
KAZAKHSTAN IN A CHANGING WORLD

The following article is comprised of three excerpts from an address by foreign Minister Marat Tazhin delivered in Washington, D.C. on May 8, 2007 at a dinner hosted by the U.S.-Kazakhstan Business Association for U.S. policy-makers, business leaders, academia, foreign ambassadors and journalists.

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Kazakhstan’s Economic Development

At the dawn of Kazakhstan’s independence, the country faced a key problem of self-discretionary management of significant energy resources and other subsoil assets, including strategic ones.

Let me share some statistics with you as the basis for that statement. Kazakhstan has the world’s eighth largest proven oil reserves with more than fifty years of proven reserves and more than seventy-five years of reserves for the gas industry. Moreover, expected reserves of the Kazakh sector of the Caspian Sea are encouraging and could exceed eight billion tons.

Our country is an undisputed leader in uranium and chromium ore reserves (the world’s second and third largest deposits respectively) with one hundred years of projected supply. We are number four in terms of copper, manganese and zinc reserves, sixth in lead and iron, seventh in cobalt, eighth in coal and gold, tenth in aluminum, and twelfth in nickel deposits.

Mere possession of this raw resources ‘bonanza’ did not guarantee progress and prosperity for our young independent state at all. We needed a conscious choice of goals our own model of development. To give credit to our political elite, the right strategy of political and economic transformation was implemented. The decision was the correct one as shown by the stable 9-10 percent annual growth rate of the economy during the last six years.

According to the World Bank, Kazakhstan is in the world’s top 20 most attractive countries for capital investment. International rating agencies constantly raise our investment rating. Total foreign investments in Kazakhstan today exceed sixty billion dollars.

In 2000, a National Fund accumulating all revenue from commodity exports was established. It has become a key macroeconomic regulator, allowing control of inflation and stimulating the non-commodity sector. Its current services exceed sixteen billion dollars.

We have put forth a strategic task for ourselves, to make Kazakhstan one of the world’s 50 most competitive countries within the next decade. At the heart of this

strategy we see the use of regional and global economies’ advantages for Kazakhstan’s access to international markets through rising competitiveness of national goods and services.

This is where ‘breakthrough macro-projects’ designed to change the structure of the industry will play their major role. These projects have a high added value and multiplying effect, as well as export and resource conservation potential.

Specially created development institutions and holding companies in the leading sectors of economy, including Samruk, Kazyna, KazArgo and Samgau, provide necessary assistance in carrying out priority projects in energy, transport, communications, agriculture and IT. We are continuing to create special economic and industrial zones, technological parks, social and entrepreneurial corporations to help promote competitive manufacturing.

In recent years, Kazakhstan has acquired significant investment potential. Domestic investments have already reached eighty billion dollars. Our businessmen are ready to invest over forty billion dollars in attractive projects. Kazakhstan’s Thirty Corporate Leaders, a program designed to assist Kazakh companies in implementing large breakthrough projects, was recently launched during a meeting between President Nazarbayev and the Kazakh business community.

Building on solid macro-economic policies and a stable credit rating, Kazakhstan is ready to participate in innovative international projects at the initial level of establishing businesses. We are ready to acquire shares of promising companies around the world to gain a foothold in different niches.

The move to modern innovative technologies, nano-technologies in particular, which in the immediate future will change our habitual perceptions, is on the agenda. Kazakhstan is creating a scientific center for the development of nano-technologies and we count on our American partners’ support in this area.

Bearing in mind that qualified human resources are the decisive factor for the success of Kazakhstan’s modernization, the education system has been undergoing reforms to meet international standards. Every year, three thousand of our brightest students are given the chance to study at the world’s most prestigious universities under the Bolashak (‘Future’) Program. Emphasis is placed on IT, space and biotechnologies, engineering, and the technical professions. The most outstanding foreign academics are invited to teach at Kazakh universities.

The main outcome of these economic and social reforms is the irreversibility of Kazakhstan’s engagement and integration into the global economy.

The Energy Sector

The energy sector remains Kazakhstan's leading economic brand. Our country's priority to diversify its economy, support technical innovation, enhance competitiveness throughout the economy, and to orient consumers away from reliance on the revenue from natural resources has altered the national budget. We take pride in the fact that the budget has significant non-commodity revenue.

Three factors underlie the development of Kazakhstan's oil and gas sector: energy security, energy efficiency and environmental safety. Identifying, exploring, and developing promising oil and gas fields is guided through the prism of these requirements. You can grasp the scope of this work when you realize that Kazakhstan is the world's number two non-OPEC country in hydrocarbon services.

Extraction of raw materials demonstrates stable growth. Today, we produce about 65 million tons of oil per year. By 2010, this figure will reach 84 million tons, and by 2015, 130 million tons (or 3 million barrels per day). This means that by 2015, the country will double its oil production in comparison with 2006.

Kazakhstan's largest oil reservoir, the Kashagan oil field, will become the main oil source in the Caspian Sea as of 2015. For natural gas, Turkmenistan and Kazakhstan will remain key suppliers through 2017. We naturally face the question of expanding our oil exports while diversifying market outlets for our commodities. If global oil and gas supplies decrease, competition between main consumers may increase. This could lead to heightened geopolitical risks and escalation of regional conflicts. Kazakhstan's policy on routes of transportation of hydrocarbons is absolutely pragmatic and uninfluenced by politics. A major concern is the principle of multiple export routes and maximum efficiency of pipeline exploitation. This will require creation of new export systems and expansion of existing systems based on accessibility to transit facilities and tariff competitiveness.

Today, we have three main transport corridors. First, there is the meridian corridor, the long-established corridor through Russia and the Baltic countries to Europe. Second, there are promising corridors through the Black and Caspian Seas to Europe that have recently been developed. Third and finally, there is the promising Asian corridor capable of reaching the giant markets of China and the Asia Pacific with their enormous unsatisfied energy needs.

The second transportation corridor mentioned implies using the existing Caspian Pipeline Consortium with possible additional branches bypassing the Mediterranean straits and using the Baku-Tbilisi-Ceyhan export route. Kazakh oil is currently transported via the Trans-Caspian system which has terminals in Kazakhstan and Azerbaijan, and tankers and connecting facilities reaching Baku-Tbilisi-Ceyhan with the capacity of five million tons per year.

Construction of an oil pipeline on the Kazakh shore of the Caspian, which will increase the flow capacity of the

Caspian transportation system to 38-60 million tons/year, is scheduled for completion by 2010. Kazakhstan is also studying alternative oil and gas transportation routes to global markets.

Kazakh - American Relations

President Nazarbayev's address, „A New Kazakhstan in the New World,” articulated the need to develop a strategic partnership with the United States while maintaining good neighbor relations with Russia and China.

Beginning in early 2007, a number of high level U.S. delegations visited Kazakhstan to discuss how to broaden our bilateral cooperation. We fully support this approach. Our continued partnership in the fight against international terrorism and religious extremism, strengthening of the non-proliferation regime, reconstruction of Afghanistan and Iraq, and energy dialogue are an important contribution to maintaining regional and global security. Military cooperation is also proceeding successfully.

Kazakhstan has a stabilizing role in Central Asia and stands for strengthening of the region's importance in the world. At the core of our regional policy is economic development through integrating and strengthening security. Multilateral and balanced dialogue will facilitate the development of mutually acceptable approaches to regional problems, as well as to regional and international interaction and energy stability.

The U.S.-Central Asian Trade and Investment Framework Agreement* can become an effective mechanism for regional integration supported by Kazakhstan. We must begin implementing economic development projects important to the countries of the region within the framework of this Agreement.

Multilateral institutions such as the Shanghai Cooperation Organization (SCO), the Conference on Interaction and Confidence-Building Measures in Asia, and the Collective Security Treaty Organization effectively address regional cooperation and security. In that the nations of Central Asia are united in their pursuit of increased stability, it would be useful to combine the efforts of these institutions, primarily the SCO, with those of the OSCE to resolve Eurasia's major problems. Among these is the problem of Afghanistan.

This unity would create a „platform” of universal mechanisms for combating new threats and would facilitate productive dialogue.

I would like to take this opportunity to urge the American business community to actively participate in projects in Kazakhstan's priority economic sectors. Given Kazakhstan's strategy to join the world's 50 most competitive economies and to diversify its economy, these investments will receive special attention from the government of Kazakhstan