



# **The Republic of Kazakhstan: An overview of the past three months**

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## Executive Summary

This report intends to inform stakeholders of key political, economic, social, and aviation evolutions that have occurred in Kazakhstan since and including May 2022. The methodology applied to achieve this objective has been through the synthesis of current events, newspaper articles, academic pieces, and first-hand sources. Overall, this report should serve as a brief and synthesized overview of the current state of affairs within Kazakhstan.

*Disclaimer: The information presented within this report is the result of extensive open-source research. While all efforts have been made to ensure the accuracy of the information presented, nothing contained within this report is, or should be, relied upon as a premise to make financial decisions. Dyami B.V. can not be held responsible for discrepancies in the information provided, nor for the outcomes of decisions made with the information provided.*



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## Introduction

Over the past three months, Kazakhstan showed important developments in domestic politics, foreign affairs, the economy, and aviation. Short-term motivators for these changes are anchored on the political fallout of the January 2022 protests, the easing of domestic Covid-19 measures, and the ongoing war in Ukraine. Long-term motivators span from a social metamorphosis from Soviet Republic to a democratic and economically prosperous society, a will to de-align from Russian spheres of influence, and a regional inclination to become the center of knowledge, research, commerce, and tourism for Central Asia.

But while these aims are enshrined in recently implemented policies by the Tokayev Government, which itself replaced the 29-year reigning regime of Nursultan Nazarbayev in 2019, there is a degree of social skepticism as to how true to his policies his government will be. To discuss these developments, this report will analyze the domestic political trends within Kazakhstan, Kazakhstan's foreign relations, its economic development, the evolution of its social trends, and the developments in its aviation industry.



Nur Sultan Entertainment Center, credit: Pixabay



## Domestic Political trends

The Kazakh government held a referendum on the 6th of June, 2022, to alter its national constitution. This event has dominated domestic politics within Kazakhstan over the past three months, being only the third of its kind since the fall of the soviet union in 1991. Fifty-six amendments were made to roughly 33% of all articles included within the Kazakh constitution. Of these, key takeaways are the abolishment of the death penalty, a banning of family members of those in political office to hold high-ranking positions in Kazakh private industry, and a handover of certain powers from the Prime Minister to the Kazakh Parliament.



President Kassym-Jomart Tokayev, credit: Sputnik

The goals of these reforms according to Tokayev's government are to remove the "super-presidential" status that Nazarbayev enjoyed during his government. In addition, through democratization, there is a hope that such reforms will lead to a curbing of the endemic political and economic corruption which has plagued Kazakhstan for over three decades.



It is clear that the appointed government officials articulated the reforms to aid Kazakhstan in gaining foreign investment. However, large criticism has been raised as to how these constitutional reforms were formulated, voted on, and indeed, how they will be implemented.

While official channels state that 60% of Kazakhstan's voting-age population cast their ballots, international observers state that the numbers could be as low as 30%. In addition, it is not clear who actually wrote the suggested alterations to the reforms. According to Kazakhstan's foreign affairs minister, this task was executed by an ad-hoc group of "government experts." However, their identities and motives are unknown. For this reason, critics believe the reforms intentionally left certain perks for the President on the table, such as removing Torkayev's ability to select the heads of each government department or limiting his ability to spend government resources on building up his own wealth (housing, cars, travel, etc).

In addition, these reforms have also failed to address fundamental gaps in the laws surrounding freedom of speech, expression, and political choice for the Kazakh people. This has had large and lasting ramifications for the civil population in the past, and as will be discussed in the "Evolution of Kazakhstan's social trends" section, and has continued to affect the civil populace over the past three months. Overall, such aspects of these reforms have brought into question whether true democratization is taking place.



## Kazakhstan's Foreign Relations

In the past two months, global events have posed a challenge to the foreign relations of Kazakhstan. In the short term, the war in Ukraine [still ongoing at the time of this article's writing] negatively impacted the Kazakh economy and forced the country to stimulate its foreign relations beyond Russia. The government of Kazakhstan has since stated that it has no intentions of choosing a side in the conflict, and it has refused to provide troops for the war. Instead, the Kazakh government has searched for diplomatic means to try to minimize the negative impacts of the sanctions, and President Tokayev set in motion several initiatives to attract investment and development for the country.

Since the war started, Russia has halted Kazakh oil exports twice (once in March and once in June), as almost 80% of its exports pass through the Russian port of Novorossiysk. In this light, Kazakhstan is proactively seeking to diversify its oil exports and find routes that circumvent Russia, notably pleading for US assistance in doing so in July 2022. Kazakhstan is also pledged to help Europe stabilize its energy crisis with its hydrocarbon potential and started to forge partnerships with Saudi Arabia, Iran, and Georgia. Turkey and Kazakhstan's leaders also held a meeting in May 2022, discussing possible strategic partnerships to increase the bilateral turnover.

In addition, Tokayev participated in the St. Petersburg International Economic Forum in June, which showed solidarity with Russia. However, during the forum, he reiterated that his country does not recognise the quasi-state territories of Donetsk and Luhansk. Tokayev also spoke of international cooperation, making the country attractive for foreign investment, and developing better connections between the Eurasian Economic Union and China's Belt and Road Initiative.

For the latter, Kazakhstan is the main gateway to Central Asia and a key trading partner. In late July 2022, China stated that it is willing to further enhance and strengthen cooperation with Kazakhstan through the BRI investments. The trade turnover between the two countries also reached a record of \$11 billion during the first half of 2022. Keeping Beijing happy is, therefore, essential for Kazakhstan's economy. China, as the West, also has an interest in keeping Kazakh oil production flowing and oil prices as low as possible (when Russia halted the exports, the price spiked). Therefore, it is very likely the two countries will continue seeking further cooperation.



In this context, Kazakhstan is playing a delicate balancing act between Russia and the West, aided by Beijing. Due to Europe's energy crisis, the country continues to be in a unique position to exploit new opportunities and trade routes with the West, but needs to do so without irritating Moscow, which still is a significant partner in the country's trade. Nur-Sultan, therefore, is trying to position itself as a reliable trading partner and profitable investment, but carefully remaining a useful ally for Russia.





## Economic developments of Kazakhstan

With heightened uncertainty following the January protests and the Russian invasion of Ukraine, Kazakhstan saw the price of its currency [Kazakh Tenge ₸] plunge. But since June 2022, the price has restabilized. To achieve this, Kazakhstan's Central Bank scaled up foreign exchange rates, focused on brokering better deals for Foreign Direct Investment, and altered its mortgage rates.

Concerning trade, the Kazakh Ministry of Trade registered a 37% increase in the country's exports between January and May 2022, as compared to the same period in the year prior. Countries such as Georgia, Canada, Morocco, South Korea, Japan, and Turkey have increased their imports from Kazakhstan as a result of sanctions on Russian goods.

The Netherlands remains the top country investor in Kazakhstan for the first quarter of 2022, with \$1.9 billion. Overall investment in construction, trade, processing industry, transport, and communication showed the highest growth between January and July, with economic growth reaching 3.2%.

However, in spite of such positive trends and tighter economic policies, inflation remains high (15% if compared to July 2021). This has put pressure on the less affluent population of Kazakh society, as basic food goods are increasing on a monthly basis. In addition, due to the sanctions and more difficult relations, Moscow may play a smaller role in the future as one of the main importers of Kazakh goods. In this context, trade relations with China are expected to grow further, as they showed significant improvement already.

Lastly, Bloomberg reported in August 2022 that Russia may pull out of the Eurasian Development bank to reduce the possibility of the institution being sanctioned. This would make Kazakhstan the bank's major shareholder, as it now holds roughly 33% - Russia, currently, holds 66%.

## Corruption

In June 2022, the Council of Europe's Group of States against Corruption published its first evaluation report on Kazakhstan. The report stresses that the country has much to achieve to successfully tackle the issue, but recognizes the efforts already in place,

such as the Anti-Corruption Agency. Corruption in Kazakhstan is entrenched in the public and private spheres, and severely slows down the country's economic development. Though according to the Council's report the actual scale of the issue is difficult to establish due to a lack of reliable information, the General Prosecutor's Office published data that confirmed a worsening corruption trend. The Prosecutor's Office registered a 33% rise in bribery cases during the first half of 2022; crimes such as forgery by officials and fraud approximately doubled, and abuse of office rose by 25%.

As the country is undergoing major political changes, corruption is also likely to be tackled, at least on the surface, by the current government. Although the issue has worsened in recent months and it remains one of the most pressing for Kazakhstan, January's protests have highlighted the dangers of ignoring systemic issues such as corruption. This, combined with the Council of Europe's report, is likely to push the political elite to enhance anti-corruption bodies. However, as oligarchs in the country continue to have a vested interest in the practice, no practical changes can be expected in the next twelve months.



## Evolution of Kazakhstan's Social Trends

In July of 2022, it marked half a year since the violent eruption of socio-political grievances between Kazakh protestors and the state. Although the anchor of such protests was the halting of government subsidies for Liquified Petroleum Gas, what they are remembered for socially are the 214 protesters that were killed and the oppression of civil liberties. Since the said event, the Tokayev government has shown a degree of humility in denouncing its own actions in the lead-up, carrying out, and aftermath of the protests.

Statements referring to the hard-handed approach of law enforcement have been forthcoming, especially on torture accusations. However, many critics see this as a guarding act to compensate for the lack of social representation within Kazakh politics. In short, while there are a few political parties that are pushing for women's rights and greater internal-ethnic cooperation, major hurdles still remain for issues such as LGBTQ+ rights and racism towards non-western groups, such as Africans and East Asians.

While there are groups pushing for social change within Kazakh society, the majority are based outside of Kazakhstan. This is for fear of political prosecution. But while Tokoyev's government seems to slowly be opening up Kazakhstan's economic and political profile, it seems that over the past three months, little has changed on hot button issues.



2022 International women's day protests in Almaty, Kazakhstan, credi: hrw.org

## Developments in the Kazakh Aviation Industry

Partially due to the developments in Kazakhstan's foreign relations, the air traffic numbers have not just recovered from their pre-pandemic levels, but have exceeded them. Prior to the pandemic, Kazakh airlines jointly served 27 states with around 440 flights a week. A number that has increased to 476 flights per week with an additional 6 destinations being added, such as Italy and Greece.

In part, this development has been aided by the extension of 14-day visa-free travel to Chinese, Indian, and Iranian citizens, and 30-day visa-free travel to South Korean citizens. But also due to a growing trend of professionalization of the Kazakh aviation industry.

From safety, management, and training, Kazakhstan has been making impressive progress; to the point where the US FAA is holding talks with its opposite number in Kazakhstan to assess the viability of allowing the latter's aircraft within its airspace. With this momentum in mind, it was announced in August of 2022 that Air Astana is making a push to internalize its pilot training pipeline, with plans to have a functioning simulator operating in the capital by the end of 2022.

Upgrades to fleets and facilities have also been announced. Kazakh Airlines such as Air Astana and FlyArystan are taking orders for two A321LRs and three A320Neos respectively. The airports of Uralsk, Jostanay, Almaty, and Shymkent are undergoing reconstruction projects for their passenger terminals. Overall, the growth of the aviation industry is positive.



An Air Astana E190-E2 taxiing, credits: ADN



## Conclusion and final remarks

As seen throughout this report, the past three months have yielded important developments for Kazakhstan.

Internally, on the 6th of June, the Kazakh government held a referendum, which resulted in amendments to roughly 33% of the constitution's articles. Key changes were the abolishment of the death penalty and the banning of family members of those in political office to hold high-ranking positions in the Kazakh private industry. However, the referendum was criticized for the lack of more substantial changes in the check and balances for the political elites and for the protection of freedoms of expression and political choice.

Internationally, Kazakhstan has taken several steps to foster economic cooperation by forging deals with countries such as Saudi Arabia, Iran, and Georgia. Tokayev publicly stated his government's renewed interest in China's Belt and Road Initiative. Kazakhstan also knows it finds itself in a unique position as the West tries to diversify its gas imports and decrease its energy dependence on Russia. However, Tokayev needs to play a delicate balancing act, and be aware of not stepping on Moscow's toes, while developing new trading routes with Europe for its energy resources.

Economically, Kazakhstan is showing positive trends. The Kazakh Tenge re-stabilized after plunging in mid-February, and between January and July 2022, Kazakh economic growth reached 3.2%. Construction, trade, processing industry, transport, and communication showed significant growth, and the country's exports increased by 37% between January and May 2022, compared to the same period last year. Corruption, however, has worsened.

Socially, Kazakhstan's government has been forthcoming in statements on the hard-handed approach to the January protests, condemning the use of violence and torture. However, the political representation of minorities and civil rights remains low, and while the country is opening up economically, citizens' rights and freedoms still need substantial protection.

For the aviation sector, Kazakhstan's air traffic numbers have surpassed pre-pandemic levels. This has been due to more favorable visa conditions for major countries such as China and India, in addition to an overall improvement in the safety, logistics, and security standards of its airlines.





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