazakhstan's REE capacity with the partnership of domestic Kazatomprom, including funding for refining infrastructure.⁷³ Kazakhstan's first REE production facility is already under construction in Stepnogorsk, northern Kazakhstan. Planning ahead will allow Kazakhstan to maintain its position as a top energy and mineral exporter, while pursuing the clean energy transition.

3. Kazakhstan's Green Future

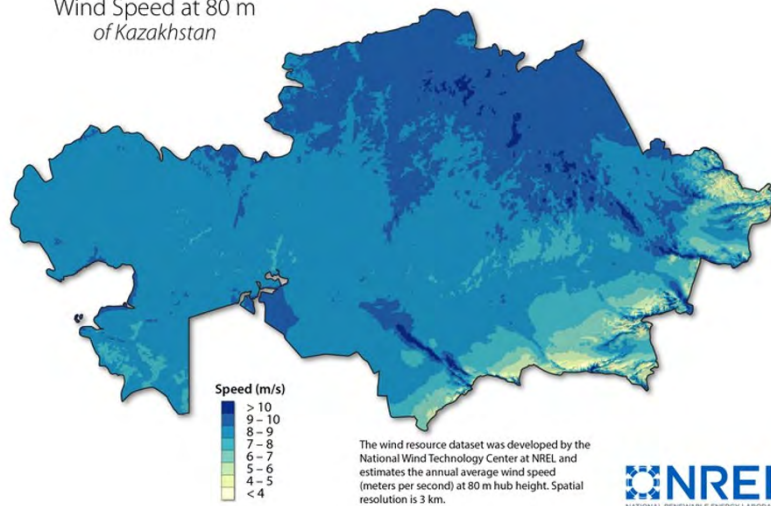
Kazakhstan has signalled support for renewable energy development with its signatory status to the Paris Climate Agreement, pledging in its own climate action plan to reduce national greenhouse gas emissions by between 15% and 25% by the end of 2030, the higher figure subject to greater levels of foreign investment and access to developing climate technologies.⁷⁴ President Tokayev announced his support for increasing the national share generated by renewable energy sources to 15% by 2030 in a May 26 meeting.⁷⁵

These numbers are baselines for the highly ambitious goal of transitioning to 50% renewable energy by 2050, as has been stated by the country's Council for the Green Economy Transition. This benchmark will only be possible with consistent investment into green industry and infrastructure. In November, the Asian Development Bank raised just under 14 billion tenge (\$32 million) selling its first green bonds on the Kazakhstan Stock Exchange.⁷⁶ Vastly more money has come from investments by western and eastern corporations, incentivized by investment subsidies and loan guarantees.

Kazakhstan's climate provides bountiful sunlight and wind to tap for renewable energy, though much of this potential remains unexplored.⁷⁷ Currently, the country has 72 active renewable energy facilities with a total capacity of 634 megawatts (MW). Of this capacity, 200.25MWs come from hydroelectric power plants, 249 MWs from solar power stations, 183.25MWs wind power stations and just 1.65 MWs are from biogas.⁷⁸ All told, Kazakhstan's renewable energy capacity is approximately one half of a large conventional nuclear power station, which typically reach over 1 gigawatt (GW) in output. But there is room to grow.

Figure 2.A. Kazakhstan wind speed at 80 meters altitude

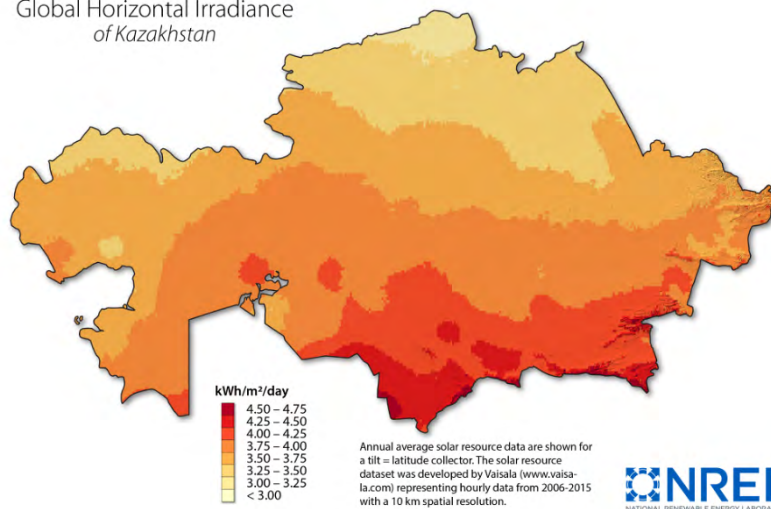
Wind Speed at 80 m
of Kazakhstan



Source: National Renewable Energy Laboratory

Figure 2.B. Global Horizontal Irradiance of Kazakhstan

Global Horizontal Irradiance
of Kazakhstan



Source: National Renewable Energy Laboratory

As illustrated in Figures 2A and 2B, Kazakhstan’s solar and wind resources have significant wind exposure and solar irradiation potential. In spite of these vast natural resources, Kazakhstan remains dependent on fossil fuels for its domestic electricity mix, with coal accounting for over 70% of total power generation. The construction of additional generating capacity is critical for sustainable growth. Highlighting this potential and the success of previous investments will be essential to attracting further

financing from China, the U.S., and Europe. Notable examples include the Asian Infrastructure Investment Bank's financing of the Zhanatas 100 MW wind farm⁷⁹ and the European Bank for Reconstruction and Development's 76MW solar plant in the Karaganda region.⁸⁰

Buoyed by surging foreign investment, Kazakhstan's green transition promises not only reduced emissions but a stronger economic foundation upon which to further develop as a regional power. As part of the Batumi Initiative on Green Economy (BIG-E), Kazakhstan has established International Center for Green Technology and Investment, taking a leadership role in facilitating the penetration of green technologies and practices across Central Asia.⁸¹

As a hydrocarbon exporter, Kazakhstan faces institutional obstacles to a green transition, yet has demonstrated resolve and foresight in prioritizing its long-term interests. However, long-term success will depend on maintaining a favorable investment climate. Kazakhstan must continue to provide and improve upon current incentives for investment, while continually striving to foster reliable legal and tax frameworks.

One prong of Kazakhstan's clean energy strategy is green financing through the Astana International Financial Centre (AIFC), Kazakhstan's bid to become a regional (and eventually global) financial market player.

4. The Astana International Finance Centre (AIFC)

With stiff competition for regional and global investment, it has never been more important to address the investment climate for new and existing investors. One way in which Kazakhstan plans to address the issue is through building up its role as a regional financial powerhouse. Among substantial innovative inventions independent Kazakhstan has undertaken, at the initiative of Nursultan Nazarbayev, is the AIFC project.

Through the AIFC, Kazakhstan intends to transform itself into a regional financial hub. The Centre offers its patrons a stock exchange, start-up incubators, access to Islamic finance, a fintech incubator, as well as litigation and arbitration tribunals led by English law jurists. As is evident in the diversity of services offered by the AIFC, the institution follows a double-edged strategy that simultaneously seeks to facilitate and promote foreign investment in Kazakhstan, while assisting homegrown Central Asian enterprises to break into global markets.⁸²

The AIFC became operational in June 2018, following the innovative 2017 Astana Expo, and has achieved initial success thanks in part to highly favorable incentives for business, including various tax exemptions. Individual income tax holidays with expiration dates as far out as 2066 emphasize the forward thinking and long-term nature of Kazakhstan's structural planning.

Possessing a judicial and legal system based on the English law and distinct from the Kazakh legal system proper, the AIFC will likely hasten the pace of foreign investment in Kazakhstan. In addition to offering Islamic finance – raising capital in accordance with Islamic Sharia law – the AIFC is also heavily involved in green financing.⁸³ In June 2018, the AIFC launched its Green Finance Center, a platform for implementing and funding clean energy projects domestically and in neighboring countries:

AIFC supports the development of green finance, and provides a platform for issuing green bonds for companies that implement projects to ensure more efficient use of existing natural resources, reduce negative environmental effects, improve energy efficiency and mitigate the impact of, and enhance adaptation to, climate change.⁸⁴

Nur-Sultan's combination of dynamic growth and lean regulation are in part consequences of the competition between various Muslim-majority nations positioning to assume leadership specifically in Islamic finance. Rivals in this sphere include the United Arab Emirates, Malaysia, and Tatarstan within Russia.⁸⁵ Institutions versed in Islamic banking and finance will attract traffic and money from the greater Islamic world.

While Kazakhstan faces established competitors including the U.S., China, and Israel in financial technology (fintech), Central Asia has proven an untapped market with considerable potential. Applications such as Kaspi.kz's Super App facilitate cash-free payments, with other devices and apps under development at the AIFC incubator.⁸⁶ The encouragement of these startups reflects the long-term strategy of the AIFC. Some may fail, but success stories like Kaspi.kz will attract more attention and more money to Kazakhstan, and strengthen its position as the region's financial hub.

As with any economic strategy, Kazakhstan's attracting of foreign investors through taxation incentives comes with risks. In spite of success stories like Kaspi.kz, a business-friendly tax regime could hinder the state's ability to generate tax revenue. Investments that foster resilience in the face of crises like COVID-19 and the continuing economic downturn should take priority. Immediate infrastructure projects that create jobs should be prioritized in order to fuel both short- and long-term economic growth.

The AIFC's development to transform Kazakhstan into the financial hub of Central Asia is a decidedly long-term strategy. In order to ensure success, Kazakhstan must continue to improve governance of its state-owned enterprises, further privatization, and strive to ensure integrity and fair competition. These changes would be particularly important since, as elsewhere, investment in infrastructure, renewable energy, and digitization projects — with support from the state, public-private partnerships, or international financial institutions — are being sought in order to create jobs and deliver tangible assets for long-term economic growth. U.S.-Kazakhstani relations are key in this endeavor.

5. U.S.-Kazakhstan Collaboration

Economic cooperation between the United States and Kazakhstan has only risen over the course of the Central Asian nation's maturing independence. American expertise and capital have left an indelible mark on the country's economic development, beginning with visits by American leaders, diplomats, economists, and business leaders following the fall of the Soviet Union and culminating in today's network of over 700 American companies that do business in the country.⁸⁷

In January 2018, President Nazarbayev was hosted by President Trump in the White House, discussing U.S.-Kazakhstan relations and bilateral trade. The summit resulted in commercial agreements amounting to over \$2.5 billion, including contracts between Boeing and Kazakh airlines and railway initiatives involving national rail company Temir Zholy.⁸⁸ Since succeeding Nazarbayev, President Tokayev has encouraged U.S.-based banks and corporations to open branches in Nur-Sultan.⁸⁹

Following President Nazarbayev's visit, a delegation of 16 major U.S. businesses traveled to Kazakhstan in October 2018 in the first US Department of Commerce Certified Trade Mission to Kazakhstan. The trade mission resulted in agreements in aviation and space research, agriculture, the petrochemical industry, and infrastructure development.

In early January 2021, DFC CEO Adam Boehler travelled to Central Asia to promote the 'Blue Dot Network' initiative, an international effort by Australia, Japan, and the United States to mobilize funds for critical infrastructure investments in capital-constrained developing nations. Following Boehler's visit, the U.S.,

Kazakhstan, and Uzbekistan announced the launch of the Central Asia Investment Partnership initiative, promoting regional economic partnership and prosperity. The DFC, the AIFC, and the Uzbek Ministry of Investments and Foreign Trade seek to raise at least \$1 billion over five years to support international-standard infrastructure projects, with hopes of advancing private-sector growth; promoting inclusive and transparent investments; and increasing economic connectivity within Central Asia and the broader Eurasia Region.

During his meeting with Ambassador-designate Ashikbayev in April 2021, President Tokayev highlighted importance of further developing the strategic partnership with Washington. The United States is the largest investor in Kazakhstan's economy, while trade and economic cooperation in energy, agriculture and new technologies are actively increasing. Beyond purely economic interests, the two countries have a solid track record for cooperation in the cultural, humanitarian and educational areas, one example of which is the Bolashak Program.

The Bolashak Presidential Scholarship Program has been a pillar to Kazakhstan's success in attracting investors and building strong relations overseas. The Program allows high-performing Kazakh students to attain higher education abroad, conditional upon returning post-graduation for five years or more to work in Kazakhstan.⁹⁰ The most popular countries of study for Bolashak scholars are the U.S., the U.K., Germany, and Russia, with students training in fields including business, international law and international relations, and the STEM fields. Since 1993, over 12,898 Kazakhstani students have received Bolashak Scholarships. Of the 83 educational institutions which have reached agreements with Kazakhstan, 31 are in the United States.⁹¹

While the Kazakh government encourages study abroad and many Bolashak scholars choose to study in the U.S. and United Kingdom, English proficiency remains low among the general population. Kazakhstan currently ranks 92 out of 100 countries on the English proficiency index, which it is striving to improve as it promotes investment and business in the current lingua franca of the world.⁹² Substantial work is already underway to address this, with government action to promote English learning in schools.⁹³

The Nazarbayev-era "Trinity of Languages" program implemented a trilingual curriculum in public schools, meeting the Ministry of Education's goal to have 100% of public-school students study Kazakh, Russian, and English by 2020. All students in 5th grade and higher will study the history of Kazakhstan in Kazakh and English, with world history will be taught in Russian.⁹⁴

To ensure an educated professional class with ties to and in the U.S. and Europe, Kazakhstan should continue and consider expanding the Bolashak Program, as well as other study abroad initiatives. In putting its best foot forward with its best and the brightest serving as cultural ambassadors and carrying their expertise back home, Kazakhstan will ensure the human capital development necessary for economic growth and technological development. Human capital is likely to prove an essential component of Kazakhstan's long-term plan of economic transformation.⁹⁵

6. The Impact of COVID-19

The 2020 pandemic gave a new impetus to reforms and highlighted the need for structural political and economic changes. Cross-sector initiatives to reorganize and elaborate state regulatory and promotional institutions and policies were unveiled in President Tokayev's September 2020 state-of-the-nation address, "Kazakhstan in a New Reality."

A new economic policy with actions affecting major sectors and the substantial small and medium size

enterprises (SMEs) component, for implementation in 2020-2021, was announced. While the pandemic prompted consideration of ambitious reforms to adapt to the 'new reality,' current issues facing business need attention, along with improvements in the investment climate.

In the short term, Kazakhstan has benefited from international aid to fight the effects of the pandemic. The U.S. government delivered \$6.2 million in COVID-19 aid and supplies to Kazakhstan in 2020.⁹⁶ The World Bank added \$10 million for the purchase of 236 mechanical ventilation devices (IVL) to Kazakhstan as part of the restructuring of the social health insurance project.⁹⁷ The Kazakh taxpayer, state treasury, and Central Bank paid the lion's share of expenses earmarked to fight COVID-19 and its social and economic fallout.

Kazakhstan appears to have withstood the stress test. World Bank economists have spoken favorably of the ongoing economic reforms, but emphasized the need for inclusive policy to avoid growing inequality. Estimates show poverty in Kazakhstan in 2020 had risen to 12-14%, from a baseline of 6% four years previously.⁹⁸ Rising poverty is largely unavoidable mid-pandemic, but a steady health response and prioritization of rural areas in which recovery might be slowed can mitigate these problems. Part of Kazakhstan's and its neighbors' challenge emerging from COVID-19 and diversifying its economy will be ensuring that few are left behind.

Yet, inflation is remaining a challenge. Kazakhstan's Bureau of National Statistics reported that in Q1 2021, GDP growth contracted 1.5% year-on-year. Inflation in 2021 was projected to be 4-6% year-on-year, but the rate having reached 7% year-on-year in the first quarter of 2021. Business investment reportedly dropped by some 5% in 2020, with a sharp decline understandably in FDI in oil and gas.⁹⁹ While these figures remain concerning, the long-term trend remains positive. The World Bank has forecasted 3.5-4% growth in 2021.

As elsewhere, short-term economic prospects depend on the ability of the social safety net to sustain household consumption and of the banking sector to provide liquidity to firms. The principal, long-term structural challenge remains to diversify production and employment, and to further reduce reliance on commodity exports. On August 11, 2021, Moody's upgraded Kazakhstan to a Baa2 rating, and changed its outlook from stable to positive.¹⁰⁰

IV. Conclusion

The collapse of the Soviet Union 30 years ago left Moscow helpless to prevent Western influence in its former satellites. Since then, Kazakhstan's state institutions and economy have benefited greatly from American and European involvement, ushering in democratic reform, market liberalism, and civil society protections. The legacy of Russian economic and security interests still linger, though Beijing may soon supplant Russia as Central Asia's most prominent Eurasian partners. How this relationship unfolds, especially vis-à-vis the multi-trillion Belt and Road Initiative, will have massive implications for the future of U.S. – Kazakhstan relations. The multi-vector diplomacy so deftly crafted by Nazarabayev to balance Russia, China, Europe, and the United States, will be put to the test.

Diplomatic relations between the U.S., Russia, and China have rarely, if ever, been worse than they are today. The cyber, military and economic confrontation is growing. The balance of power is shifting. The hasty U.S. withdrawal from Afghanistan will no doubt create a power vacuum in the region that will embolden Eurasia's great powers. Meanwhile, America's reputation and dependability as an ally is tarnished.

If tensions between the U.S., Russia, and China do not unwind, Kazakhstan will find it increasingly difficult to maintain its traditional role of bridge between the East and West. The country's equidistant approach to foreign policy will be tested as great powers vie for influence and access to Kazakhstan's resource wealth and strategic location. Kazakhstan's central role in China's Belt and Road initiative could have implications for Kazakhstan's political and economic sovereignty, as Chinese capital floods into the country and Beijing's gravity pull increases.

President Tokayev could also find himself on a tightrope, caught in the middle of a U.S.-China and U.S.-Russia strategic competition and amidst personal feuds between President Joe Biden and Vladimir Putin, and Biden and Xi. However, great power confrontations mean Kazakhstan's role as a convener of peace talks with open lines of communications to all capitals will be all the more vital. Its status as a promoter of regional security is likely to grow. Kazakhstan demonstrated during the Astana Process that its leadership is capable of leveraging its diverse set of relationships to facilitate dialogue, mitigate conflict, and entice a range of stakeholders to move towards peace.

As the largest country and economy in Central Asia, Kazakhstan naturally sets the pace for economic and social development. However, the country's position will require it to assume leadership in matters of security when it comes to stabilizing a region that has been fraught with armed conflict, terrorism, crime, and social and political upheaval. Such was the case with the ongoing Istanbul Process and that of the 2018 Caspian Agreement, when Kazakhstan took the reins in negotiations that led to multiple bilateral agreements between neighboring states.

For the next decade, Kazakhstan must seize the opportunity to further regional integration. Cultural, social, and historical linkages are inherent between Central Asian countries, yet levels of development vary vastly from one nation to the next. It is in Kazakhstan's best interest to not only continue strengthening ties with the world's largest economies, but to invest heavily in cooperation, connectivity and integration. The need to enhanced regional partnerships will be even more crucial in the wake of the U.S. exit from Afghanistan. Instability in this neighbor has the potential to manifest in a number of negative ways, not least of which are the proliferation of violent extremism and refugee crises. Kazakhstan must assume a leadership role in guaranteeing regional security, ideally with assistance from Western partners. It remains to be seen if the Biden administration will commit resources to its Central Asian ally in pursuit of this objective.

Further, Kazakhstan is the only Central Asian economy prepared to begin working towards a clean energy transition. This means it must also take up regional leadership in initiating the transformation. Kazakhstan's neighbors share many climatic and geographic characteristics that make them capable of generating vast amounts of solar and wind energy. Investing in renewable energy now, even as fossil fuels remain a viable source of income, will facilitate a smooth process of diversification and technological development.

Kazakhstan aspires to become one of the world's top 30 economies by 2050, and its progress could be accelerated by OECD membership. As with WTO accession in 2015, the support of the U.S. could be vital. The OECD's 50th Anniversary Vision Statement promised a safe environment for investment and a trend of rising liberalization:

OECD Members form a community of nations committed to the values of democracy based on rule of law and human rights, and adherence to open and transparent market-economy principles.

First President Nazarbayev's Kazakhstan 2050 Strategy outlined the planned development strategies to see Kazakhstan listed among the 30 most developed states within the next three decades, with strategies in place under the current government.¹⁰¹ Renewable infrastructure projects and the successes of the AIFC can be counted as functions of this comprehensive plan, which includes calls for the strengthening of domestic business, expanding infrastructure and the agricultural sector, and furthering educational opportunities.

Considering the currently precarious state of U.S. diplomatic relations with Russia and China, it is of great importance that the current Administration upholds the strong diplomatic and economic ties established over the past three decades. Kazakhstan's support for U.S. security and business activities in the region serves as an essential counterweight to forces of terrorism and religious fundamentalism throughout Asia, Eurasia, and the Middle East.

This engagement in issues of regional security will allow Kazakhstan to pursue an agenda of human rights and political reform not just within its own borders, but across the region. President Tokayev has noted political reforms as essential to the economic development of Kazakhstan, both providing a sense of assurance to foreign investors and allowing for the emergence of strong and functional domestic marketplaces. The active pursuit of concrete measures toward democratization and protected rights has and will accelerate Kazakhstan's long-term positive economic trends.¹⁰²

Kazakhstan's growing economy and developing financial sector add economic incentives to continue building ties. The country's mineral wealth will make it a major player in the world's energy system as economies gradually shift to renewable energy sources that require unprecedented quantities of critical minerals and rare earth elements. The U.S. should utilize this opportunity by investing in Kazakh mining, paying particular attention to these materials.

The past thirty years have seen Kazakhstan evolve from an exploited, oppressed, and polluted Soviet Republic to a dynamic and forward-looking emerging economy. With a track record of political stability, complete with a recent peaceful transition of power under its belt, the Kazakh government has taken every step to ensure its continued evolution into a serious regional power and attractive investment hub. As a bridge between East and West with a demonstrated talent for mediation, Kazakhstan should be relied upon as a valuable U.S. strategic partner well into the next thirty years.

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