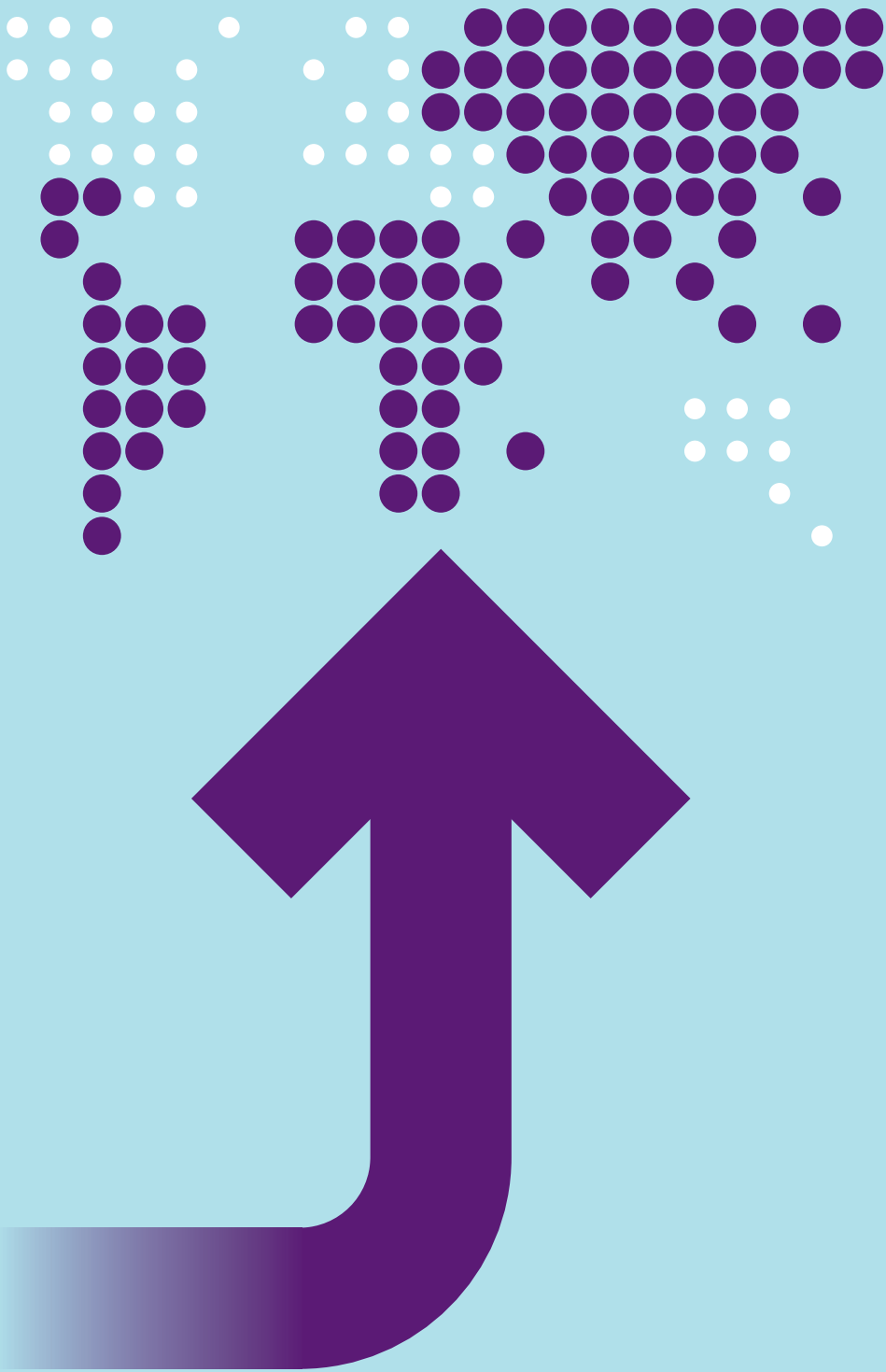

EMERGING MARKETS FORUM

Kazakhstan 2050: Towards a Modern Society for All

Aktoty Aitzhanova,
Shigeo Katsu,
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A Confident Young Nation Looking at a Future of Opportunities

Kazakhstan is a vast country with 17 million inhabitants. Its massive size, equivalent to all of Western Europe, connects Europe and Asia. While it is one of the cradles of modern human beings, with a rich history, it is also one of the youngest nations in the world, less than 22 years old.

The country has come a long way since independence on December 16, 1991 following the dissolution of the Soviet Union. Many observers considered Kazakhstan as perhaps the most vulnerable of the former Soviet republics. There were doubts about its viability as an independent nation and the security of its borders. The country's economy was fragile, and immediately after independence it was in a free fall for a few years.

Since independence Kazakhstan's citizens have demonstrated time and again their willingness and ability to shape their own future. Whether dealing with regional or global crises, Kazakhstanis have found a way to keep their country on track. Today it is a sovereign state, secure in its borders, and respected by the international community; by most measures it is one of the most successful former Soviet republics.

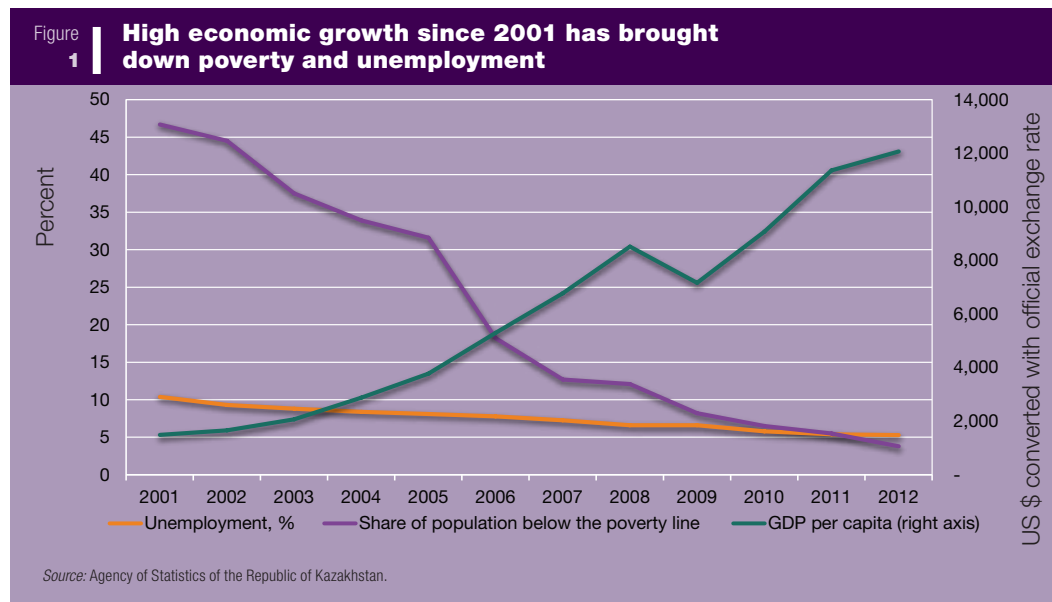
Kazakhstan's Strategy 2030, launched in 1997, one of the most difficult years, has had a galvanizing effect on the country. Kazakhstan has created a market-oriented economy and a modern multi-ethnic society. It has established good relations with its neighbors and has developed closer trade relations with its neighbors to the East (China) and the West (Western Europe).

Kazakhstan's macroeconomic management has proven effective. The economy recovered fully from a severe economic depression in the 1990s and proved resilient after the global financial crisis in 2008. High growth during the 2000s created jobs and brought down poverty (Figure 1). GDP has grown more than nine-fold and per capita income over eight-fold between 1997 and 2012.

Kazakhstan is now an upper middle-income country and ranks among the top 50 most competitive economies in the world. The population has rebounded to 17 million, 4 in 10 persons have tertiary education, life expectancy is back to 70 years, and the country has been able to contain inequality. It has also built some credible economic institutions, such as the National Bank.

The country has obviously benefited from strong international demand for petroleum, its main export. Fortunately, domestic oil and gas production surged just as the recent boom in international oil prices began. At the same time, prudent economic policies, a careful husbanding of oil revenues, and decisive forward-looking national leadership played a crucial role in the dramatic improvements in people's economic fortunes and well-being.

This study is being conducted by a team of international experts commissioned on behalf of Nazarbayev University and under the direction of Centennial Group International and the National Analytical Center. The experts include William Brown, Johannes F. Linn, John Nellis, Richard Pomfret, Hossein Razavi, Michelle Riboud and Shahid Yusuf. The editors of the study, Aktoty Aitzhanova, Shigeo Katsu, Johannes F. Linn, and Vladislav Yezhov prepared this preliminary overview.



But Kazakhstan cannot afford to stand still. The country is far from where it can and wants to be. At the same time, international competition is getting ever more intense and other successful economies continue to march forward, even as Kazakhstan makes progress at home. Many emerging countries are assuming a more prominent international role, buoyed by strong economic growth. Based on the foundation built during the past 20 years, Kazakhstan also can look forward to a promising future and become an important actor in this global transformation. It has a young and well-educated labor force. It has by now a proven track record of effective economic management. Revenues from natural resources should support future investments to create a diversified economy. The global economic environment is expected to be hospitable for the next few years. And, Kazakhstan can benefit from its location at the center of Eurasia.

Kazakhstan's economy, like others, also faces risks from the international environment, as well as, challenges at home. The global economy remains fragile. Important partners such as Russia, China, Europe, the US, and Japan may face economic stagnation. Oil and gas prices could soften. Unexpected technological developments could alter the direction of the global economy, including demand for oil and gas. There is also potential for conflict and political instability to Kazakhstan's south. And, over the longer term, climate change could adversely affect the Kazakh economy and people. More generally, Kazakhstan has to avoid the pitfalls associated with the so called "resource curse" that have held back progress in the majority of economies heavily dependent on exploitation of their natural resources, as well as getting mired in the middle income trap, which has become the bane of so many countries at the same stage of development at which Kazakhstan is currently.

To manage these risks successfully and take advantage of opportunities the country must continue to build a resilient, dynamic, and flexible economy. Also, to achieve the broad-based competitiveness and to provide the wide array of opportunities for its citizens associated with a developed country, Kazakhstan has to find ways to create a much more diversified and innovative economy with effective and credible institutions that rank amongst the best in the world.

Today, Kazakhstan ranks mostly in the middle of the global country rankings on many indices of comparative performance. Looking ahead, Kazakhstan would want to move towards the top ranks of nations across the board. Particular attention will need to be paid to the important areas of governance, including control of corruption, increase in accountability, promotion of transparency, development of civil society and improvement of electoral participation. In implementing governance related actions, it is good to keep in mind the international experience that high concentration of wealth can undermine such efforts.

The Ambitious Vision of Kazakhstan 2050

In December 2012, the President of the Republic of Kazakhstan announced the Strategy 2050, which sets forth a bold vision of the country joining the ranks of the top 30 developed countries by 2050. Becoming one of the top 30 developed countries in terms of per capita income is important, but as the President emphasized, what the 2050 vision really aims at most of all is to improve the quality of life of all Kazakhstani people.

Global experience confirms that, after a society reaches a basic threshold of income, qualitative aspects of life become increasingly more important to people than the acquisition of more material wealth: a clean environment (including air and water quality); personal safety; the rule of law; high quality public services; universal education, health care, and social safety systems; credible and accountable institutions (political leadership, civil service, courts, police, taxation authority, press etc.), freedom of expression and freedom of choice; and peaceful relations with and ease of access to the rest of the world. To join the group of the top 30 developed countries, Kazakhstan would require continued progress over time in all these areas, in addition to significantly improving people's incomes and national wealth.

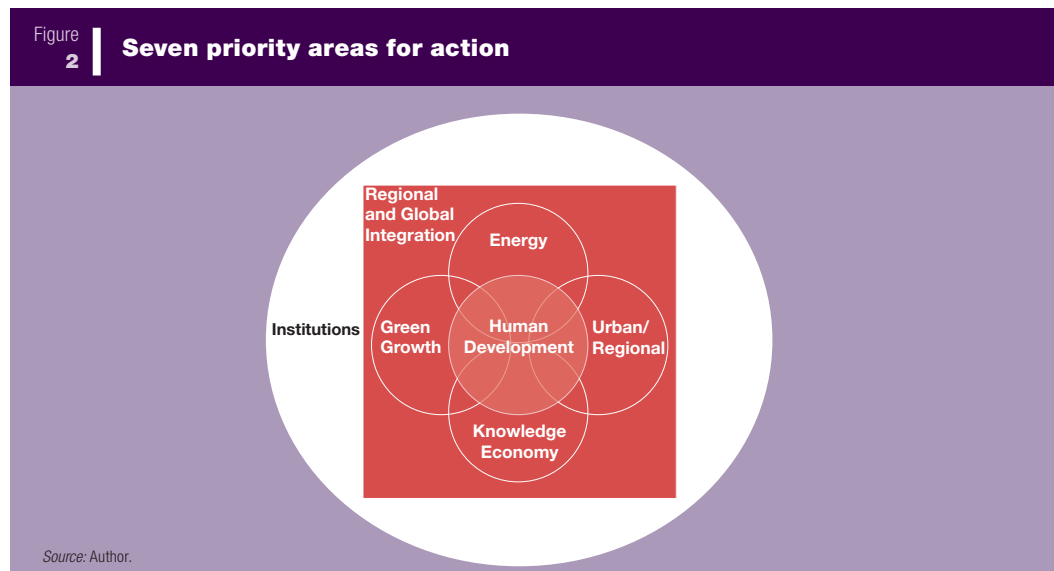
The Vision 2050 adopted by the country is unique in its ambition and scope. We are not aware of any other country where the leadership has publicly championed such a bold transformation extended over such a long period. This study indicates that it is a plausible goal for Kazakhstan to join the top-30 developed countries by 2050. But it is an extremely challenging goal, precisely because it not only means achievement of a high per capita income, but because of the many other, more qualitative, dimensions of achieving an outstanding quality of life. Perhaps the most important and the most difficult part of the vision is the achievement of the institutional dimension of the vision. In our work, therefore, we have focused equally on how to achieve the quantitative and qualitative goals to realize the 2050 vision.

Seven Priority Areas for Action

In line with the Vision 2050, the report discusses seven priority areas in which Kazakhstan faces great opportunities, as well as challenges, as it aims to achieve the goal of joining the ranks of the top 30 developed countries and creating a modern society for all Kazakhstanis:

- First, **create a strong human resource base**: value well-educated, healthy citizens who have meaningful jobs and are protected by a sound social safety net; build a modern education system from early childhood to post-doctoral research; and promote preventive medicine with patient responsibility;
- Second, **effectively and sustainably manage Kazakhstan's energy resources**: establish sound targets for energy extraction and efficiency, and institutional structures that will help with their implementation;
- Third, **achieve a green economy**: preserve Kazakhstan's rich environment and enhance global competitiveness; explore carbon taxation; expand protection of natural reserves and biodiversity, and promote a resilient agriculture drawing on proven genetically modified organisms;
- Fourth, **build balanced and efficient urban and regional economies**: strengthen a decentralized, empowered, and accountable governmental structure; upgrade urban services; invest in ICT connectivity; expand local authorities' revenue and expenditure authority with clear oversight; and build strong local capacity for infrastructure and social communal services management;
- Fifth, **build a diversified, modern knowledge economy** on the foundation of the above five priority areas: promote competition in all economic activities; improve the business environment; support priority areas in a selective, transparent, and competitive manner; and develop world-class research universities and smart cities;
- Sixth, **continue to be open to the rest of the world** and ready to work with all neighbors: join WTO; provide leadership on Central Asian cooperation; and develop the transit infrastructure connecting its neighbors to the East and West; and
- Seventh, **build a strong institutional capacity**: implement agreed policies in an effective, fair, and transparent manner; create more space for private entrepreneurship; control corruption and pursue economic reforms together with political reform.

As Figure 2 demonstrates, these seven priority areas constitute an interrelated package and should not be seen as stand-alone objectives. They interact with each other – they reinforce each other when they work well, but impede each other when they do not. Effective human development is at the foundation of all economic and social development and high quality and effective institutions are crucial for timely implementation of policies and strategies adopted for all other areas. The other priority areas play important roles in their own right and are supported by, and in turn support, human and institutional development. In other words, human and institutional development are like two book ends that hold the seven areas together; without them, actions in other areas will not work.



There are other priority areas that matter for Kazakhstan, including effective macroeconomic management and the development of the agriculture and financial sector, to mention just a few. We touch on these issues in various ways, but conclude that it is in the seven priority areas selected for this study that Kazakhstan faces the greatest challenges and opportunities in reaching its long-term vision. We also did not explore the important area of the cultural and ethnic roots of Kazakhstani society and its implications for contemporary economic, social, environmental, and institutional policy in Kazakhstan. We believe this deserves more attention and research, especially in connection with the institutional development agenda, but it was beyond the scope of this study.

For each of the areas we take stock of the current situation in Kazakhstan and identify a vision consistent with the overall vision for Kazakhstan 2050. Based on Kazakhstan's and international experience to date, the report then offers recommendations for actions phased over the short, medium, and long term that in our view will help Kazakhstan achieve its ambitious vision. Among the many potential actions that we identify in these seven areas, the 24 actions listed in Table 1 stand out.

Crosscutting Principles for Action

As we look across the seven priority areas we highlight below a number of important crosscutting issues and lessons of global experience that, in our view, should guide the formulation and implementation of strategies and policies in all areas, including the seven priority areas discussed above. These key issues and lessons can be summarized best with a list of eight principles to be promoted with a sense of urgency: openness, resilience and flexibility, competitiveness, cooperation, inclusiveness, sustainability, effective implementation and accountability. These principles reinforce each other and play a critical role in designing the reforms. While the exact weight assigned to each principle in designing policies in specific areas may vary, in our view, most of them will be relevant in all policy areas. Figure 3 portrays this framework graphically.

Area	Action	Area	Action
1. Human Development	<ul style="list-style-type: none"> • Focus on quality improvement and implementation • Introduce targeted early childhood development program • Scale up school and university reforms • Promote preventive medicine, with patient responsibility 	5. Knowledge Economy	<ul style="list-style-type: none"> • Selectivity in government support for priority areas • Attract/buy into foreign firms • Develop research universities
2. Energy	<ul style="list-style-type: none"> • Set energy sector targets aiming at efficiency and sustainability • Establish Super ESCOs • Establish renewable energy fund 	6. Global and Regional Integration	<ul style="list-style-type: none"> • Join WTO and assure “open” Customs Union • Provide leadership on Central Asian cooperation • Develop hard and soft transit infrastructure
3. Green Growth	<ul style="list-style-type: none"> • Introduce carbon taxation and annual review of regulations • Expand and improve management of natural reserves and introduce “no- net- loss” provision of biodiversity generally • Allow GMOs and advance industrial waste management 	7. Institutions	<ul style="list-style-type: none"> • Reverse increasing trend of state involvement in the economy • Implement anti-corruption action • Promote accountability, transparency, civil society, and rule of law
4. Urban and Regional Development and Decentralization	<ul style="list-style-type: none"> • Upgrade urban services • Limit car use in cities • Invest in ICT connectivity • Clarify and rebalance revenue and expenditure responsibilities of subnational authorities • Introduce subnational development fund 		

Open

As we look across the top 30 developed countries of today, as well as Kazakhstan’s competitors, we note that all of the countries are more open to the rest of the world in terms of trade, investment, and attraction of people with skills and ideas; in terms of transport and electronic connectivity; and in terms of linkages among individuals, firms, and cities. For each of the seven priority areas discussed in this report we stressed aspects of openness: In the human development area, we noted the need for welcoming ideas, lessons, and partnerships for modern education and health delivery; in the energy area, a welcome mat for foreign investors and technology; for green growth, a readiness to learn from and with others about new green technologies; for urbanization, to have cities that can compete internationally and attract the best firms and minds; in the knowledge economy, the readiness to bring in ideas embodied in firms and people and a welcoming business climate; for global and regional integration, openness towards neighbors and the rest of the world; and in the institutional area openness in the sense of transparency and readiness for institutional innovations tried and tested with success elsewhere.



Resilient (and flexible)

With openness comes, inevitably, exposure to external shocks – just as Kazakhstan experienced in the past – whether from fluctuating commodity prices, financial crises, conflicts in neighboring countries, domestic political debate, or in the longer term the headwinds of global warming. The financial crisis of 2007-9 showed that resilience matters: many developing countries, including Kazakhstan, were relatively well prepared to deal with the shock of this deep global crisis. Lessons from this experience are valuable, including: the need to ensure that the fundamental macroeconomic policies remain prudent, that the financial sector is not overextended, and that the country has ample fiscal and foreign exchange space so as to employ a fiscal stimulus to ward off a recession. For Kazakhstan the lesson was to continue its prudent fiscal management, including the National Fund, and to shore up its financial system.

Beyond this, however, in the long term other aspects of resilience will matter even more: (i) an educational system that shapes creative, flexible minds to create people who solve problems rather than are cowed by them; (ii) a health system and social safety net that protects people in case of sickness and the vulnerable in the event of an unavoidable downturn; (iii) a focus on the key elements of green growth that will help to adapt to climate change; (iv) an intergovernmental fiscal system and responsive local governments that work with communities most affected by any negative shocks; (v) a knowledge system that picks up on opportunities created by technological innovation abroad or at home; and (vi) participation in a regional and international network of support that helps Kazakhstan should it be hit by natural disasters or waves of refugees, but also allows Kazakhstan to help its neighbors when they are in need; and (vii) governmental institutions that react quickly and flexibly to shocks and a political system that can absorb temporary economic setbacks without the risk of social strife, because people feel they have a stake and a voice in what happens to them.

Competitive

To reap the opportunities that openness brings, Kazakhstan needs to attain a high degree of competitiveness, whether it is in education and health in order to create a competitive human capital base; or among cities, which will need to be smart in order to provide the support for competitive firms, as well as fun and safe to attract the best and the brightest; or in the institutional arena in order to attract and keep highly qualified firms and individuals. The creation of the modern knowledge economy will be critical to allow Kazakhstan to compete internationally, but only if Kazakhstan is easily accessible to the rest of

the world and offers excellent transport and logistical facilities will it be able to successfully become the hub of transit and connectivity of the newly integrated Eurasian super-continental economy. And in the institutional arena Kazakhstan will need to move forward expeditiously to be able to compete with its international peers.

Competitiveness builds on competition – competition among the many actors in the domestic economy and with the rest of the world. Only if domestic firms, workers, students, teachers, health care providers, civil servants, and politicians face competition that rewards performance, values results, promotes based on merit, and provides for accountability to clients and the electorate, is the country likely to achieve the kind of competitiveness that will propel it to excellence in terms of international standards of economic, social, environmental, and political performance.

Cooperative

Openness also brings with it responsibilities as a global and regional player, and competitiveness needs to be matched by cooperation and partnerships. For example, Kazakhstan may not have an overriding national need to contribute to the mitigation of climate change, but if it wants to take on the position of a top 30 country, it will be expected, and will expect of itself, to contribute to the global commons, even if this is not necessarily dictated by narrowly defined national interests. Similarly, joining the international community as an aid donor, both through multilateral and bilateral channels, as Kazakhstan has started to do, will become more important. As a major exporter of grains, Kazakhstan may want to desist in future from imposing export controls during periods of high food prices, since this inevitably hurts its poorer neighbors dependent on grain imports. And in the difficult arena of Central Asian regional relations, Kazakhstan should see itself increasingly as a leader who brings together other actors to find win-win solutions for key challenges, such as the water-energy issues or cooperative ventures under the Green Bridge initiative, such as a regional bank for seeds and other viable plant and animal tissues.

Inclusive

A cooperative spirit and sense of responsibility should extend not only to neighbors and the international community, but as much and perhaps with even greater strength towards all fellow citizens in the country. For that reason, inclusiveness plays a pervasive role in many of the seven priorities that we discussed above, either in an instrumental sense by contributing to an economic and political system that more effectively achieves the goals of the vision 2050, or as an intrinsic and central element of the vision itself as reflected in title of this report: “Towards a Modern Society for All.” Inclusiveness is perhaps most obviously a concern in the institutional arena, especially when it comes to the political dimensions, but also in terms of the economic institutions such as an inclusive public administration, jurisprudence, rule of law, and regulatory systems, which should give all citizens fair and transparent access to information, equal treatment and opportunity. But it also plays a key role in human development, where access for all to education, health, employment, and social protection is a critical component of long-term policy. More generally, better and wider access to quality urban services and a balanced effort to provide rural households with adequate services are key elements of urban and regional development policy, while greater inclusiveness and empowerment are essential aspects of decentralization.

Sustainable

Sustainability is another integral element of the vision – it underpins the long-term perspective of Kazakhstan 2050 and it is embodied in the notion that 2050 is not merely seen as an endpoint, but as a threshold point by which Kazakhstan should have built a platform that can sustain a prosperous and stable society well into the second half of the 21st century. Beyond this, however, sustainability is a key element of the energy and green growth discussions above, and also plays a role in the way we saw the need for maintaining urban and regional infrastructure, social protection systems, knowledge networks, and international and regional relationships. In all these areas, sustainability of natural, physical, human, and institutional assets and the services they provide for the people of Kazakhstan is a critical attribute of a successful long-term strategy.

Effective (in implementation)

Through it all, there is a need to focus on the effectiveness of implementation. Positing an ambitious vision and identifying key policies and programs that will contribute to achieving the vision are essential steps. But it is as important to focus on the actual implementation of the policies and programs. In this report we came across examples where Kazakhstan's policies and programs were well designed, but where follow-through had failed to take place with the effectiveness necessary to achieve lofty goals, whether in education and health, in the areas of urban and regional development, in building a modern knowledge economy, or in the institutional arena (say, in anti-corruption programs). Kazakhstan is of course not alone in this. A lack of follow-through is a pervasive shortcoming in any countries and institutions. The reasons may be found in the pursuit of too many initiatives at a time, i.e., lack of selectivity, in counter-productive incentives and a preoccupation with short-term payoff, and in a failure to monitor progress, evaluate results, and adapt and scale-up the program in light the evidence collected. Therefore we stressed in many of the actions areas above the need for selectivity, monitoring, evaluation, adaptation and scaling up.

Accountable

A key element for effective policy design and implementation is accountability of the actors involved for the results their actions produce. Without accountability there it will be difficult to create the incentives necessary to assure effective action. Accountability can take many forms, including the traditional top-down accountability from senior officials or managers to their subordinates. But this has to be complemented by bottom-up accountability of politicians to their electorates, of officials to the public, and of entrepreneurs to their clients. In addition, horizontal accountability to peers (e.g., in the form of professional associations, etc.) can play a key role. Of course, for accountability effective measurement and monitoring of results is critical, as already mentioned in connection with effective implementation. Openness in turn provides ability to compare oneself with others in a transparent and well-informed way, closing the circle shown in Figure 3.

To assist with accountability, we recommend that Kazakhstan develop a system of measuring progress towards its vision 2050 in the seven priority areas that this study has identified. For this purpose it is advisable to select from among the available global performance indices those that are most relevant to Kazakhstan's vision and then track the country's progress towards the top ranks in each of them; and when moving away from the top ranks at any given time, it should explore the reasons and justification for such a trend, and seek to achieve a prompt turn around.

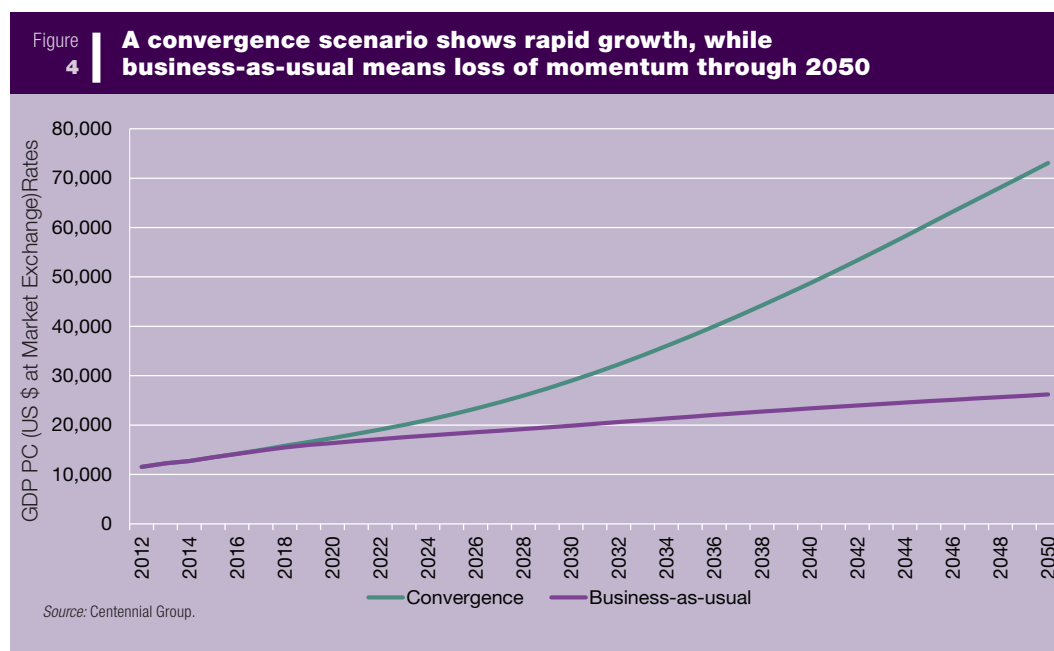
Alternative Scenarios of Kazakhstan in 2050

We have developed four alternative scenarios using Centennial Group's model of the global economy. The purpose of our quantification exercise is not to make predictions of what will happen forty years into the future, but rather to ask "what-if" questions and to highlight the long-term implications of broad trends and the country's economic strategies. The model we use is conceptually simple, based on the principle of convergence of low-productivity countries to the international high-productivity frontier (currently the US) depending on whether or not they are able to enjoy productivity gains (the distinction between "converger" and "non-converger" countries). Other key variables are labor force growth and capital stock growth (investment).

In past Centennial Group long-term outlook studies, such scenarios have provided a helpful anchor to focus the discussion with policy makers and attract public attention. However, the reader must be aware of the limitations of any long-term modeling exercise and not treat the scenarios as either predictions or projections. We discuss below results of two of the scenarios: the desired scenario—steady growth in the global economy with Kazakhstan in convergence mode—and a "business-as-usual" scenario under which the country does not converge (or falls into the middle income trap).

Under the convergence scenario, by steadily closing the current productivity gap with the top 30 countries Kazakhstan's economic growth rates could be sustained at between 4 to 5 percent for most the years of the coming decades. As a result, per capita incomes would reach over \$70,000 by 2050, compared with some \$13,000 in 2011 (Figure 4). This would place Kazakhstan close to the United

States. Its global rank would rise to 29 in terms of per capita income at market exchange rates. And, the country's GDP would be over \$1.5 trillion. Over 90 percent of GDP will be in non-oil sectors, successfully meeting the objective of building a diversified economy. In contrast, under a business-as-usual scenario Kazakhstan not only would not advance, but could even slip further behind from current rankings.



The difference in outcomes between the two scenarios is dramatic, both for the country and for individual citizens. Kazakhstan's economic growth rate would steadily decline to 2 percent or less. Per capita income would be limited to around \$26,000 by 2050, or just double the 2011 level. GDP would also be only about 1/3 of that in the convergence scenario.

Urgency in Action

The year 2050 may seem like a long time in the future. But looking back, time passes quickly and 35-40 years are but a sliver of history. Three reasons argue for urgency in Kazakhstan's pursuit of its ambitious goal for the middle of the 21st century: First, building the institutional, natural resource, human and infrastructure capacity needed for a sustainable, diversified, modern knowledge economy takes time – it's like growing trees: If you want a forest in 30 years, you should start planting today. Second, while one cannot be sure, the next 15-20 years are expected to provide a more favorable global environment than the following decades, so it behooves Kazakhstan to move quickly in establishing a resilient, flexible economic and political institutional platform on which it can with confidence face more uncertain global prospects towards the middle of the century and beyond. Third, and perhaps most importantly, showing early resolve and commitment to take the hard actions needed to achieve the ultimate vision would create confidence and trust among citizens and investors alike and help unleash the virtuous cycle seen in the most successful emerging market economies.

Conclusion

To sum up, the seven priority action areas and eight principles for guiding the reforms are meant to serve as indicative pathways to achieve the ambitious vision of Kazakhstan 2050. Long-term economic scenarios show that Kazakhstan can indeed join the top 30 developed countries in terms of per capita income, but this is far from a foregone conclusion. In our view, these pathways will also help manage, though not eliminate, the two major risks the country faces in its march towards becoming a top 30 developed economy: the risk of suffering from the so-called "resource curse" and of getting mired in the "middle income trap".

While international conditions matter, Kazakhstan's own efforts will be key: First, management of the extractive industries in a cautious and sustainable manner; second, in the non-resource sector, policies that achieve high productivity growth through private sector led initiatives and high investment rates focusing on technological deepening and innovation. To become a top 30 developed country rapid growth in Kazakhstan's non-natural resource based economy will be the key, but the notion that the non-oil sector would constitute nine-tenth of the economy by 2050 illustrates the magnitude of the challenge.

Achieving the vision of Kazakhstan 2050 presents great challenges. The policy choices the country will have to make entail difficult economic and political trade offs. In the end, the people of Kazakhstan have to decide for themselves what works for them and what does not.

What we have offered here is options for action based on objective analysis and international experience. From our perspective the policy and programmatic choices matter, but the urgency with which they are tackled as well as, and the effectiveness and accountability with which they are implemented will be decisive. Implementation of these policies and programs will also determine whether Kazakhstan will be able to take advantage of its geographical vantage point and harvest the best of the two continents to which the country belongs: be part of the fastest growing region in the world as Asia lays claim to the 21st century its own, and create for Kazakhstan the quality of life enjoyed by Europe.

And throughout it is important to keep in mind the ultimate goal of the whole effort: to offer all citizens of Kazakhstan an opportunity to participate in and enjoy the benefits of a successful modern economy.



