

REGIONAL SECURITY AND STABILITY: PERCEPTION AND REALITY



A REPORT ON THE THIRD NCAFP TRIP TO KAZAKHSTAN (JUNE 17-21, 2007)

As Well as Policy Recommendations

NATIONAL COMMITTEE ON AMERICAN FOREIGN POLICY

CENTRAL ASIA PROJECT:
U.S. INTERESTS IN CENTRAL ASIA
AND U.S.–KAZAKHSTAN RELATIONS

MICHAEL RYWKIN, Project Director

Our Mission

The National Committee on American Foreign Policy was founded in 1974 by Professor Hans J. Morgenthau and others. It is a nonprofit activist organization dedicated to the resolution of conflicts that threaten U.S. interests. Toward that end, the National Committee identifies, articulates, and helps advance American foreign policy interests from a nonpartisan perspective within the framework of political realism.

American foreign policy interests include

- preserving and strengthening national security;
- supporting countries committed to the values and the practice of political, religious, and cultural pluralism;
- improving U.S. relations with the developed and developing worlds;
- advancing human rights;
- encouraging realistic arms control agreements;
- curbing the proliferation of nuclear and other unconventional weapons;
- promoting an open and global economy.

Believing that an informed public is vital to a democratic society, the National Committee offers educational programs that address security challenges facing the United States and publishes a variety of publications, including its bimonthly journal, *American Foreign Policy Interests*, that present keen analyses of all aspects of American foreign policy.



FOREWORD

In April 2005 the National Committee on American Foreign Policy's (NCAFP's) first Central Asia Project delegation went to Kazakhstan at the invitation of Kazakhstan's Ministry of Foreign Affairs. On its return, the NCAFP published a report entitled Stability in Central Asia: Engaging Kazakhstan. It contained an overview of the current state of affairs in that country as perceived by the delegation, plus conclusions and policy recommendations. That report was based on high-level meetings in Almaty and Astana, briefings and debriefings in Washington, and consultations with Central Asian experts in both countries as well as among members of the delegation. It reflected our views of the situation and our belief in the necessity to "engage with Kazakhstan," the most advanced and the most promising post-Soviet republic of the "southern belt." The report was positively received both in Washington and in Astana, where it was translated into Russian.

In January 2006 the NCAFP, in cooperation with the Dwight D. Eisenhower National Security Series, organized a roundtable conference entitled "Stability and Security in Central Asia: Differing Interests and Perspectives." Presenters discussed the situation in Central Asia as seen from Washington, Astana, Bishkek, Moscow, Beijing, and Ankara. Although the conference dealt with the region as a whole, the bulk of attention was focused on Kazakhstan. A summary of the roundtable with policy recommendations designed to facilitate mutual understanding between the United States and Central Asia, particularly Kazakhstan, was subsequently published.

The NCAFP Central Asia Project was invited by the Kazakhstan Ministry of Foreign Affairs to return to Almaty and Astana for a second trip in late June 2006 to meet with senior level government officials, academics, business people, and members of the opposition. The delegation engaged in briefing sessions with U.S. government officials in Washington, D.C., prior to the trip and debriefing sessions following the trip. A trip report with policy recommendations, Stability and Security in Central Asia: Engaging Kazakhstan, was published in August 2006.

At a luncheon hosted by the NCAFP in September 2006 in New York with Kazakhstan's Foreign Minister Kassymzhomart Tokaev, there was a discussion about how the NCAFP Central Asia Project could continue to be most effective in informing the foreign policy dialogue among high-level policymakers in both Kazakhstan and the United States. A former U.S. diplomat expressed the view that there is a significant perception gap in the foreign policy communities in Central Asia, on the one hand, and in the United States, on the other hand, perhaps particularly so on Capitol Hill. He suggested that the NCAFP sponsor a roundtable to include senior-level policymakers from both sides for track II discussions to narrow the perception gap. In subsequent discussions with senior level officials at the U.S.

Department of State, the Department of Defense, the National Security Council, and the Office of the Vice President, as well as senior subcommittee staff members in Congress, we found great interest in such a roundtable.

The Roundtable entitled “Regional Security and Stability: Perception and Reality” was held in New York City in March 2007. The participants from Kazakhstan included representatives from the Presidential Administration, the National Security Committee, the Ministry of Defense, and the National Asset Management Company. The U.S. participants included representatives from the Department of State, the Department of Defense, the Office of the Vice President, a former National Security Council official and academic and business experts. A summary of the roundtable with policy recommendations was subsequently published.

The Presidential Administration in Kazakhstan demonstrated its interest in continuing the momentum of the discussion initiated by the March 2007 Roundtable by inviting the NCAFP Central Asia Project to send a delegation to Astana in late June 2007 for an intensive series of meetings with senior members of the Presidential Administration, ministries, and parliamentary officials. The NCAFP’s six-member delegation consisted of Senior Vice President Donald S. Rice, Treasurer Richard R. Howe, Trustee Steven Chernys, NCAFP Central Asia Project Director Dr. Michael Rywkin, NCAFP Central Asia Project Deputy Director Dr. Peter J. Sinnott, and David Merkel, former U.S. National Security Council director, Aegean, Caucasus, and Central Asian Affairs.

The NCAFP expresses its gratitude to the government officials, scholars, and policy analysts, both in the United States and Kazakhstan, who took time from their busy schedules to confer with our Central Asia Project group on its third trip to Kazakhstan. A list is included in the Appendix. All conversations were off the record. The NCAFP alone is responsible for the conclusions and policy recommendations in this report.

Special gratitude goes to the NCAFP’s Central Asia Project Director Dr. Michael Rywkin, who is the primary author of this report. Without his keen insight into developments in the countries of the region and his deep substantive knowledge of the former Soviet republics, especially their political situations, nationalities, and ethnic relationships, the NCAFP’s Central Asia Project could not have developed to its present status, which is fulfilling its potential as a long-term track II vehicle involving the United States, Kazakhstan, and, eventually, the other countries of Central Asia. I also thank my fellow NCAFP colleagues, Donald S. Rice, who has headed our delegations to Kazakhstan, Richard R. Howe, who has been active in the project, and Steven Chernys, whose business experience in the region and insights into developments have contributed greatly to the project. They join me in expressing the NCAFP’s gratitude to Dr. Peter Sinnott for his work as deputy project director and for reporting on his

travels to other Central Asian countries and to David Merkel, whose experience in the formulation and implementation of U.S. policy in the region and participation in the March 2007 Roundtable and the June 2007 trip have also contributed greatly to the project.

The NCAFP's Central Asia Project trips to Kazakhstan would not have occurred without the generosity and hospitality of the Presidential Administration and the Ministry of Foreign Affairs of the Republic of Kazakhstan, as well as the Perspektiva Foundation. Funding for events in the United States and for travel to and from Kazakhstan over the past three years has been provided primarily by the Dwight D. Eisenhower National Security Series, the Shelby Cullom Davis Foundation, and certain NCAFP trustees, members, and others interested in promoting U.S. interests in Central Asia and U.S.-Kazakhstan relations.

George D. Schwab, President
National Committee on American Foreign Policy



INTRODUCTION

The third trip of the National Committee on American Foreign Policy (NCAFP) to Kazakhstan (June 2007) was prompted, as were preceding meetings, by an invitation from senior level officials in Kazakhstan to clarify specific issues that had emerged in Kazakh-U.S. relations since our last meeting. During our visit to Astana in June, we were hosted by the Ministry of Foreign Affairs, our principal interlocutor being the Foreign Policy Center of the Administration of the Presidency. The time between meetings was short. Only three months had passed since the roundtable on “Regional Security and Stability: Perception and Reality” was organized by the NCAFP and held in New York in March 2007. That period was rich in political events, the principal one being the combined visit by Presidents Putin and Nazarbayev to Ashgabat and the deal they reached for Russia’s gas monopoly Gazprom to pump Turkmen gas to the European market through Kazakh and Russian territory, an arrangement that could jeopardize the trans-Caspian route to Baku proposed by many Western corporations and political leaders.

Among the issues that we sought to clarify was the position that Kazakhstan intended to take at the Shanghai Cooperation Organization (SCO) meeting where new pressures for U.S. withdrawal from the Manas base in Kyrgyzstan were expected to be leveled. Another point of interest was the Majilis’s recognition of President Nazarbayev as the founder of the state—a status that will enable him to be the only person eligible to present himself indefinitely as a candidate for the presidency without term limits. Changes in the electoral law providing for proportional representation were also discussed.

THE TURKMENISTAN DEAL

We discussed with numerous officials the background of the Turkmen deal, which was central to our inquiry. Among the aspects that we discussed was the reality of the much reported Russian pressure to enter into this arrangement as well as inferences that can be made from President Nazarbayev’s absence from the May European Energy Summit in Poland and attendance at the Ashgabat meeting in Turkmenistan with Presidents Putin and Berdymukhamedov.

The point of the Warsaw energy summit was to plan an Odessa-Gdansk gas pipeline that would bypass Russia and decrease Europe’s growing dependency on Russian gas. The key to this concept is the construction of a Trans-Caspian Pipeline that would carry Central Asian gas to Baku. Azerbaijan’s president attended along with representatives from Georgia, Ukraine, and Poland. President Nazarbayev decided instead to travel with President Putin to finalize a tripartite gas agreement in Turkmenistan.

According to the information that we obtained, the Turkmenistan deal was

the only realistic way to proceed. Initial plans for a Turkmenistan–Russian gas pipeline crossing through Kazakhstan were made during the Soviet period. All of the preliminary studies were completed long ago, and the feasibility of the project is beyond doubt. In contrast, the alternate route to Baku and along the bottom of the Caspian Sea (favored by the United States and Europe) is only now being studied, and its feasibility, cost, and financing are uncertain. In backing the Russian route, Astana was motivated by practical reasons, the time required for the completion of the project and the size of transit fees to be paid to Kazakhstan for the transport of gas through 800 km of its territory. Political motives did not play a decisive role, and the agreements for supplying Kazakh oil to Baku via tankers were not affected. It was stressed, however, that Astana is not interested in plans for gas pipelines across the Caspian Sea. Russian sources have told us that the Caspian is very deep between the Turkmenistan and Azerbaijan coasts, making it difficult to construct a pipeline there. Western experts seem to doubt that contention, pointing to the North Sea experience.

Kazakhstan is going to gain more than 600 million dollars per year in transit fees (\$10 per 10,000 m³), representing less than 1 percent of its estimated GDP for 2007. Russian companies paid Turkmenistan a higher price this time than they did before for its gas, a price that is about half of what Gazprom is going to charge European customers. The calculation would be complicated further if barter elements in the Turkmen–Russian trade are retained. In the past such arrangements were highly unfavorable for the Turkmen side: The Russians grossly overcharged for their supplies. Although our hosts made the case for Kazakhstan’s decision to participate in the Turkmen deal, they did not identify the exact mechanisms that had been devised for the receipt and utilization of the expected transit fees as well as the capital expenditures that would be required to enable the gas to flow without interruption.

There are two ways to interpret the Turkmen deal: (1) as an asset bolstering Russian attempts to increase Europe’s dependence on Russian gas and (2) as a straight commercial deal not only increasing the supply of gas on the European market but also benefiting all of the parties concerned.

The same interpretation can be applied to plans for a Single Energy Market for the Commonwealth of Independent States (CIS) to be modeled on the EU example. Some experts see the increase in the amount of energy available to the markets as positive regardless of who delivers it. Others accept this view for oil but not for gas whose price is not uniformly quoted on the world market.

After our departure from Astana, we learned of a new move that Moscow had made in the Caspian Sea Basin, the attempt to bring under state control the last privately owned pipeline in Russia—the CPC (Caspian Pipeline Consortium) oil pipeline that connects the oil field of Tengiz (Kazakhstan) with the Russian harbor of Novorossiisk on the Black Sea. If Russia’s state owned Transneft gains control of the pipeline and increases

transit fees, as it wants to do, it could propel Astana to search for the further diversification of its oil routes—increasing the capacity of the Atasu-Alashankan link with China and supplies to Baku-Ceyhan. In the interim, the Russian state, together with Transneft, has focused on the CPC's financing arrangements as a means to pressure other parties, including Kazakhstan, into making concessions.

THE U.S. PRESENCE IN CENTRAL ASIA

The demand issued at the July 2005 SCO meeting in Astana for a timetable for the closing of U.S. air bases in Central Asia led to the eviction of Americans from the Khanabad air base in Uzbekistan. This action was facilitated by Tashkent's switch to the Russian camp in apparent reaction to American criticism of Tashkent's handling of events in Andijon in May.

The sole remaining U.S. military presence in Central Asia is an air base at the expanded Manas International Airport that has come to be used as a lever in both Kyrgyz and domestic politics. The fatal shooting of a citizen who failed to halt while approaching a U.S. aircraft refueling in December 2006 and U.S.-Kyrgyz negotiations over the base-leasing price combined with the increased Russian presence at its Kant base in Kyrgyzstan all contributed to charging the atmosphere against the continuation of the U.S. presence.

The Kazakh side reassured us that the U.S. presence in the area is still welcome as an implicit guarantee of Kazakhstan's independence and multilateral foreign policy. Although the reassurance no longer covers U.S. military bases in Central Asia, it does reflect the Kazakh attitude toward the American economic presence. The military domain includes military assistance, supplies, and advice for the Kazakh side and overflight rights and emergency-landing rights for the American side. (The United States does not have bases in Kazakhstan.) Kazakhstan's military-to-military relations with the United States and NATO continue to be substantial and effective, which reflect the balancing of great power interests, including arrangements made within the past year with Russia relating to the modernization of Kazakhstan's armed forces with Russian equipment and SCO organized military exercises in August 2007. On the domestic security front, there is a continuing need for American resources to be used in narcotics interdiction, identifying money laundering, as well as cooperation in tracking and incarcerating terrorists from neighboring countries. Some shifts in perceptions seem to have occurred since our 2006 visit, when the acceptance of the U.S. presence appeared to be more robust and extensive.

There is the sense that the United States is losing prestige and influence in the region as a result of being bogged down in Iraq and Afghanistan, the lame duck status of the Bush administration, concern about who will win the 2008 U.S. elections, the huge trade deficits, the related fall of the dollar, and so on. It is not surprising that Kazakhstan's Russian and

Chinese neighbors have endeavored to take advantage of the situation and that the Kazakhs have skillfully orchestrated their courtship. For example, the Russian media, de facto state controlled, which dominate TV screens, are contributing to spreading anti-American feelings. It is not the legality of the U.S. intervention in Iraq and Afghanistan but Washington's inability to end either conflict despite its overwhelming military might that fuels criticism and raises questions about its credibility.

ALLEGED U.S. INACTIVITY IN TURKMENISTAN

We heard several times that U.S. activity in Turkmenistan after the death of Turkmenbashi was not commensurate with strategies typically adopted to compete for access to the country's gas riches. More than once, the names and titles of Russian officials who visited Turkmenistan were cited. They were of higher rank and greater number than U.S. officials who visited the country. The impression was that the United States had resigned itself to Russia's gaining the upper hand in the competition for access to Turkmen gas and therefore had concluded that it would wield less influence in the country than Russia. Accordingly it made no special effort to increase contacts and communication, nor did it attempt to coordinate with potential European partners. As a result, although oil deals may still be open to competition, Russia seems to have locked in the Central Asian gas market at least for now. To our interlocutors, the fact that the principal contacts from the United States have been from the Department of State, to the exclusion of high-level representation from the other power centers in the executive branch of government (Defense, Treasury, Intelligence), as well as from the White House, has sent clear signals that the United States is neither serious about nor consistent in giving Turkmenistan and the region the attention they deserve given their geostrategic importance.

THE ROLE OF RUSSIA

Astana has no choice other than to maintain good relations with Russia, its principal neighbor and main partner in numerous fields. Dependency on Russia is not limited to energy and the military sphere. It includes trade, media, education and training, methods of governance, cultural ties, and so on. The survival of the Soviet mentality, the spread of the Russian language, a large common border, and the presence of a large Russian minority—all play a role. To counterbalance this built-in Russian advantage, the United States has to rely on its image, proven market performance, the openness and transparency of its policies, and worldwide cultural attraction, as well as the absence of historic conflicts with Central Asia. Unfortunately, a number of traditional U.S. advantages have been neglected or tarnished during the last few years and are in need of renewal. It must be noted that many of Russia's efforts appear to reflect a reactive and anti-U.S. stance rather than a proactive and comprehensive strategy toward the region (e.g., SCO, the Manas base issue, and pressures on the CPC and its partners).

THE STATE OF UZBEK-AMERICAN RELATIONS

The state of U.S.-Uzbek relations remains poor though renewed contacts seem possible. This issue was discussed several times. Astana seems to think that Tashkent is now more open to dealings not only with the Kazakh side but with the United States as well because the results of Uzbekistan's switch from the United States to the Russian camp have not met Tashkent's expectations. Although this opening presents opportunities for renewed contacts in several spheres, it does not point to any prospects for improvement in Tashkent's human rights record. The question is how many issues Washington is ready to set aside in order to improve relations with President Islam Karimov's regime. It has been suggested that this may be a fruitful area for track II work as a precursor to improved U.S.-Uzbek relations.

CENTRAL ASIAN COOPERATION

Improving cooperation and trade among Central Asian states has become a key priority for Kazakhstan. Astana realized a long time ago that the poor state of affairs among its four southern neighbors endangers its own prosperity. The lack of mutual cooperation with Turkmenistan, Uzbekistan, Tajikistan, and Kyrgyzstan limits the size of Kazakhstan's consumer market and hampers economic expansion beyond the extraction sector. The perception is growing, however, that Kazakhstan's neighbors have become more receptive to cooperative projects than they were before, although problems remain. Kazakhstan's investments in Kyrgyzstan and Tajikistan in recent years are the most sizable in the region. Russia, which prefers to have bilateral relations with Kazakhstan and each of the four neighbors, is opposed to any "Central Asian Union." The Russian approach toward Central Asia is similar to the bilateral contacts that it has developed with members of the European Union. At present no single organization is empowered to convene Kazakhstan and its four neighbors without the presence of an outside power—always Russia, often augmented by one or more Asian countries from the CIS, SCO, or another organization. It is the opinion of the people whom we spoke to that cooperation among the five Central Asian states can only improve their standing considerably in the international arena. Prompted by its disenchantment with both U.S. and Russian options, Tashkent seems more open to Kazakh suggestions concerning closer cooperation among Central Asian states. The key obstacle remains the Uzbek reluctance to accept Astana's superior economic performance as a justification for economic leadership.

THE APPEAL OF THE OSCE PRESIDENCY

We were left with the impression that from the point of view of Astana, the presidency of the Organization for Security and Cooperation in Europe (OSCE) in 2009 is an urgent objective. Kazakhstan has been actively campaigning for this position for more than two years. Normally the final decision would have been made by December 2006 but it was deferred to December 2007 after anticipated parliamentary elections for 2007 had

been held or postponed.

For Kazakhstan the issue, which involves the recognition of status, has gone beyond the policy establishment and, as was suggested to us, has become a cause célèbre to the political leadership. There is a feeling in Astana that Kazakhstan and, by inference, the leadership have not received proper recognition from the major powers for their post-independence achievements ranging from abandoning nuclear weapons to tripling GNP and from keeping ethnic peace to maintaining a secular society. Irritation stems from the perception that the West tends to see the negative side of developments in Kazakhstan without considering all of the difficulties that the state has encountered in its transition from Soviet times to the 21st century. Kazakhstan especially resents the stigmatization of certain aspects of the political scene, regarding such characterizations as means used to deny its right to seek the OSCE presidency. Along those lines, our interlocutors criticized American officials who have dealt with their Kazakh and other Central Asian counterparts by presenting checklists and assignments at various junctures rather than engaging in sympathetic dialogue.

While U.S. policymakers and certain OSCE counterparts are questioning whether Kazakhstan is ready for such a role, taking into account the pace and content of the country's political reforms to date, they may deem it appropriate to consider not only Kazakhstan's progress in undertaking political reform but also the geostrategic/geopolitical ramifications of awarding or denying the chairmanship to Kazakhstan in 2009. Would doing so make the United States and Europe more relevant in the region? Given the lack of Central Asian regional architecture such as a Central Asian Union, would the denial of the chairmanship of OSCE send a message to Kazakhstan and its neighbors that the SCO is the vehicle that it can use to pursue its foreign policy goals? What overall message would the denial of Kazakhstan's quest for recognition send to the countries of the Caucasus? Or would granting the OSCE presidency undercut the standards the OSCE seeks to project?

ECONOMIC DIVERSIFICATION AND CAPITAL MARKETS

Central Asian attempts to diversify the local economy outside of the field of energy have encountered obstacles common to all developing oil-producing countries despite increased governmental efforts to facilitate the process. Astana is aware that the record of countries in similar situations is poor. Having to deal with such difficulties as overcoming bureaucratic obstacles, resisting the corruption of local officials, and attracting fresh funds (foreign and domestic), as well as not being able to rely on an independent and transparent judicial system for recourse in the case of disputes, has intensified problems for investors in the nonenergy sectors of the economy. Competition with the more attractive energy sector and the lack of access to persons in power, something available to energy giants, also play a role. To help encourage investments in nonenergy fields, the

government has established funds such as KAZYNA and management holdings such as SAMRUK.

Although Kazakhstan has rapidly developed an active banking system, efficient capital markets are said to be absent. The use of credit cards is just beginning to spread. Business in Kazakhstan is capable of investing in Georgia or elsewhere in the former Soviet republics, Russia included. But domestic capital is still hesitant to invest outside of proven sectors. At present Kazakh banks are coming under regulatory and market pressure given their large exposure to the construction and real estate sectors. In addition, several of Kazakhstan's leading banks are disproportionately dependent on short- and medium-term foreign currency funding while holding assets mostly in local currency, an issue that financial analysts and rating agencies have noted with increasing alarm. Since much of Kazakhstan's regional leadership is based on its economic prowess, it is worthwhile for the authorities to monitor the construction, banking, and real estate sectors for early signs of difficulties that may lead to internal and possibly regional instability. The regulatory authorities continue to take steps to avoid a banking crisis caused by risks associated with both funding and concentration. Although their efforts to date have had some limited success in the banking sector, the authorities still face challenges stemming from rapid growth in the overall economy.

Although Kazakhstan has achieved a real growth in GDP of approximately 10 percent per annum since 1999, much of this growth is centered in Almaty and Astana, creating noticeable regional differentials. In addition, anecdotal evidence suggests that infrastructure limitations are leading to bottlenecks that could hamper economic growth. These factors combined with an apparent shortage of human capital at various skill levels could make it difficult to diversify the economy away from hydrocarbons and the extraction of minerals.

AGRICULTURE

With 85 percent of the economy in private hands, efforts are being made to develop the oil and gas machinery, petrochemicals, and food-processing sectors. Kazakhstan's agriculture, which represented 10.3 percent of GDP in 2005, is not yet fully reformed. Unlike herding and farming, land ownership is not predominantly in private hands. Obtaining 49-year land leases from the state is the prevailing way to secure land. Here Kazakhstan follows the general path of other post-Soviet republics where resistance to the privatization of land remains strong. In Kazakhstan, laws protecting rights to private property were enacted only in 2004. Since private property rights remain at the core of a functioning market economy, market reforms remain incomplete. As a result, agricultural productivity in Kazakhstan is still between 1/10 and 1/20 of the United States. The survival of the kolkhoz (i.e., Soviet collective farm) mentality, the lack of experience with private farming, the lack of funds for the purchase of

machinery for individual cultivation, and competition for funds from other sectors of the economy add to the situation.

SUBJECT, NOT OBJECT

The authorities often advance the idea that Kazakhstan is a subject in international politics and not an object of contention, a pawn to be manipulated by great powers. To explain this point the Kazakh side uses the expression “quality cooperation” (kachestvennoye sotrudnichestvo). It insists that its own interests, not the overriding interests of the great powers, should dictate Kazakhstan’s moves on the international chessboard.

THE ROLE OF CHINA

Rapid Chinese economic inroads into Central Asia have fueled concern that political inroads are bound to follow. China’s size, growing economic might, proximity to Kazakhstan, proverbial capacity of its people for work, and endless appetite for new markets and natural resources have created suspicion about China’s intentions. It is generally taken for granted that conflict between Russia and China for influence in Central Asia is practically inevitable, especially if U.S. influence weakens. Within the SCO, Kazakhstan wants to be treated as an equal, not as an obedient follower, of Russia or China. It must be noted that given the lack of knowledge of Chinese methods relative to Russian approaches as well as the less confrontational approach taken by the Chinese in making inroads, the foreign policy and security establishments are still developing appropriate responses to Chinese moves.

THE FRAGILITY OF THE GEOPOLITICAL SITUATION

The general precariousness of the current situation in Central Asia has been widely acknowledged. Kazakh experts see their country as an island of stability in an unstable environment. Their four southern neighbors present multiple problems such as widespread poverty, unemployment resulting in massive migration mostly to Russia but also to Kazakhstan, mismanagement, narco-traffic, Islamist penetration—just to name a few. The desire that Kazakhstan be judged separately from the rest of Central Asia given the disparity of achievements was often expressed. Moreover, it was pointed out that the vocabulary of the Soviet period testified to the existence of two components by using the term “Central Asia and Kazakhstan.” The distinction, however, was not based on present-day criteria: Uzbekistan at that time was considered the leading republic, and Tashkent was the regional metropolis.

A NEW ELECTORAL SYSTEM.

We were informed of changes in the electoral system aimed at improving popular representation. Under the May constitutional amendments, an extra 30 deputies will be elected to the next parliament or Majilis, bringing the total to 107. Niney-eight will be elected by proportional representation, with nine seats reserved for the Assembly of Peoples of

Kazakhstan, an umbrella grouping of ethnic minorities. Thus under such a proportional representation system the role of parties is potentially increased as deputies will be elected to the Majilis from party lists ranked according to the percentage of votes obtained by each party achieving a minimum of 7 percent of the votes cast in an election. Although party mergers are theoretically possible in order to try to attain the 7 percent minimum, as a practical matter mergers are not easy to achieve. We believe that Washington will find such a threshold too high for small opposition parties that lack full access to media facilities, especially TV time. We noted, however, an increased sensitivity to external perceptions of this process as well as the pursuit of this apparent attempt to consolidate power. This change in the electoral system will presumably lead to greater political stability if it fosters a real party system and could lay the groundwork for an orderly and peaceful transition of power in the medium to long term. The first election under the new system was scheduled for August 2007. It is uncertain now whether parliamentary and presidential elections will be synchronized in 2012. Some analysts have suggested that this would make it simpler for the incumbent party to maintain control. However, if a credible, cohesive, and organized opposition were to develop and contest the election, each party involved would be running essentially one campaign for both the parliament and the presidency, perhaps increasing its ability to obtain seats in the Majilis.

CONCLUSIONS AND RECOMMENDATIONS

1. During the last few years, the United States has lost some of its perceived superpower leverage in Central Asia, but it still has a reservoir of prestige as a model of success, as a choice provider of technical know-how and professional training, and as a country whose recognition is sought because it is regarded as most desirable.
2. To counter Chinese and Russian geopolitical advantages, the United States must reassure the Central Asian states of its staying power as a permanent player in the region. Chinese and Russian arguments against the U.S. presence are centered on the permanent nature of their own presence as immediate neighbors.
3. Despite the militant tone of Moscow's pronouncements, possibilities for Russian-American understanding in Central Asia will grow with each Chinese inroad in the area. Central Asian states are also more fearful of Chinese ambitions than those of the Russian "empire restorers" who are hampered by Russia's own demography, one-sided industrial development, and fear of "Asians."
4. Within Central Asia, Kazakhstan remains the country most open to American investments. Astana's adaptable approach to financial and economic matters parallels American business pragmatism and facilitates bilateral relations. Obstacles characteristic of economies of developing nations should recede under the impact of modernization and the advancement of Western-trained cadres.

5. In gauging the state of democratization and human rights in Kazakhstan and in the rest of Central Asia, it is necessary to keep in mind the impact of the Russian example on the former “younger brothers.” The large residual influence that the common Soviet past wields in Central Asia, combined with the omnipresence of the Russian media and continuous personal exchanges within the CIS, has created a link between the fate of democracy in Russia and the progress of democracy in Central Asia, even in the more self-assured Kazakhstan.
6. Kazakh and outside observers must continue to monitor economic and financial developments in order to help avoid a financial crisis or alternatively a rapid rise in the exchange rate leading to “Dutch Disease” (i.e., a decline in the manufacturing sector resulting from substantial exchange rate increases caused by a boom in the natural resource sector). In addition, it is imperative that diversification efforts succeed especially as drivers of economic growth in regions outside of Almaty and Astana. These financial and economic factors are essential to the continued stability of Kazakhstan and its role in Central Asia.
7. With every trip to Kazakhstan, the NCAFP is increasingly persuaded of the importance of fostering all kinds of positive interactions between our two countries at all levels. This may range from more diplomatic, technical, cultural, educational, and parliamentary exchanges to English language instruction. Such activities will support the strategic objectives of U.S. foreign policy in the region by facilitating investment, technical assistance, increased air transport, improved communications, and access to foreign markets.



APPENDIX

We are grateful to the following government officials in the Republic of Kazakhstan and the United States who have met with us and taken time to discuss the issues covered in this report.

REPUBLIC OF KAZAKHSTAN Administration of the President

Magzhan Ilyasov
Head of the Foreign Policy Center

Dr. Marat E. Shaikhutdinov
Deputy Chief of the Foreign Policy Center

A. Shamonav
Head of Information and Analytical Center

Ministry of Foreign Affairs

Marat Tazhin
Minister of Foreign Affairs

Yerzhan Kazykhanov
Deputy Minister of Foreign Affairs

S. Abdykarimov
Director for Europe and Americas Department

R. Kurmanguzhin, T. Akhmedin, Y. Pazilov, D. Khussainova
Diplomatic Staff

Serik Zhanibekov
Counsellor, Kazakhstan Mission to the United Nations

National Security Committee
Lieutenant General Vladimir Bozhko
First Deputy Chairman

Ministry of Defense
Lieutenant General Bulat Sembinov
Deputy Minister of Defense

Senate (Upper House) of the Parliament of Kazakhstan

Kassymzhomart Tokaev
Chairman of the Senate

A. Bizhhanov
Chairman of Senate Committee on International Affairs, Defense and Security

Majilis (Lower House) of the Parliament

Serik Abdrakhmanov
Chairman of the Committee on International Affairs, Defense and Security

Members of the Interparliamentary Group for Cooperation with the U.S.

Dr. Zhanylzhan Dzhunusova
Head of Department of Parliamentary Factions

KAZYNA Sustainable Development Fund

Kairat N. Kelimbetov

Chairman of the Board

Maksat N. Mukhanov

Manager Director

Shaslan I. Omarov

Adviser to the Chairman of the Board

KAZAGRO National Holding Company

Liliya Musina

Managing Director

SAMRUK JSC Kazakhstan Holding for Management of State Assets

Ulf Wokurka

Deputy Chairman of the Management Board & CFO

ATAMEKEN National Union of Businessmen and Employers

Azat T. Peruashev

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Birjan Murataliyev

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UNITED STATES OF AMERICA

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Following are the Conclusions and NCAFP Policy Recommendations from the NCAFP Central Asia Project's Publication, *Regional Security and Stability: Perception and Reality, March 4-6, 2007 Roundtable (with Policy Recommendations) on the U.S. - Kazakhstan Relationship:*



CONCLUSIONS AND RECOMMENDATIONS

The Roundtable discussions confirmed Kazakhstan's post-Soviet emergence as the most authentic geopolitical partner within the region. In contrast, its four southern neighbors are beset by economic problems and political uncertainty. It is apparent that Kazakhstan is the only state in the region that has the political will and the financial means to act for the common good of the Central Asian states without relying on the great powers. Under President Nazarbayev's leadership, Kazakhstan has skillfully managed its relations with Russia, its most important neighbor and natural strategic partner; with China, its second most important neighbor and an emerging great power; and with the United States, its superpower friend and strategic partner. Kazakhstan's growing relationship with the European Union and NATO will also provide a useful supplement to its multivector approach to international relations and a counterbalance to great power pressure.

Kazakhstan recognizes the importance of regional cooperation and integration and the need to develop regional architecture, which excludes the great powers, in order to address issues of common concern. So far it has been rebuffed in its efforts, reflecting concerns both that it would become the dominant partner and would be perceived by Russia as antagonistic. Although Kazakhstan is clearly the anchor of stability in the region at the present time, other states have different views about how to maintain long-term stability, including answers to the questions of whether and to what extent long-term stability will be ensured by political reform or threatened by such a process.

The NCAFP generally concurs with current U.S. policy in the region, both from a strategic and a tactical point of view. We think it appropriate that Kazakhstan has received a very high level of U.S. attention. In the United States there is a genuine commitment to a real strategic partnership and an appreciation of Kazakhstan's need to balance its interests with the interests of its other strategic partners in order to preserve its sovereignty and ability to project its power and influence, both economically and politically, in the region. The hope is that Kazakhstan will be able to accomplish what President Nazarbayev has outlined in a number of public statements, that is, that steps will be taken to broaden the economic base and reduce dependency on income from natural

resources, reduce corruption, expand the rule of law, develop a middle class, and step up the pace of meaningful political reform.

The specific recommendations listed below support the strategic and tactical objectives of U.S. foreign policy.

1. Help Kazakhstan to maintain its policy of keeping a geopolitical balance among the great powers as it pursues its own national interests and preserves friendly and fruitful relations with all of the parties concerned. It is to be hoped that the newly reshuffled administration in Astana will be searching for the appropriate position to adopt to achieve this aim by listening to all of the parties concerned.
2. Encourage Kazakhstan to strengthen its democratic credentials in the pursuit of long-term stability. In formulating and implementing policy in this area, however, the United States should recognize that internal peace and cohesion among the ethnic, social, and political forces within a newly independent multiethnic country burdened by a colonial and totalitarian past are sometimes obtained at the cost of controlling the speed of reform and the pace of the democratization process.
3. Encourage greater dialogue among (a) parliamentarians in Kazakhstan and the U.S. legislative branch and their respective staffs and between (b) experts and think tanks on both sides to deepen mutual understanding.
4. Encourage Kazakh investments abroad, especially in fragile countries within the CIS, remove impediments to the continuation of the Nunn-Lugar program in Kazakhstan, and facilitate Western investments outside of extracting sectors by discussing with senior policymakers in Kazakhstan the importance of creating certainty and consistency in tax policy and environmental regulations and assessing the negative impact of *post facto* regulations on foreign investments.
5. Promote U.S. investment in Kazakhstan's agricultural sector. Now may be the opportune time for such investments. Because they enhance economic development in rural areas, agricultural investments also would be desirable from Kazakhstan's point of view.
6. Assist Kazakhstan in its pursuit of Central Asian integration independent of the great powers' agendas, umbrellas, and interference by encouraging the creation of regional organizations uniting the five "stans" without the presence of outside participants.
7. Seize openings/opportunities that will be available in Central Asia during the summer of 2007. Uzbekistan finally seems interested in

renewing contacts; post-Turkmenbashi Turkmenistan can still be influenced; Kyrgyzstan remains susceptible to influence; and Tajikistan appears open to closer ties.

8. Enhance interaction and cooperation with Kazakhstan's military and intelligence agencies. This should include increases in military-to-military contacts, IMET funding, participation in Partnership for Peace activities, sales and financing of military equipment (FMS and FMF), and assistance from U.S. drug enforcement professionals in the form of drug interception analysis, intelligence, and enforcement techniques.
9. Encourage Kazakhstan to pursue WTO admission as promptly as possible and assist it in its efforts to succeed.
10. Consider the extent to which President Putin's decision about the conduct of the forthcoming Russian presidential election will influence succession strategies throughout Central Asia.





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