

**TWENTY YEARS OF  
INDEPENDENCE IN KAZAKHSTAN AND  
KYRGYZSTAN:  
WHAT IS MORE IMPORTANT—  
POLITICAL OR  
ECONOMIC DEVELOPMENT?**

**Bakhtiar BAKAS UULU**

*Ph.D. (Econ.), Board Member,  
Chairman of the Audit Committee of Dos-Kredobank  
(Bishkek, Kyrgyzstan)*

**Kadyrzhan SMAGULOV**

*M.A. (Political Science), Ph.D. Candidate  
at the Al-Farabi Kazakh National University  
(Almaty, Kazakhstan)*

*In Lieu of an Introduction*

**T**he dispute about what is more important, political or economic development, is like the philosophical discussions of what came first, the chicken or the egg. However, despite the on-going debates, the answer, we think, is obvious: long-term and stable development of society is only

possible with mutual agreement and complementarity, as well as parallel (joint) advancement of political and economic reforms. This is clearly

shown by the 20 years of independence in Kazakhstan and Kyrgyzstan, two neighboring countries which chose different paths of development.

## “The Economy Should Be Economical”

*(General Secretary of the Soviet Communist Party  
Central Committee Leonid Brezhnev)*

Since the beginning of 1991, the former Soviet republics of Kazakhstan and Kyrgyzstan have been pursuing a path of independent development and market economy-building. During the 20 years of reform, both countries have passed through various stages of internal transformation. But although both countries started off on essentially the same foot, they have achieved very different results.

It is probably not right to compare Kazakhstan and Kyrgyzstan, since they differ significantly in essentially every parameter (beginning with the size of their territories and ending with their political system). But they do have one thing in common: no clearly positive results.

Let us begin by taking a look at the economic situation and evaluating the size of Kazakhstan's and Kyrgyzstan's economy.

In 2010, Kazakhstan's GDP amounted to \$146 billion, while Kyrgyzstan's was only \$4.5 billion. At the beginning of the year, Kazakhstan had an external debt of \$115.3 billion (whereby the state debt amounted to only 3%, while the rest constituted the debts of private companies), while Kyrgyzstan's debt amounted to \$2.6 billion (whereby the state debt accounted for almost all of this amount). Kazakhstan's population comprises 16 million people, while Kyrgyzstan has a population of 5 million.

And, finally, here is another index: beginning in 2000, the annual GDP growth in Kazakhstan reached an average of 10% a year (but during the financial-economic crisis of 2008-2010, its growth rates dropped to 1-2%), while in Kyrgyzstan it was evaluated at only 5% (whereby in 2005 and 2010, GDP growth had a negative value).

It should be added that Kazakhstan is striving to become one of the 50 most developed countries of the world (by 2020). As for Kyrgyzstan, in previous years, the world financial institutions suggested that this country participate in the HIPC<sup>1</sup> program intended for the poorest countries of the world.

What has caused this significant gap between the economic development of two countries that used to be part of the Soviet Union's single economic complex? What is the difference between their economies, and what advantages and shortcomings do they have?

According to world standards, Kyrgyzstan is a poor developing country with limited natural resources. The country's economy is based on agriculture (30% of GDP), trade (19%), and industry (11%). The increase in the share of agriculture in the gross national product combined with the drop in industrial production graphically shows that the country's industrial vector (which thrived during the Soviet period) is falling entirely into decline and the economy is gradually becoming agrarian. In so doing, the economy is developing extensively rather than intensively, which is characterized by an

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<sup>1</sup> HIPC is a program initiated by the IMF to provide debt relief to Heavily Indebted Poor Countries on the condition that they meet a range of economic management and performance targets.

increase in small commodity production, use of manual labor, and a drop in the level of technological processing.

If these trends continue, the republic's economy will soon correspond in terms of structure to the level of the underdeveloped African countries, and the industrial sector will only be represented by branches that produce raw materials. The restructuring that was carried out in 1993-1996 under the PESAC<sup>2</sup> program led to a complete industrial collapse, while transferring the development of gold fields to foreigners led to natural riches being exported out of the country.

The electric power industry, which accounts for approximately 5% of GDP, 16% of the industrial production volume, and 10% of the state budget income, has been almost entirely depleted, with only 10% of its capacity remaining. The state budget is executed at a great deficit every year (in 2010, it reached a threatening 40% of GDP); more than half of the country's population lives below the poverty line. Due to the high level of unemployment, approximately 25% of the population works outside Kyrgyzstan (whereby they provide the country with approximately \$1 billion in remittances every year).

Now let us take a look at the economy in Kazakhstan. Its development rests on the production and financial sectors, which are the driving force behind all the other branches. As of today, Kazakhstan is one of the richest countries of the world in terms of hydrocarbon supplies (and in the near future the country could become one of their top producers); in terms of explored oil supplies, it occupies 12th place (not counting the reserves on the Caspian shelf, which still have to be precisely appraised), in terms of gas and gas condensate it ranks 15th, and in terms of oil production it is in 23rd place.

In addition to its inferred and quite significant oil and gas resources, Kazakhstan has a powerful raw mineral base for developing the coal and uranium industries, ferrous and non-ferrous metallurgy, as well as gold production. The country is one of the top dozen states in the world in terms of annual coal production (more than 79 million tons), iron ore (7.5 million tons), bauxite (3 million tons), copper (more than 300,000 tons), zinc (225,000 tons), manganese (100,000 tons), silver (500 tons), phosphates (1.7 million tons), and uranium (25% of the planet's supplies).

Thus, in terms of reserves of natural resources, Kazakhstan is one of the world leaders. It should be noted that the production of mineral resources forms the foundation of Kazakhstan's illusionary prosperity.

Oil, wheat, bituminous coal, aluminum, ferrous-based alloys, copper, and zinc amount to 86.3% of the country's total export. In turn, the share of oil, which is Kazakhstan's main export commodity, amounts to 20% of GDP. It is oil that provides the main inflow of currency from the enterprises of the raw material sector. Petro dollars are subsequently filtered through the state budget and ejected into the economy in the form of growing salaries and investments in real estate.

This sponging on resources in the country's development strategy has made Kazakhstan completely dependent on the fluctuations in world raw hydrocarbon prices. Kazakhstan has become a hostage of its own raw natural resources and will evidently be unable to escape from the grips of illusionary prosperity for a long time to come.

In order to decrease the raw material dependence of the country's economy, the state is drawing up various programs, creating development institutions (the Samruk-Kazyna National Prosperity Foundation), establishing business support foundations (the Damu Foundation), and forming a social business corporation.

The government is striving to diversify the country's economy by developing non-extractive sectors. One of the initiatives undertaken was implementation of the 30 Corporate Leaders program,

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<sup>2</sup> PESAC is a program initiated by the IMF on industrial restructuring.

which determined the priority branches of the economy. Attempts are also being made to advance cluster development of such sectors as agriculture, the high-tech spheres of the economy, and the manufacture of building materials and electronics.

I would also like to mention the financial sector of the economy, as well as Kazakhstan's pension system, the reform of which is the most advanced among all the countries in the post-Soviet expanse. According to the statistics, in 2010, the sum assets of Kazakhstan's banks amounted to \$81.5 billion (55.8% of GDP), loans to \$61.4 billion (42% of GDP), and deposits to \$46.2 billion (31.6% of GDP). By way of comparison, the same indicators for Kyrgyzstan's banking system are as follows: bank assets amounted to \$1.25 billion (26.6% of GDP), loans to \$559 million (11.1% of GDP), and deposits to \$759 million (16.6% of GDP).

But in Kazakhstan, people are becoming increasingly worried about the further prospects for the country's economic development. Kazakhstan does not want to repeat the grievous experience that several other countries went through last century. I am referring to Argentina's dynamic development, which was recognized as an economic miracle of the 1920s, and the string of crises of the 1990s suffered by the Asian countries.

According to most specialists, the main reason for the crises in the above-mentioned countries was the insufficiently prudent financial policy pursued by the local banks and industrial enterprises that led to the accumulation of exorbitant short-term debts, overall overheating of the economy, and artificial raising of quotas on the stock exchanges and of real estate prices. The abrupt devaluation of the national currencies and landslide in the stock markets led to a significant slump in production, sales, and investments, which subsequently caused a severe economic crisis.

Today, all of the above-mentioned factors are characteristic of Kazakhstan's economy; in addition to its weak diversification, prices are extremely dependent on the export of natural resources, overvaluation of real estate and securities, and concentration of finances in the building sector.

So both Kyrgyzstan and Kazakhstan have certain economic shortcomings that threaten their further stable development. At the same time, in contrast to Kazakhstan, Kyrgyzstan has still not drawn up a long-term real economic policy and strategy. Moreover, the country has not conceptualized the prospects for its further economic development. All the earlier state programs were of a general nature; they did not contain precise macroeconomic estimations or an in-depth analysis of the possible ways to apply the country's economic potential.

## **‘I’ll Stay until I’m Tired of It. So Long as Britain Needs Me, I shall Never Be Tired of It’**

*(British Prime Minister Margaret Thatcher)*

A common trait in Kazakhstan's and Kyrgyzstan's political development is that both countries had no experience in building their own statehood, democratic traditions, or market relations and so were compelled to return to feudal traditions. Nevertheless, there are certain differences between the political processes that unfolded in these countries during the first years of independence.

For example, the president's power strengthened in Kazakhstan; there, as in other CIS countries, this high post raises the personal authority of the person who occupies it. So extending the president's powers has led to a stronger position for Nursultan Nazarbaev.

Kazakhstan's return to the traditions of state rule that existed during feudalism resulted in the establishment of a super presidential administration system, which is explained by the absence of democratic traditions and principles of compromise, dialog, and pluralism of opinions. But these feudal traditions have been modernized to some extent by steering a course toward building a democratic state, which presumes the existence of a constitution, representative power branch, election procedures, local executive power structures, the observation of market relations, and so on. All of this has given rise to the need to build a system of checks and balances, however, not in the executive, legislative, and judicial branches of power, but in the sphere of inter-elite relations that guarantee stability of the current power regime.

For example, American researcher Edward Schatz believes that in the post-Soviet expanse "the *clans* and the state construct each other in an ongoing *dialectic*."<sup>3</sup> The same applies to Kazakhstan and Kyrgyzstan; this strategy allowed Nursultan Nazarbaev and Askar Akaev to become the only arbitrators in the inter-elite struggle, that is, remain above the skirmish.

As a result, the elite groups that acquired a *carte blanche* to strengthen their position took control over essentially all the main economic entities. In the political sphere, on the other hand, they created teams that penetrated the higher, middle, and lower levels of state administration. People were recruited into the elite groups, as well as the administrative teams and businesses they controlled, on the basis of kinship, clan, and friendly ties, which generated a rapid increase in corruption in the state structures, the political and legal consequences of which were a decrease in political competition, citizen disillusion in democratic values, and the danger of disintegration of democratic institutions.

Corruption penetrated deep into the civil service system both in Kazakhstan and Kyrgyzstan; however, we should not forget the role played by large mineral fields. Kazakhstan had quite a sizeable number of them (oil, gas, metals, coal, and so on), while Kyrgyzstan only had the gold field in Kumtor. So, despite the fact that civil servants in Kazakhstan appropriated significant budget resources, some of these funds nevertheless reached the population and this was enough to resolve social problems, raise social payments, pay budget employees their wages on time, and so on.

In Kyrgyzstan however, due to the low level of revenue generated by Kumtor and the large number of those wishing to grab a piece of other operating sectors of the economy, money did not reach the population at all. This was characteristic of the presidencies of Askar Akaev and Kurmanbek Bakiev, who ended up fleeing the country.

In contrast to Kazakhstan, Kyrgyzstan's political system proved the most democratic in the Central Asian region until the mid-1990s. As for Askar Akaev, in contrast to other presidents, he did not occupy posts in the party cell of the Kirghiz S.S.R. but came from the scientific world and was a member of that part of the intelligentsia that enthusiastically embraced democratic values after the collapse of the Soviet Union. Askar Akaev positioned himself as a democratic president who tried to create efficient democratic institutions in the republic. However, later he began to carry out a policy aimed at strengthening his own personal power, which was manifested in pursuing a non-democratic repressive course. As in other Central Asian countries, Kyrgyzstan's political and economic life fell under the control of clans that were loyal to the president. In systems where corruption is not simply widespread, but also officially sanctioned, the power structures have neither the opportunity nor the motivation to resolve urgent social and economic problems.

Nevertheless, despite the further transformation of Akaev, the Democrat into Akaev, the Autocrat, semi-free elections were held in the republic and there was a legal political opposition and stand-off between the president and the parliament.

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<sup>3</sup> E. Schatz, *Modern Clan Politics: the Power of «Blood» in Kazakhstan and Beyond*, University of Washington Press, Seattle, London, 2004.

In both republics, the state institution system was structured to provide the near-presidential clans with privileges and was under the direct control of the president. So Akaev and Nazarbaev gave the economic resources of the countries they headed to privileged groups (in exchange for their loyalty). Both leaders declared that preserving territorial integrity and maintaining national security, social unity, and domestic political stability was more important than the opportunity to participate in political life, the carrying out of economic liberalization, and the observance of human rights and freedoms.

However, by pursuing this policy, the leaders of the Central Asian republics themselves became its hostages. For example, Askar Akaev was no longer able to keep in check the activity of the elite groups engaged in plundering national riches. Moreover, the many relatives and members of the presidential clan who controlled a large part of the country's economy tried to reinforce their power with the help of deputy mandates.

Almost the same situation was seen in Kazakhstan, while some of its differences were due to local specifics. Such super institutions as the Nur Otan party, the Samruk-Kazyna National Prosperity Foundation, the National Security Committee, and the financial police became centers of political power and struggle there.

For example, in the future, the Nur Otan party, which consolidated almost all the budget employees in its ranks, will be able to nominate its loyal candidate to elected posts and demand replacement of a particular civil servant (by means of party control), including in the upper echelon of power.

The Samruk-Kazyna Foundation, which possesses all of the state's main assets, has immense political and financial potential; this will be of fundamental significance in the further struggle for power.

The National Security Committee and financial police are two of the largest power blocs; they have the right to instigate criminal cases regarding corruption. Keeping in mind the high level of corruption, they have powerful levers of pressure both on the elite and on the entire state apparatus. The National Security Committee also keeps a list of terrorist and extremist organizations, the activity of which it is authorized to intercept.

A distinguishing feature of the development of the political processes in the countries under review is the fact that real opposition to the president appeared in Kazakhstan (in the form of the Democratic Choice of Kazakhstan [DCK]) much earlier (2001-2002) than in Kyrgyzstan (2004-2005), where national discontent was manifested during the velvet revolutions that swept the former Soviet Union. This factor also played a decisive role in the Kyrgyz scenario of events.

The confrontation between the Kazakhstan government and the opposition in 2001-2002 resulted from the economic reforms, which led to serious sociopolitical changes. At that time, young businessmen appeared in Kazakhstan's business sphere, many of whom became the owners of enterprises (small and medium) and banks at the beginning of the 1990s and later occupied key positions in politics. Pursuing their personal interests, they tried to have an influence on economic policy and step up the carrying out of comprehensive reforms.

But the high level of politicization of the republic's economy and use of unfair business methods (particularly on the part of Nursultan Nazarbaev's ex-son-in-law Rakhat Aliev) led to the creation in 2001 of the Democratic Choice of Kazakhstan movement. However, Nursultan Nazarbaev quickly neutralized the open opposition of the Young Turks (the unofficial name of the oppositionists) in Kazakhstan, which was promoted by several factors.

- First, the protest moods (not to mention political campaigns) did not have time to spread throughout the country's vast territory.
- Second, most of the country's population mistrusted the representatives of DCK, who themselves came from the power elites, or were affiliated with them.

- Third, the resolute steps taken by the authorities to put down the protest activity of the oppositionists and the media supporting them, by applying forceful methods, and to discredit the opposition, by winning its leaders over to their side, forced the people to turn away from the Young Turks.
- Fourth, criminal cases were brought against the movement's leaders with subsequent spreading of biased information in the pro-government media.
- Fifth, Nursultan Nazarbaev, after taking up the baton from the opposition that demanded political reforms, addressed the people with a program of further democratization of Kazakhstan's political system.

So the administrative resource, loyalty of the elite groups, and power of the state apparatus made it possible for Nursultan Nazarbaev to bring the opposition movement to its knees. Economic factors went on to further dampen the protest potential in society.

The relative financial prosperity (achieved by means of oil, gas, and an inflow of foreign investments), which made it possible to reduce unemployment, the appearance of additional useable funds among the population, the improvement of housing and the nation's cultural and everyday living conditions, and the availability of consumer goods (due to the geographical proximity of China) allowed Kazakhstan to achieve social stability. For this reason, the country's protest potential has remained at a very low level for ten years now.

Only the impoverished members of the population are engaging in protest activity. They include enterprise employees who have not received their wages for a long time and participants in equity construction who lost their savings and investments during the crisis years of 2007-2009. Other categories of citizens are relatively supportive of the existing regime.

However, as mentioned above the balance that has been reached is very fragile and will only be maintained while mineral fields are in operation in the country, the export of which ensures an inflow of revenue. So the country's economic and social prosperity is extremely illusionary. The depletion of mineral fields will threaten the economy and, more important, the country's national security. From this it follows that the economic boost based on raw material export threatens further democratization in Kazakhstan.<sup>4</sup>

Due to the open opposition of members of the DCK, the backbone of which consisted of people from business communities, President Nursultan Nazarbaev preferred to oligarchize the political system. The objective of this strategy was to ensure that not one oligarch could enlist the support of the population, which did not trust people who were affiliated with the authorities and participated in the plundering of national riches.

As a result of this strategy, competition disappeared in Kazakhstan and there were no political parties (in the classical sense) or opposition; however, there is a united elite, the division of which into "pro-power" and "contra-elite" is only perfunctory.

So the now popular slogan "first the economy, then politics" declared by Nursultan Nazarbaev (whereby despite the 20 years of independence, there can be no talk of any political reforms, apart from the so-called reforms to strengthen presidential power in 2005 and 2007) called for strengthening the president's personal power, removing the political opponents, and creating a system of elite relations.

Moreover, after the events associated with the establishment of the DCK, President Nursultan Nazarbaev took control over the management of all the state defense and security structures. For exam-

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<sup>4</sup> See: Y. Grunewald, "15 let 'transformatsii'—mezhdunarodnaia diskussia o demokraticeskom razvitii v Tsentralnoi Azii," in: *Dinamika politicheskikh protsessov v Tsentralnoi Azii posle 15 let tranformatsii: problemy i perspektivy*, ed. by R. Krumm, Almaty, 2006, pp. 8-30.

ple, in coordination with the Parliament Senate, the President of Kazakhstan appoints and dismisses the prosecutor general, the chairman of the National Security Committee, the higher command of the Armed Forces, and the director of the Syrbar Foreign Intelligence Service. He also forms the President's Protection Service and Republican Guard, which are subordinate only to him, and heads the Security Council. The President of Kazakhstan also appoints the ministers of foreign affairs, defense, internal affairs, and justice, as well as the chairmen of the Constitution Council and Supreme Court.

A directly opposite scenario developed in Kyrgyzstan, where a large part of the country's population was drawn into a widespread opposition movement.

Several factors promoted this course of events.

- First, Kyrgyzstan is a relatively small country in territorial terms and its population is concentrated in the southern districts of the country, where the protest movement began.
- Second, the desire of the southern elites to remove the northerners from the power Olympus had significant financial support.
- Third, Askar Akaev was not decisive enough in putting down the rebellious population. However, to be fair, it should be noted that the events of 2010 showed how unacceptable it was to use forceful methods to repress the people's uprisings in Kyrgyzstan. The matter concerns Kurmanbek Bakiev's overthrow.
- Fourth, neither the state apparatus nor the power elites were ready for this kind of action from the government opponents.
- Fifth, the population was in an impoverished state after 15 years of permanent socioeconomic crisis.
- Sixth, in the context of the government's reluctance to carry out democratic reforms and the vagueness of future development, the president constantly extended his powers, corruption grew, the representatives of the defense and security departments increasingly usurped their powers, and so on.

Based on the above, it can be concluded that there were more than enough reasons for the rapid overthrow of Askar Akaev's regime in 2005.

On the other hand, the very fact that Askar Akaev, who was the most "pro-Western" president in Central Asia, was removed from power could not help but increase anti-Western sentiments among the leaders of the other Central Asian states. The fact that neither the U.S. nor any other democratic nation supported Askar Akaev's regime at the critical moment convinced the leaders of the CA republics once more of the weak partner relations with the West, in the eyes of which the region played an unenviable secondary geostrategic role.

So the West's reaction to the March events of 2005 in Kyrgyzstan demonstrated that it had no intention of keeping a particular regime in power. This prompted the CA republics to step up their efforts to draw closer to Russia, which declared the region a zone of its strategic interests. They began to regard neighboring Russia as a reliable protector of stability and security in Central Asia, as well as a guarantor of the successful existence of the current regimes.

The plans to form the Customs Union and Single Economic Space began to be implemented more rapidly, whereby Kazakhstan was the most active in this.

Moreover, and this seems to be most important, the CSTO Collective Rapid Response Force (CRRF) was created, which was allowed to set up its military positions in the territory of a participating state in order to neutralize or destroy terrorist organizations. Whereby, theoretically, any act carried out by government opponents in the CA republics could be classified as terrorist.



But the events of 2010 in Kyrgyzstan, which led to the overthrow of Bakiev's regime, showed that the decision to bring the CRRF into the territory of a particular participating state depended on Moscow. What is more, such restraining factors as absence of real experience in joint military operations, as well as the negative attitude on the part of public opinion in the world community and the population of the participating states prevent the CRRF from taking decisive steps.

So, the fears of the presidents and elites of Kazakhstan, Kyrgyzstan, and Tajikistan of losing power led to Russia acquiring another lever of pressure on the Central Asian regimes, which it uses to advance its own interests.

The following conclusions can be drawn from this analysis of the political development of Kazakhstan and Kyrgyzstan. Extension of the president's powers, strengthening of his authority, and intensification of the authoritative trends in the political regimes of both countries were declared necessary conditions for carrying out economic reforms that demand unconditional execution (partly with the use of elements of shock therapy). And whereas in Kazakhstan, positive shifts in the economy were not long in coming due to the large mineral fields in the country, in Kyrgyzstan the reforms were carried out with greater difficulties and at a much slower rate.

In Kazakhstan, strengthening of the president's power was justified by the positive dynamics of economic growth, which Kyrgyzstan did not enjoy. The Kyrgyz contra-elite demanded political reforms, extension of the powers of the representative branch, open elections, and so on, which were prompted by the inefficient activity of the power elite. But the need to reach a consensus between the government and the opposition led to an open clash between them.

It should be noted that the democratic changes that occurred in Kyrgyzstan were much more profound than in Kazakhstan. However, the state coups of 2005 and 2010 were not carried out within the framework of democratic institutions using corresponding tools (in particular elections), but by means forceful methods. Since Kyrgyzstan has been through two state coups, it is difficult to assess the future prospects for development of the republic's political system.

Several negative aspects can be singled out with respect to Kazakhstan that will potentially have negative consequences for the development of the country's political system.

- (1) There is no system of checks and balances in the executive, legislative, and judicial power branches in Kazakhstan; the president has been endowed with the greatest powers and appoints the leaders of the key government structures himself.
- (2) The most significant risk for the country's political system is the age and health of the current president. The indefiniteness of the political situation is also associated with statements that Nursultan Nazarbaev wants to rule Kazakhstan until 2020 and there is no talk about preparing a successor. If this development scenario in the country continues, the clans and oligarch groups may begin dividing up the political pie, which will certainly not lead to stability.

## *Conclusion*

It is obvious that liberalization of the political system in Kyrgyzstan has led to forced regime changes becoming more frequent in the country, while the economic reforms in Kazakhstan have not led to rational growth of the economy (an increase in economic freedoms requires political reform).

The twenty years of independence in Kazakhstan and Kyrgyzstan have shown that the authoritative model should first be combined with liberalization of the economy and then followed by polit-

ical reforms. Any misalignment in either of these vectors could lead to political crises and degradation of the state (Kyrgyzstan), or to super authoritarianism and an increase in personal power combined with the economy's raw material orientation, which is also uncompetitive economically (Kazakhstan).

So, based on this analysis, it is obvious that neither economic changes, nor relative political freedom will be successful if they do not comprise a single whole; their separate existence poses threats both to the ruling regime and to the entire state, society, and each individual.

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