



PERSPECTIVES

J.S. Held Global Intelligence Insights: Kazakhstan Election Update

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INTRODUCTION: TOKAYEV SEEKS TO CONTINUE CONSOLIDATING POWER

The 20 November ‘snap’ presidential election in Kazakhstan was a runaway victory for incumbent Kassym-Jomart Tokayev, who received 81.3% of the vote. In line with recent constitutional changes, he is expected to remain in power until 2029 – barring any further snap elections or the unlikely decision to step down as his predecessor Nursultan Nazarbayev did in 2019. This should reduce the risks of destabilising power shifts in the interim.

The context of the vote contrasts strongly with that in 2019, after which Nazarbayev remained the country’s main decision-maker, until the so-called ‘Bloody January’ events of early 2022, when destabilising – and in some cases violent – protests shook the country. The causes were complex, from genuine protests against increased prices for liquefied petroleum gas (LPG), to an attempted coup by Nazarbayev allies, who were unhappy with the shift in power. In response, Tokayev cracked down not just on the demonstrators, but also on Nazarbayev’s allies and family members whom he deemed responsible by arresting and depriving them of assets and key positions in the economy.

This article examines the likelihood of Tokayev fully engaging in an economic reform agenda that could trigger more social unrest and how he will continue to consolidate power. The authors also analyse what his policies will mean for the business community as he seeks to balance more foreign investment from the West with his country’s current diplomatic and trade relations with China and Russia.

Rather than launching a purge, Tokayev has adopted a varied approach to disempowering the former elite. To take the energy industry as an example: one of Nazarbayev’s sons-in-law appears to have been excised from the sector following January’s events. However, other family members have retained significant influence in the industry.

PUBLIC SUPPORT FOR CRACKDOWN ON ‘OLD GUARD’ VESTED INTERESTS DEPENDS ON ECONOMIC IMPROVEMENTS

This re-election cements Tokayev’s power. It also is an opportunity for him and his allies to continue to target vested interests in Kazakhstan who, in his view, remain loyal to Nazarbayev or otherwise pose a threat to his authority. We will see the continued transfer of selected key assets away from the control of the Nazarbayev-era elite to allies of Tokayev and more neutral figures.

Future treatment of entrenched business interests from the Nazarbayev era will be an important signal of policy direction. The way any seized assets are redistributed – the degree to which they go to Tokayev’s allies or are nationalised and used to supplement public funds – will serve as an indicator of the economic policy priorities. These decisions will also be key in determining public satisfaction. Tokayev will need to convince the public that any funds raised from ‘repatriation of assets’ as part of the oligarch crackdown will meaningfully improve their standards of living and lead to a genuine reduction in economic injustice.

Much like the rest of the world, Kazakhstan is currently experiencing a cost-of-living crisis. By the Kazakh government’s own estimation, consumer inflation reached 18.8% year-on-year in October, well above the National Bank of Kazakhstan’s target range of 4%-6%. This places incredible financial strain on the average Kazakh citizen, as already low average wages have not kept pace with price rises in real terms.

REFORM AGENDA MAY BE UNDERMINED BY FEARS OF SOCIAL UNREST

In 2023, Tokayev will need to make important decisions on the direction and scope of economic reforms, which have been a defining part of his 'reformer' image. This will prove a difficult balancing act: the removal of the price cap on LPG was one of the catalysts for January's unrest and Tokayev was forced to quickly reinstate the price cap in response. This instinct to revert may jeopardise future economic reforms (and growth) in the name of preventing similar unrest.

Tokayev is noted for being a cautious individual who carefully considers strategy and potential outcomes before making a decision. Radical economic reform packages risk resulting in economic hardship on the public of a nation. Tokayev will attempt to determine the 'tipping point' for the Kazakh public, the threshold at which reforms can be implemented with manageable backlash.

We anticipate small-scale economic policy experiments meant to accomplish reform goals while mitigating the impact on the Kazakh public and any resulting backlash. Economic conditions may continue to worsen, and the public's perception of the degree of deterioration will be the determinant for any potential unrest. We expect that support for Tokayev will erode over time, rather than experience a sudden drop-off and massive unrest, as he struggles to deliver on his reform promises from earlier this year.

TOKAYEV TURNS TO JAPANESE AND WESTERN INVESTORS TO DIVERSIFY AWAY FROM CHINA AND RUSSIA

Tokayev's administration is forging ahead with new trade relationships and continuing to court foreign investment, particularly from the West, Japan, and South Korea. The Kazakh government has already concluded agreements with more than 40 foreign companies relocating their Russian operations, including in the mining, energy, and manufacturing sectors.

Tokayev has trodden carefully since Russia's invasion of Ukraine in February. While he has continued Kazakhstan's traditional policy of balancing relations with Russian President Vladimir Putin, Chinese leader Xi Jinping, and the West, he has taken unprecedented steps to distance himself from Russia, including refusing to recognise Moscow's declared annexation of four Ukrainian provinces.

China has proven to be a reliable lender for Kazakhstan over the past two decades: the Kazakh government and various state-owned enterprises (SOEs) collectively owe the equivalent of 16% of Kazakhstan's GDP in Chinese loans. Tokayev is inclined to maintain good relations with Xi but naturally wants to avoid growing over-dependent. In late 2019, not long after Tokayev took office, the Kazakh government ended infrastructure financing from China for a light rail system, citing the financial burden from repayments. Tokayev will likely attempt to diversify sources of foreign financing for large infrastructure projects moving forward, as well as diversify trade partners to reduce reliance on both China and Russia.

Despite diplomatic relations with Russia growing chillier by the day, there is little indication that Kazakhstan will actively disengage from Russia economically. Tokayev has made a number of public statements reiterating support for Ukrainian national sovereignty, while Kazakh officials have indicated that Kazakhstan will cooperate with Western countries to avoid incurring secondary sanctions. Tokayev has nonetheless still engaged with Russia on economic and business matters, compartmentalising geopolitics and business to appease Putin for his lack of diplomatic support.

INTER-ETHNIC TENSIONS COULD RISE, BUT MAJOR UNREST UNLIKELY

Historically, the Kazakh government has been largely successful in avoiding inter-ethnic conflicts. However, we highlight the possibility of future inter-ethnic tensions between Russians and Kazakhs in Kazakhstan, as Kazakh nationals feel the effects of the influx of Russians escaping mobilisation, which include further upward pressure on prices for housing. The Tokayev administration's recent moves to require knowledge of the Kazakh language to receive citizenship could also raise tensions in what is effectively a bilingual society.

CONCLUSION

We expect that unrest on the scale of January 2022 is not imminent. However, it is imperative for foreign investors to continue monitoring indicators of heightened risks and factors that influence them such as any plans to implement unpopular economic and fiscal policies. Meanwhile, the degree of backlash from vested interests against Tokayev as he continues to crack down on oligarchs will be a bellwether of his ability to consolidate power, with strong implications for the stability of the country and its business environment.

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