

# Kazakhstan: Central Asian Giant Battles World Crisis

By [Muriel Mirak-Weissbach](#)

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Kazakhstan's success story has been rightly praised in both the East and in the West. Under the leadership of its President, Nursultan Nazerbayev, this leading political and economic power in Central Asia has made the transition from a Soviet-style economy to a modern social market economy, without falling into the excesses of neoliberal policies, and without relinquishing its national sovereignty.

That notwithstanding, it has not been able to escape the ravages of the current financial crisis which has swept across the globe. Now the country's leadership is facing the third major upheaval since the country declared independence in 1991, — after the breakdown of the Soviet system and trade relations in 1992, and the crisis that hit in 1998. Given its full integration into regional economic, political and security arrangements, and its excellent relations with the West—especially Germany—, there is good reason to hope that it can engage with its neighbors and allies, in developing the means to protect its achievements and contribute to shape a new financial and economic order.

The matter is high on the agenda of the Kazakh political elite. It took center stage at an international conference held in Astana on October 16, in which this author participated. The original title of the conference, organized by the Committee on International Affairs, Defense and Security of Mazhilis (Parliament) of the Republic of Kazakhstan, had been "A Stable Kazakhstan in an Unstable World," but in the weeks preceding the conference, as the world banking system proceeded to blow apart, the title was redefined as "New Challenges and Kazakhstan's Contribution to Stability and Security." In his keynote address, Nurbakh Rustemov, Chairman of the hosting parliamentary committee, used no euphemisms to address reality; he bluntly stated that the world financial crisis was leading to a "misunderstanding" among geopolitical forces, and carried the danger of a direct threat to humanity, through hunger and poverty.<sup>(1)</sup> He called for uniting forces internationally, to overcome the financial-economic crisis, which he dubbed the "number one priority." Rustemov mentioned the Shanghai Cooperation Organization, of which Kazakhstan is a founding member, as well as the OSCE, which Kazakhstan will chair beginning 2010, as bodies his government would like to utilize to find solutions to the crisis. Two concrete means that his country could use to impact the crisis, would be in securing energy resources, and providing grain and meat exports to alleviate food shortages. In addition, he emphasized the importance of strengthening the regulatory role of the state, since the system "can not work alone." Multilateral and bilateral treaty agreements should be pursued to face the immediate challenges.

The military/security dimension to the crisis is also grabbing the attention of Kazakh leaders. As A. Tassbulatov, Commander of the Republican Guards, stressed in his speech to the Astana gathering, a stable economy must be based on military security. The speaker reported that, just days earlier, he had just participated in a government session with the

president, during which it was stressed that the financial crisis had changed the entire configuration of the system, generating new challenges. He called for strengthening the country's military forces, and enhancing cooperation with Russia and China. He hinted at what dire consequences the economic collapse could have. Independence per se is not enough, he remarked, because we have to think of future generations, and to realize that we will not be forgiven if we lose our independence, sovereignty, land and resources. With recollection of the Georgian-Russian conflict still fresh, he stressed the importance of capable armed forces, while proposing Kazakhstan offer its services to mediate a political solution.

A Russian speaker, Dr. Vladimir E. Evseev, from the Russian Academy of Sciences and IMEMO, also addressed the military dimension, asserting the importance of Astana's having maintained strong economic and political cooperation with Russia and China over the past year. He also pointed to the unified air defense systems of the CIS, and Russia's use of Kazakhstan's space launching sites.

### Kazakhstan Hit Hard

No one in the Astana political establishment has any illusions about the impact of the world financial crisis on the economy. Largely because of its "success" in developing a modern banking system, increasingly integrated with the world system, Kazakhstan has felt the reverberations of the blowout more than others. In the period between 2000 and 2007, the \$100 billion Kazakh economy, with its massive oil and other resources, grew at an enviable rate of 10% per year. The hefty revenues were invested also in the construction sector, for example, to build the new capital Astana, and this sparked a boom in the sector, as well as a spike in housing prices. As oil prices began to fall, property prices in the capital also fell, and banks, whose loans are secured by property, began to feel the pinch. The country also began to rely on short-term foreign borrowing. Thus, as the credit crunch began to make itself felt in 2008, banks pulled back on lending. Finally, the banking system has been burdened with the costs to protect bonds, through credit-default swaps.

As the crisis hit Kazakhstan, forecasters in the doom-and-gloom business, like Moody's rating agency, hastily predicted that the country's banking sector would fail. Some even compared Kazakhstan with Iceland, the tiny nation facing sovereign default. However, Kazakhstan is not Iceland. Not only is it a much larger economy, with massive mineral and raw materials resources, as well as a developed industrialized sector, but its political leadership has drafted contingency plans for such an event, and has developed measures to protect the nation.

Unlike Iceland (or Ukraine, another nation it has been compared to), Kazakhstan has assembled funds from its oil revenues, to face such a financial onslaught. According to data provided by the central bank on October 3, the country had \$27.6 billion in its National Oil Fund, which it had set up in 2000, to face any drop in oil revenues. In all, Kazakhstan has almost \$50 billion in reserves. This means, according to Goldman Sachs Group Inc., that the country could easily cover its \$17 billion debt maturing in 2009 as well as repay its \$13.7 billion in foreign debt. So Kazakhstan is far from bankrupt. Yet, as a result of the crisis, it, like most other countries, has had to revise its economic growth forecast downward, to 4-5% this year and 5-6% for 2009.

To face the immediate challenges to its banking system, the government launched a number of interventions, similar to many introduced by western European governments. On

October 13, President Nazarbayev announced he would spend \$2 billion over the next two years, in stabilization measures for the economy, drawn from the National Oil Fund. The aim is to facilitate lending and support the construction industry. A new “National Wellbeing (or Welfare) Fund” is being created through the merger of two state-run holdings, to overcome the current crisis. Nazarbayev directed a transfer of government stakes in uranium miner Kazatomprom, Eurasian Natural Resources Corp., and Kazakhmys Plc into the new fund.

Prime Minister Karim Massimov announced the government would be ready to spend \$5 billion to buy up distressed assets from banks, in addition to \$5 billion for the new fund for development projects and would keep \$5 billion “on hold” pending developments on the international markets. Masimov said that, by the end of the year, \$15 billion would be injected into the economy to deal with the crisis. Furthermore, in late October, the government announced it had passed legislation allowing it to buy up shares in distressed banks, as well as to fire managers, stop payment of dividends and limit new deposits.

So much for measures taken on the national level. On a regional level, member states of the Commonwealth of Independent States (CIS) held a preliminary meeting on October 10 in Bishkek, during which they set up a working group to deal with the crisis. The first meeting of the group took place in Moscow on October 21 at the level of the finance ministers discussed the outline of a new financial architecture.

These meetings should be placed in the broader context of a plethora of international gathering on the agenda, from the Asia-EU meeting in Beijing, to the November 15 conference proposed by French President Nicolas Sarkozy. Sarkozy’s declared aim is to use these meetings to hammer out an agreement on a new international monetary system, along the lines of the 1944 Bretton Woods system, to reestablish the technical foundations for an orderly system, as a precondition for the launching of a new economic recovery program. U.S. president George W. Bush reluctantly accepted the idea, presented to him by Sarkozy and EU Commissioner Barroso, though he blabbered about the need to protect the free market system, capitalism, etc. U.S. agreement is obviously key, given the central role that the dollar and the American economy still play. On October 22, ITAR-TASS reported that the Russian presidency had welcomed the U.S.’s acceptance of Sarkozy’s proposal. Presidential spokeswoman Natalia Timakova noted the “positive reaction of the American side,” and reiterated the need for such a conference to go far beyond the confines of the G8, to include Russia, China, Brazil, India, Mexico and South Africa. At latest report, the mid-November confab in Washington should see the participation of the G8 states, i.e. including Russia, plus the two other leading Eurasian powers, China and India; Indonesia and South Korea; Latin American states Mexico, Argentina and Brazil; Arab Gulf oil producer Saudi Arabia,; Turkey; and South Africa.

### Economic Theory Debate

Since the crisis broke in mid-September with the Lehman Brothers bankruptcy, calls have been issued from many quarters for such a new system, a new Bretton Woods. And everyone calling for a new Bretton Woods means something different. This was on the agenda at Astana as well. This author presented an analysis of the causes of the current breakdown crisis, identifying the swing towards neoliberalism, monetarism, globalization over the past decades as responsible for the destruction of the productive economy and the explosion of a speculative “casino” economy. The solution proposed was a return to the policies of Franklin Delano Roosevelt in the Great Depression, specifically, a global reform of

the monetary system, with the active participation of leading nations in Eurasia. Such a new system of fixed exchange rates could provide the foundation for economic recovery, through massive infrastructure projects on a regional basis. The suggestion was that Kazakhstan utilize its position in leading Eurasian bodies, like the SCO, CIS and OSCE, to promote action of introducing a new monetary system.

Madame Wanda Dressler, an expert on Central Asia from Nanterre University, elaborated on the need for such a new Bretton Woods, with a leading role to be played by Europe. Citing the approach of economist Michel Aglietta, Ms. Dressler outlined measures for strict regulation of banks and offshore markets, as well as a shift from current short-term profit seeking, to long-term thinking on the part of institutional investors.

### Experience Counts

The fact that Kazakhstan has undergone two major financial/economic crises, and has emerged from both in a stronger physical position, make it well equipped to face the current challenge. The reasons for this are worth examining, as precedents for what might be attempted today.

As President Nazarbayev detailed in his book, "Kazakhstan's Way," the collapse of the Soviet Union unleashed profound economic dislocation; Soviet industries were uprooted, plant and equipment dismantled, productive workers made jobless, and trade came to a grinding halt. In order to restart economic and social life, the Kazakh government had to introduce a number of emergency measures. Nazarbayev saw the need for a national currency as a precondition for true independence and a national economy, and introduced the tenge in November 1993. He also set up new national institutions, a modern banking system, and a strong central government, based on a presidential system, as articulated in the Constitution passed in August 1995.

If one looks at the role models whom Nazarbayev lists, as having inspired him in building independent Kazakhstan, one gets a good idea of his approach; they include Kemal Ataturk (to whom Nazarbayev has been compared), Franklin Delano Roosevelt, Chinese reformer Deng Xiaoping, Malaysian former Prime Minister Mahathir Mohammad, Charles deGaulle and Lee Kuan Yew, founding father of Singapore. With respect to his specific approach in economic and social policy, he references Ludwig Erhard, Economics Minister and Chancellor of Germany, who engineered the "German economic miracle."

With a policy approach shaped by these precedents, post-Soviet Kazakhstan recovered economically, and used its growing oil revenues to finance ambitious development projects, in hard and soft infrastructure (pipelines, transport networks, education, health). Aware of the fact that fossil fuels are not unlimited, Nazarbayev went full throttle for nuclear energy. Having relinquished its nuclear weapons, it continued to develop nuclear technology for peaceful uses, and has launched a breath-takingly ambitious program in the field. At a conference in Berlin, last April, Kazatomprom floored attendants with a presentation of the country's plans to become "a leader in natural uranium mining, a key player in the enrichment market, and a major supplier of nuclear fuel."<sup>(2)</sup> Finally, the country has an advanced space program, with its station in Baikonur, which President Nazarbayev is committed to expanding, in the context of a long-term cooperation agreement with the Russian Federation.

Generated by these principles, post-Soviet Kazakhstan developed. Then, after six years of

progressive economic growth, in 1998 a new crisis hit, ignited in Asia, and engulfing Russia. Here again energetic intervention by the central state authorities was necessary, specifically hefty interventions by the National Bank to stabilize the tenge. For the Kazakh population who went through these two devastating crises, the current upheaval must appear as a shock, a trauma most people thought would not, could not recur. Yet, by the same token, the fact that the country has weathered two such tremendous storms, means that it can draw on its experience to face the current challenge.

### Good Neighborly Relations

The solution to the current financial, monetary and economic breakdown crisis will be found in agreement among a wide range of nations worldwide for a new monetary and economic system, or it will not be found at all. Within the groups of nations that must be engaged in forging a new monetary system, the nations of Eurasia are central. As this author noted at the Astana conference, reasserting order in international trade through the reestablishment of a New Bretton Woods, is merely the precondition for worldwide economic recovery. The Kazakh government knows this from experience: monetary stability is a starting point for economic growth. What must follow, are ambitious programs for infrastructure projects on a national, and regional level.

It is an economic and geopolitical fact that the center of the world economy in the 21st Century is emerging in Eurasia, stretching from China across Central Asia, to Russia and beyond to western Europe. Therefore, it is this vast geographical, political and cultural space that must be developed in order to advance the progress of the planet as a whole. Infrastructure development is a precondition for such growth; specifically, transportation infrastructure, as in the Eurasian Landbridge vision of multiple rail lines across Eurasia, energy infrastructure through multiple pipelines, enhanced by massive expansion of nuclear technology, and so on. Much progress has been made in this respect, with the rail links from China across Central Asia into western Europe, and with Kazakhstan's pipelines to China and to the West.

Kazakhstan is in an enviable position, politically speaking, to be able to further such transcontinental development. Its geographical location and population characteristics—there are 130 different ethnic groups in the country!—make it “Eurasian” par excellence. And this is an asset which the government has considered with extreme care. Although naysayers predict that the large Russian population in the northern part of the country could create problems, and even lead to disastrous developments like those in South Ossetia, where Russia intervened to protect Russian citizens, the government is confident that its policy of national unity will succeed.

If its relations with its neighbors in the immediate region have been fruitful, particularly through cooperation in various organizations like the SCO, CIS, etc., its relations to western Europe have been not less important. Kazakhstan is the country in Central Asia that has attracted the most concentrated attention of governments in western Europe, especially Germany, but also France. At the Astana conference, there were two highly qualified European interventions made which proposed upgrading relations with Kazakhstan in a meaningful way. First, Neil J. Melvin from the Brussels School of International Studies, and the Center of European Policy Study in Brussels, reviewed progress in the European Union's policy of engagement with Central Asia (3), which was adopted during the German EU presidency. Melvin said the new document set out “a range of broad goals around enhancing security and stability in central Asia through a set of thematic initiatives in three



areas of energy, security, education, human rights, democratization, transport and social policies." He singled out Kazakhstan not only for its wealth, but also "its ambitious plans to promote social, economic and political, economic and social modernization" which has placed it "in a different position to many of its neighbors." Referencing Kazakhstan's presidential program, "The Path To Europe," and the need to overcome tensions among some countries of the OSCE, Melvin spoke of an "unprecedented opportunity to forge a much stronger mutually beneficial relationship between Kazakhstan and the countries of the EU.... an opportunity that must not be missed."

From France, came an intriguing intervention by Ms. Stephanie Palmer, an armaments expert formerly working with the French Defense Ministry in international military cooperation, and now a private defense and security consultant. Ms. Palmer highlighted Kazakhstan's "geostrategic position, its ambition to reform, and its will to guarantee regional stability" as reasons for its having become an "important actor on the international scene." Of special note is Kazakhstan's "ambitious reform in the military sector," whereby it has built "a compact, mobile, and professional army." Ms. Palmer referenced Kazakhstan's role in regional security, through its active participation in organizations like the SCO, CIS and OSCE, among others. As for France, it has upgraded its relations to Kazakhstan, through an exchange of visits by Prime Minister Francois Fillon and President Nazarbayev's trip to Paris earlier this year. As "axes of cooperation favorable to Kazakhstan's ambitions," Ms. Palmer listed several areas in which France excels, among them "high tech, as well as aeronautics, nuclear, military and naval."

As this conference made clear, Kazakhstan has become the foremost interlocutor in Central Asia, not only for Eurasian giants Russia and China, but also for the two major economies of western Europe, Germany and France. If the current world crisis can be overcome through participation of major Eurasian nations, Kazakhstan can become the linchpin in the region for stability and security.

#### Notes

1. Quotes from the Kazakh and Russian speakers are given in paraphrase, as the speeches were received through simultaneous translation from Russian. The other quotes are from the written speeches, as delivered.
2. Kazatomprom presented "11 mining projects, which generated in total 6,835 tons of uranium in 2007, 9,495 tons in 2008 and from 2010 - the figure will be 18,200 tons a year, and starting from 2016 - the production level will reach 27,150 tons per year." From: "Energy Needs: Nuclear Power as a key component," presentation by the Joint Stock National Atomic Company Kazatomprom, to the International Conference on Nuclear Fuel Supply: Challenges and Opportunities, Berlin, 17-18 April, 2008.
3. "The European Union and Kazakhstan: A Strengthening Partnership," presented at Astana. The EU policy is entitled "The European Union and Central Asia: Strategy for a new Partnership," and was adopted in the summer of 2007.

*The author can be reached at [mirak.weissbach@gmail.com](mailto:mirak.weissbach@gmail.com)*

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