

KAZAKHSTAN

Monday, September 25, 2006

A growing strategic partnership with the U.S.

When Kazakhstan emerged as a sovereign state in 1991, few Americans knew where it was. Kazakhstan and Central Asia were seen as vast expanses of grassland and caravan routes for Marco Polo on his 13th century trek to China. The Baikonur Cosmodrome in southern Kazakhstan, which was the launch site for the first satellites and the first man in space, positioned the country in the Space Age. In the last decade of Soviet dominance, vast but hard to exploit oil reserves in Kazakhstan and the Caspian Sea came to light. The country was largely unknown, but there was a huge potential for Kazakhstan and the United States to work together for mutual benefit.

Today, Americans know where Kazakhstan is and more about what it is. Following the 9/11 terrorist attacks, Kazakhstan has proved to be an unflinching ally in the war on terrorism. Kazakhstan fully supported the operation to dislodge the Taliban in Afghanistan, and later became one of the very few Muslim majority countries to support the U.S.-led coalition in Iraq. In El Kut, central Iraq, Kazakh army engineers have already destroyed more than four million pieces of ordnance and work to ensure a safe water supply to civilians.

The Kazakhstan-U.S. cooperation has deep roots based on common values. Soon after independence, Kazakhstan's President Nursultan Nazarbayev led the country to renounce the world's fourth largest nuclear arsenal, setting the course for cooperation with the United States in ridding Kazakhstan of this unwanted legacy of the Soviet past. Today, with a nuclear sword of Damocles hanging over the world as terrorists and rogue states seek nuclear weapons, President Nazarbayev's bold decision stands as a beacon for all those who



President Nursultan Nazarbayev visited the White House in 2001, meeting President George W. Bush and taking the relationship to a new level. The meeting between the two leaders later this week will strengthen relations even further.

want to feel safe from the threat of nuclear warfare. The U.S. increasingly shows its appreciation of Kazakhstan's commitment to non-proliferation. While other countries strive to produce highly enriched uranium, Kazakhstan blends it down for peaceful uses.

During his 2001 White House visit, President Nazarbayev and President George W. Bush built on the cornerstone of common interest when they announced a strategic partnership between the two countries. The Kazakh President is expected to visit Washington later this week for talks with President Bush on further strengthening relations.

The closeness between the two countries is not only in the political sphere, and bilateral trade has expanded in recent years. "The United States is our main strategic partner and many changes in the Kazakh economy

are the result of positive American influence," Prime Minister Daniyal Akhmetov said in an interview. Of the \$45 billion in foreign direct investment since 1991, \$15 billion has come from U.S. firms. Joint ventures with Chevron and ExxonMobil have helped introduce new technology. While the deep reserves in the Caspian Sea are difficult to access, more than \$7 billion was invested in 3D seismic surveys in 2004 alone. The investment of international oil companies is helping to boost Kazakh oil exports. Kazakhstan now exports one mil-

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lion barrels of oil a day, but by 2015 as the new fields come online exports of crude oil are expected to reach 3 million barrels daily.

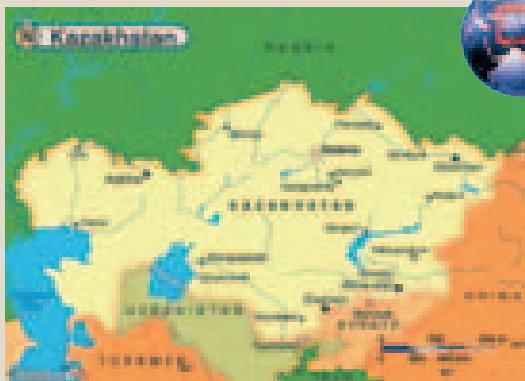
Prime Minister Akhmetov points to many changes in the day to day life of the Kazakh people while maintaining ancient traditions. "Ours is a multi-religion state with 130 ethnic groups," he said. As a growing democracy and a rapidly developing economy in a turbulent region, Kazakhstan is a model for the rest of Central Asia. Kazakhstan's core strength is in its 15.2 million people who chose to stay the course during the difficult days of the 1990s post-Soviet transition. Power outages were not uncommon, cash ran dismally short and, as a small, open economy, Kazakhstan was affected by the Russian crisis of 1998. Oil was then selling for less than \$10 per barrel on world markets. "Since then many reforms have been implemented and the economy has been transformed in its entirety," Mr. Akhmetov said. He credits President Nazarbayev for earlier daring market reforms, including wholesale privatization coupled with changes to the tax collection, banking and pension systems.

Large-scale investment projects are not limited to oil and gas. Microsoft has been developing projects for several countries in the Commonwealth of Independent States (CIS) out of its regional offices in Almaty since 2002. Western participation has helped instill a business climate of transparency and accountability. The growing network of small and medium-sized enterprises in Kazakhstan is implementing best international practices. Kazakh biotechnology firms work on cutting-edge research projects with nine overseas laboratories, six of them U.S.-based.

Raw materials are viewed as an initial platform for economic diversification. It is important to keep oil receivables flowing, but petrodollars will increasingly find their way into non-oil activities. "As a strategic partner, we'd like to expand aspects of our long-term relationship with the U.S. to include areas meeting our criteria for shifting

away from the extractive industries," Mr. Akhmetov said. These include biotechnology, petrochemicals, logistics, space research, nuclear technology, textiles and food processing.

"President Nazarbayev has tasked us with joining the 50 most competitive economies in the world. To do this, we must diversify our economic base and work closely with the global community," Deputy Prime Minister Karim Massimov said. If all works as planned, petroleum and metals will no longer be the main engines of growth by 2015. "By then we will see a threefold growth in our GDP per capita. Originally, we aimed to double GDP by 2010 compared to 2000, but this goal will most likely be achieved by 2008," he said. Kazakhstan is already among leaders in GDP per capita among CIS countries and the country's financial system is well capitalized. "We believe we are on the right track. Essentially, it is our human capital that is driving the country forward," Mr. Massimov said.



Kazakhstan knows the value of developing its human capital, and has sent hundreds of its college students to the U.S. to study under the presidential scholarship. Just this year, more than 600 new Kazakh students will begin

studies at top American universities. Two of Akhmetov's own consultants are based at Harvard and Stanford, while graduates of MIT walk the corridors of the government buildings in Astana, the booming capital. An added benefit of this program is that hundreds of young professional Kazakhs have come to know and like Americans.

At a press conference last month, Mr. Akhmetov was happy. Contrary to expectations, GDP has grown 9.3 percent in the first half of 2006. Since 2000, the Kazakh economy has grown at an average rate of 9 to 10 percent, and last year the government posted a budget surplus of \$365.7 million. Mr. Akhmetov's cause for optimism, however, was not the upward revision in economic statistics. He was happy because the evidence showed both the productivity and the new entrepreneurial class were growing.

Denuclearization as a role model

● **In 1991, Kazakhstan inherited more than 1,000 nuclear warheads** from the former Soviet Union. This was the world's 4th largest arsenal with each warhead yielding the equivalent of one megaton of TNT. President Nazarbayev renounced the arsenal pursuing the vision of a nuclear-weapons-free future.

● **President Nazarbayev** ordered the closure of the Semipalatinsk nuclear test site in Kazakhstan despite threats from the Kremlin. For forty years, Semipalatinsk had been the world's second largest test site, and more than 450 Soviet nuclear tests there contaminated an area the size of New Mexico. More than 1.5 million people were subjected to radiation.

● **Working with the U.S. under the Nunn-Lugar Cooperative Threat Reduction Program**, Kazakhstan has rid itself of all nuclear weapons and eliminated the supporting infrastructure. In a unanimous resolution, the U.S. Senate called Kazakhstan's cooperation with the United States in this area a "model for such efforts."

● **Kazakhstan's leadership** in preventing the spread of nuclear weapons takes on increasing importance as the world works to reduce the threats of catastrophic terrorism. Kazakhstan now implements important new projects in international partnerships. In 2006, Kazakhstan and the Washington-based Nuclear Threat Initiative completed one such project, blending down three tons of highly enriched uranium, enough for two dozen nuclear bombs, to become fuel for peaceful use.

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The economy: a real success story

Kazakhstan's vibrant economy is the driving force behind the improved lives of its people. The past seven years have shown a 75 percent growth, an economic performance that has astounded many. What impresses analysts even more are the growth rates of 8-10 percent projected for 2006-2008. Supported by political stability, a favorable business climate and a thriving and growing entrepreneurial class, the economy is going full steam.

Many factors contributed to this success, but a major one was the firm free market vision of Kazakhstan's President Nursultan Nazarbayev.

In the 1990s, it was a tough sell for structural reforms at a time when oil was \$9 per barrel and, with factories at a standstill, there was little to streamline. Policymakers went through stages in which they considered change to be impossible, although they recognized its theoretical worth. Now, with 85 percent of the economy privatized, "we are close to a new stage of reforms," Minister of Finance Natalya Korzhova noted.

Policymakers regard Kazakhstan's 100 billion barrels of projected oil reserves as insurance and a foundation for the future. Early on,

Kazakhstan recognized the need to diversify its economy and avoid the "oil curse". In 2000, Kazakhstan set up a National Fund to accumulate excess revenues from extractive industries and invest them for the future. The Fund's reserves now exceed \$10 billion. With growing oil production and prices approaching \$80 per barrel, there is a new emphasis on transparency and accountability, leading to Kazakhstan's accession to the Extractive Industries Transparency Initiative.

"As we move forward, we meet new challenges," explained Anvar Saidenov, Governor of Kazakhstan's National Bank. High prices for oil and metals have put Kazakhstan back on its feet. But without earlier economic reforms, including radical banking reforms, the costs would have been far steeper. "Many people now talk about a second wave of more sophisticated reforms which will involve detailed measures," Mr. Saidenov said, citing international accounting standards and new reserve requirements designed to bolster the financial system. Foreign banks ushered in their share of innovative instruments in the 1990s, and strict corporate governance implementation has often ranked Kazakh banks as leaders in the CIS ahead of Russian institutions.

As part of the diversification drive, seven clusters of economic activity with high potential returns were selected, including downstream petrochemicals, global logistics and food processing. The policy is bearing fruit. Industrial activity is expanding due to business initiatives and support from new central development institutions such as the Kazyna fund. Last month, with Kazyna's co-financing, a private Kazakh company launched the country's first ethanol fuel plant, and dozens more are expected to capitalize on the bounty of the Kazakh wheat fields.

The booming economy has allowed President Nazarbayev to set an ambitious goal of bringing Kazakhstan into the group of the world's 50 most competitive nations. Under his plan, Kazakhstan will create a new economy based on "breakthrough projects" in biotech, IT and peaceful atomic energy, supported by the protection of private property rights and contracts. The goal is to make the economy independent of oil revenues when oil production peaks at 3.5 million barrels daily in 2015. The President said: "We want to see Kazakhstan as a country embracing all that is new and progressive."



PHOTO: AKIMAT OF ASTANA

The Baiterek Tower in Astana is the city's most popular site, standing 344 feet tall and offering a breathtaking view of the city.

Astana's population has doubled to 600,000 since 1997, while projections for 2030 top off the number at 1.2 million.

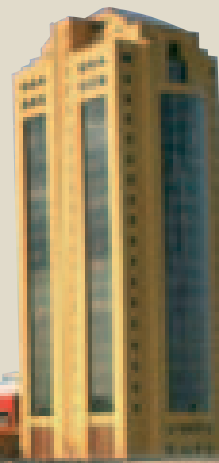


PHOTO: AKIMAT OF ASTANA

KAZAKHSTAN

'Today the U.S. realizes we are its most reliable partner in Central Asia'

For Americans, Kazakhstan is no longer *terra incognita*. A predominantly Muslim country in Central Asia, it has a history of business relations with the U.S. dating back to the early 1990s. U.S. firms have invested heavily in oil production in Kazakhstan, but energy cooperation is not the only component in the growing partnership. For Kanat Saudabayev, Kazakhstan's Ambassador to the USA, issues such as counterterrorism, nuclear non-proliferation, economic diversification and democracy building are just as important. He shared his views in an interview.

Presidents Nursultan Nazarbayev and George W. Bush announced a bilateral strategic partnership at the White House in 2001. How has the relationship evolved since then?

Our relations are based on common values of freedom, democracy and seeking a better life for our people. They have grown exponentially during the last five years in all key areas of our strategic partnership, including cooperation in the war on terrorism and non-proliferation of weapons of mass destruction, economic and especially energy cooperation, and our common drive to promote democracy in Kazakhstan and the region.

Kazakhstan is a Central Asian country with a large Muslim population. How has that affected your role in the war on terrorism?

Kazakhstan has worked shoulder to shoulder with the United States in the war on terrorism. We were among the first countries to announce our full and unconditional support for the U.S. after the tragic events of 9/11. We have never wavered in our commitment since then. We are the only country in Central Asia to deploy troops to Iraq and we remain committed to that mission. Our troops there carry out a very noble and dangerous task destroying explosives and helping the Iraqis regain normalcy. Kazakhstan also plays a key role in the reconstruction of Afghanistan with economic assistance.

As a secular and multiethnic nation, Kaza-

khstan is working hard to share our experience of peace among people of different faiths at an international level, seeking to build a stronger bridge between Islam, Christianity, Judaism and other religions. A few days ago, Kazakhstan hosted the second congress of world religious leaders helping soothe tensions in the world.



Kanat Saudabayev, Kazakhstan's Ambassador to the United States

Why is cooperation in nuclear nonproliferation vital?

Kazakhstan was the first and so far the only country to have voluntarily shut down a nuclear test site, once the world's second largest. We then renounced our nuclear arsenal. For 15 years, we have worked closely with Washington on nonproliferation. It is well known the Nunn-Lugar program has been the most successful in Kazakhstan. This cooperation continues. It is especially vital in today's world and is the most critical facet of our partnership with the U.S.

What role can the U.S. play in helping Kazakhstan diversify its economy?

U.S. companies are already the largest investors in Kazakhstan with more than \$15 bil-

lion invested to date. More than 300 U.S. firms have come to work in Kazakhstan, including many of the largest oil companies. Our energy partnership has deepened, and Kazakhstan's recent connection to the Baku-Tbilisi-Ceyhan oil pipeline via Aktau is evidence of that.

We see a great potential for U.S. investment in growing areas such as biotechnology, information technology, food processing and manufacturing. A large U.S. trade delegation led by Agriculture Secretary Mike Johanns recently visited Kazakhstan to find many exciting opportunities in agribusiness. A few months ago, GE started building a locomotive plant in Kazakhstan. Oil services also hold great promise as our oil production will triple within a decade.

What are the expectations for President Nazarbayev's U.S. visit this week?

The visit comes at a critical time with the world facing tough challenges. While results of our bilateral cooperation are impressive, the future holds even more promise and the visit will open the door to that future.

Today, the U.S. realizes Kazakhstan is its most reliable partner, a leader and a driving force for development in our complex region. Kazakhstan is viewed as an impressive example of socio-economic and political development. We have proven that democracy and stability are possible in a predominantly Muslim country. All of this is important in our common efforts to promote mutual understanding and security in the world. Our fruitful cooperation brings an important contribution to solving the world's toughest problems. That will be the subject of the discussion between the two presidents, and we believe their meeting will open a new era in a long-term strategic partnership between our countries and friendship between our peoples.

Embassy of Kazakhstan in the U.S.

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