

**LINKAGE STRATEGIES AND POLITICAL CHOICES FOR AN
AUTHORITARIAN COUNTRY IN TRANSITION:
THE CASE OF KAZAKHSTAN**

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ABSTRACT

Kazakhstan has made considerable efforts to reduce its dependence on oil and diversify its economy. The country's leading politicians have also expressed strong commitment to diversification over several years, and linkage creation strategies have been one important tool. In this article, we examine the extent to which political factors are salient when accounting for the peculiar pattern of heavy promotion of diversification with little actual movement in relevant economic sectors in Kazakhstan. We identify political factors that typically come into play and how these factors make diversification difficult in resource-rich countries such as Kazakhstan. A key argument is that not only did political factors act as barriers to diversification, but the actual linkage creation initiatives that were taken served as useful vehicles for rent-seeking behavior, thereby further entrenching skewed political and economic structures that are typical of states with oil-led development. The article also explains why the political leadership in Kazakhstan chose to place so much emphasis in their rhetoric and communication on diversification when the difficulties and possible failures associated with such policies must have been apparent to them at a fairly early stage.

Keywords: Institutions, Post-Soviet countries, natural resources, diversification, linkages, Kazakhstan.

INTRODUCTION

Kazakhstan was hit hard by the global fall in oil prices that commenced in 2014. The economy has recovered in 2019, but devaluation, an alliance with Russia (which is under sanctions), and government policies still do not bring the same rates of growth as before. Capitalism in its post-Soviet form does not work properly in Kazakhstan. Natural resources made this type of economy more similar to Middle Eastern oil-led monarchies. Growth is there, but it is not sustainable and non-inclusive. As Baumol et al., (2007) formulated, “[Kazakhstan is] not driven by a growth imperative but rather, in a worst case, are homes for corrupt leaders and, even in better cases, manage to preserve income and wealth only for a favored few.”

The government has made considerable efforts to reduce dependence on oil. That might be the problem; the government made the efforts, and the private sector is neglected. Diversification initiatives and linkage creation policies were strongly promoted by the country’s leadership. However, these did not result in more robust economic structures. This failure to diversify represents an interesting analytical puzzle. Kazakhstan had well-funded policies and measures in place to support diversification, and the country’s leading politicians expressed strong commitment to diversification over several years. Why is it that there was so little substantive movement in relation to diversification despite so much effort?

There are various ways to diversify if by “diversification” we mean to decrease the risk from dependency upon one resource. Diversification can mean developing new businesses around the booming sector; second, it can mean new qualifications for people; and thirdly, it can mean financial investments to convert natural wealth into financial instruments. Infrastructural diversification can involve new regions and new markets. Forneris (2016) defines six possible types of diversification. To the aforementioned ones in products or value added, labor, investments, and regional links, he also adds FDI, export, and fiscal types. Some of the findings suggest negative correlations between rents and diversification in exports, in employment, and in value added (Alsharif, 2018). The process of diversification and linkage promotion is not only the policy in Kazakhstan; it is also a focus for the research and analysis by international agencies and the local community of researchers for analysis in itself and for comparing it to other similar cases like the province of Alberta, Mongolia, and Bolivia (Pomfret, 2009; Howie, 2018; World Bank, 2015).

We look at efforts to diversify as attempts to generate linkages around a booming sector. In this article, we explore how linkages were created, and we offer an explanation for failure. Linkage creation has proved difficult in a range of different countries, especially when it is based on mineral projects or oil and gas extraction (Auty, 2006; Arias et al., 2014; Morrisa et al., 2012). Diversification more generally has also proved difficult in countries with strong records of managing oil wealth and implementing industrial policies, with Norway serving as a prominent example (Bjornland and Thorsrud, 2016). Moreover, the existing literature already offers in-depth assessment of economic factors that can account for both failure and success (Auty, 2006; Ville and Wicken, 2012; Bastida, 2014).

In this article, we examine the extent to which political factors are salient when accounting for the peculiar pattern of heavy promotion of diversification with little actual movement in relevant economic sectors in Kazakhstan. We do not examine how salient political vs. economic factors have been; we look at the political economy of it. The decision-making of government is generally motivated by political intentions, and in authoritarian countries the intentions can include aspects other than simply winning elections. That is, we do not determine which type of variable offered the strongest causal effect. Instead, we develop one exploratory case study for which the purpose is to identify what political factors typically come into play and how these factors make linkage creation specifically (and diversification more generally) difficult in resource-rich countries such as Kazakhstan. A key argument from our side is that not only did political factors act as barriers to diversification, but the actual linkage creation initiatives that were taken served as useful vehicles for rent-seeking behavior, thereby further entrenching skewed political and economic structures that are typical of states with oil-led development. Finally, in this article we also offer an explanation for why the political leadership in Kazakhstan chose to place so much emphasis in their rhetoric and communication on diversification when the difficulties and possible failures associated with such policies must have been apparent to them at a fairly early stage.

We begin this article by outlining theories of linkage creation and then illustrate how hard Kazakhstan was hit by the 2014 shock in the global oil markets. We then outline measures that Kazakhstan took prior to 2014 to create linkages and explore what political factors came into play that might have undermined these initiatives. We also assess the discrepancy between the rhetoric of diversification policies and actual progress. We end with a note on implications from our findings for understanding the interplay between politics and economics in Kazakhstan in the context of diversification.

As for qualitative methodology, we conducted structured interviews in Kazakhstan in the oil and financial sectors about achievements and difficulties for oil-led growth and government adopted programs in diversification. Some of these respondents asked to keep their confidentiality. We analyzed these government programs, statements of prominent public figures, TV, and conference discussions.

Linkage creation and diversification

The term “linkage” came to prominence in economic growth theories primarily through the work of Perroux (1955; 1959), Rasmussen (1957), and especially Hirschman (1958). Linkage effects were regarded as investment-generating forces set in motion through input-output relations (Hirschman, 1977). Using the “input-output” term, Hirschman also referred to the early work of Leontief (1951), which represents a theoretical basis for many empirical studies of multiplier effects.

The growth linkage model represented a leading paradigm in policy discussions

of especially rural enterprises and employment creation from the mid-1970s up to the 1990s (Ellis, 1998). The linkage strategy could still be relevant after two decades of global economic liberalization and government deregulation. Oil-rich countries have applied such strategies with mixed success. Ross (2012) questioned the linkage realization policy by governments for various reasons, one of them being myopic decisions from one side and disinterest in real reforms in the situation of easily available rent in a time of high oil prices. Yegor Gaidar, a Russian economist and politician, illustrated this point in 2009 when he noted that the government will not reform simply because it does not need any reforms due to high oil prices; only a crisis will change motivations and stimulate reforms (Gaidar, 2009). Alsharif (2018) does not find “any effect on the structure of employment in non-resource and manufacturing sectors” for the data set from 1962–2012 in “oil discoveries on diversification.”

The main function of linkages is the connection of a booming, export-oriented sector with the rest of the economy for the redistribution of income, employment creation, and general spillover effects. Many developing countries have tried to pursue these strategies. Enclave economies, either based on raw materials or more sophisticated manufacturing, are quite difficult to integrate, however, and it easily leads to so-called “dual economy” cases. Backward and forward linkage policies (see below) are a part of diversification and can offset negative effects of Dutch disease (Ross, 2012). Dutch disease leads to shrinking of the manufacturing sector. Linkages can create demand and supply around a booming sector to boost manufacturing, at least in this particular sector.

There are several primary types of linkages to be studied in relation to the petroleum sectors, and various classifications apply here by research and international agencies (Forneris, 2016; Alsharif, 2018; Columbia Center on Sustainable Investment, 2016):

- Backward or upstream linkages, created by the demand for other products and services like drilling equipment, engineering, and construction.
- Forward or downstream linkages, stimulated by the regular and cheap local supply of commodities as inputs for other forms of production or service supplies like refineries, petrochemical industries, and transportation.
- Fiscal linkages, based on excess capital from the oil/gas sector for investments in non-extracting industries by the state through taxation, or by earned profits reinvested nationally by state or private companies.
- Labor linkage creating local employment.
- Social relations and networks (e.g., chambers of commerce).
- Financial linkages including the establishment of special funds to be invested in various financial instruments.
- Geographical/spatial or regional ones when remote areas are involved in activities.
- Education and human capital development when natural resource rents

are invested to new qualifications and wide programs for increasing competitiveness.

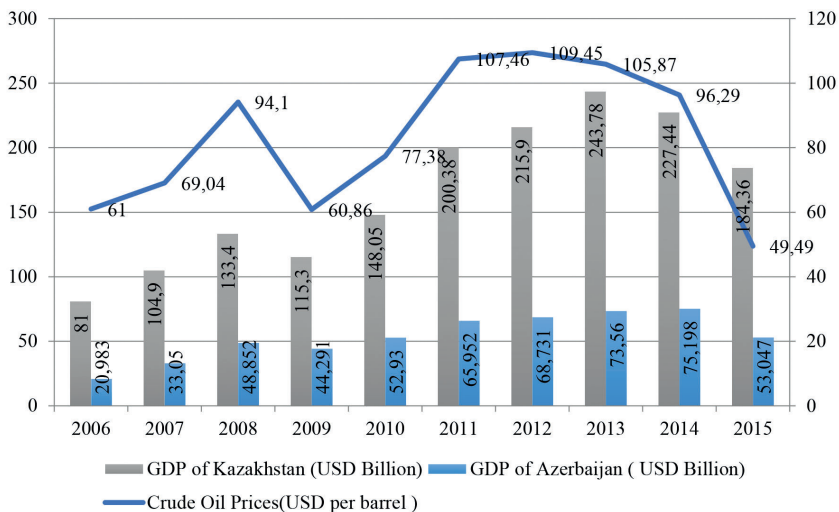
The linkage approach and input-output relations in the economy have been widely used by OECD statistics for different member and non-member countries to demonstrate and analyze internal and trading patterns in economies (OECD. stat, 2011). Possible lessons for Central Asia have also been identified in the literature (Klueh, et al., 2009). However, in 2016 the Independent Evaluation Group under World Bank concluded that diversification in Kazakhstan had “proved to be an elusive target” (World Bank, 2016).

Researchers add new conceptual and regional or country case studies to the analysis of diversification for developing, post-Soviet, and developed countries (Farooki and Kaplinsky, 2014; Dietsche, 2014; Kaplinsky et al., 2011; Morris et al., 2012; Bastida, 2014). The Russian case in the context of other oil-rich countries is represented by interesting comparative volume in the Carnegie Center (Movchan et al., 2017). Below we outline the performance of the Kazakhstani economy and point to some structural weaknesses. These weaknesses forced the government to think about diversification.

Vulnerability of Kazakhstan and dependence on oil production and export

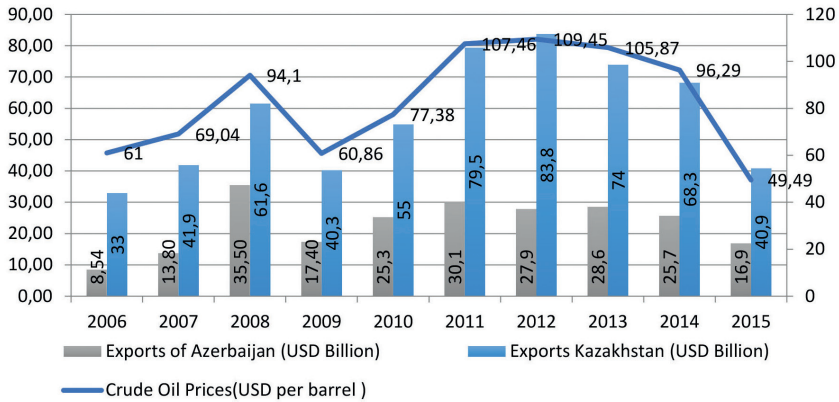
Kazakhstan’s economy has fluctuated along with the fluctuations in oil prices. Kazakhstan’s economy fluctuates more with oil prices in comparison with other neighboring resource-rich states such as Azerbaijan. We can therefore assume that the Kazakh economy is dependent on oil. Moreover, oil projects are capital intensive, especially in the first stage, and they are difficult to stop even under low oil prices.

Graph 1. GDP of Kazakhstan (green) and, for comparison, Azerbaijan (blue). Numbers on the left: GDP in billions (USD); numbers on the right: average oil prices (by year)



Source: Authors’ estimates based on data from World Bank, 2016

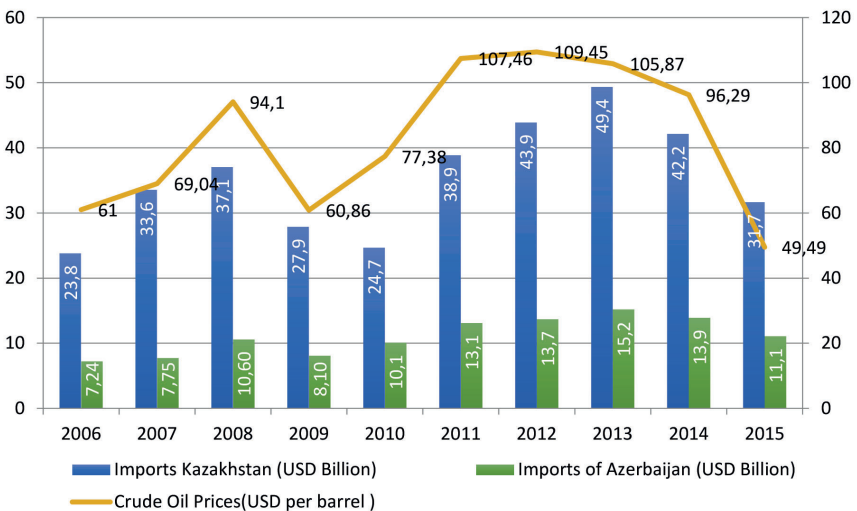
Graph 2. Exports and crude oil prices. Numbers on the left: exports in millions (USD); numbers on the right: crude oil prices



Source: Authors' estimates based on data from *The Observatory of Economic Complexity* (OEC MIT, 2017-a)

Exports also correlated with the change in oil prices, and especially impressive was the last fall in 2015 when oil prices fell more than 45%, and exports fell fast as well.

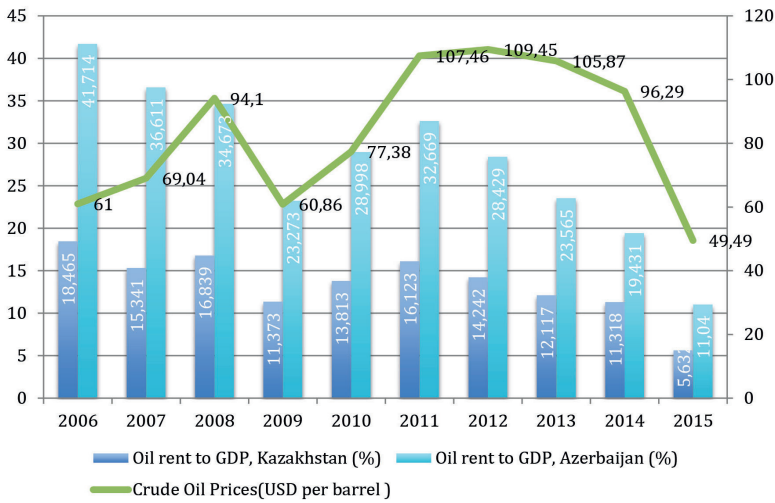
Graph 3. Imports and crude oil prices. Numbers on the left: imports in millions (USD) numbers on the right: crude oil prices



Source: Authors' estimates based on data from *The Observatory of Economic Complexity* (OEC MIT, 2017)

Dependent sectors on oil also appear to be vulnerable including construction and retailing. Again, we can see Kazakhstan's imports are falling at higher rates, and one explanation is the size of the economy.

Graph 4. GDP of Kazakhstan (blue) and Azerbaijan (light blue). Numbers on the left: GDP in billions (USD); numbers on the right: average oil prices (by year)

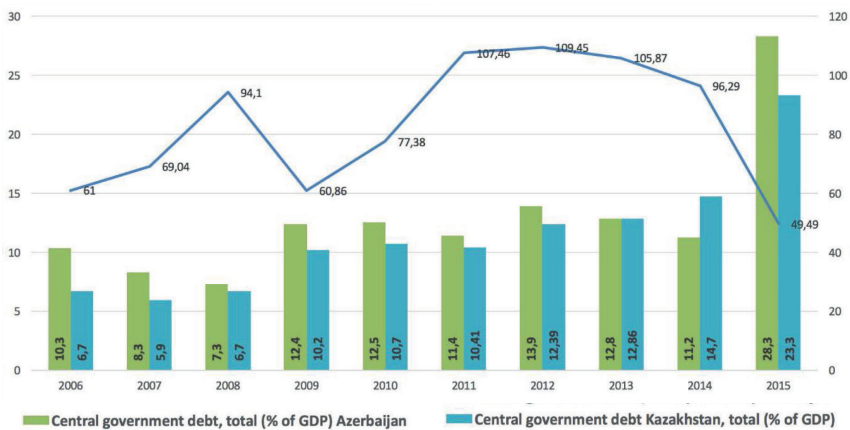


Source: Authors’ estimates based on data from World Bank (2016)

Dependency on oil production has remained high for Kazakhstan, and when oil prices fell, the country devalued its currency. Kazakhstan’s tenge devaluation was almost 90% to the USD from 2014–2016 or, as statistics by the World Bank clearly demonstrate, “after depreciating from 188 KZT/USD in mid-August 2015 to 384 KZT/USD in mid-January 2016” (World Bank, 2016).

These devaluations clearly demonstrate that other export earnings except for oil and gas were not available to the state. The budget was squeezed as well. Diversification to build export capacity and tax base failed in this regard. This is illustrated in the growth of government debt, which also correlates with oil prices.

Graph 5. Central government debt to GDP of Kazakhstan (blue) and Azerbaijan (green), Numbers on the left: debt to GDP; numbers on the right: average oil prices (by year)



Source: Authors’ estimates based on data from World Bank (2016)

Government debt was growing for obvious reasons. The economy was shrinking as activities in the oil sector were slowing down. Overall government revenues such as government and tax payments were going down too. The government had social obligations and could not revise the budget accordingly. The growth of government debt was inevitable. The problem was that the debt was growing along with the intake of money from the National Funds. There are debates about debt and growth issues. The idea is if the economy is growing, debt is not dangerous. Growth of the economy would cover debt. However, this does not work in economies that are dependent on one commodity or other external factors.

Graph 6. *Currency of Kazakhstan (tenge) to USD*



Source: Google finance

Devaluation to USD was related to the decline of oil prices and the global financial crisis in 2007–2008. Another issue is drastic change of the exchange course overnight. It means that it is not a market demand and supply market for currencies; it is an interventionist case of National Bank on the market. Overnight changes or shock therapy also mean fear of insider trading and lack of other tools of regulation from monetary authorities. As a result, people lose trust in the government and its policies. After sudden devaluation, people now keep their savings in USD, and businesses do not start investments because of unpredictability and instability of the currency markets. All these factors undermine prospects for economic growth and create a vicious circle.

Despite these negative trends, several macro-economic achievements can also be noted for Kazakhstan. The National Fund has been created and has had some success in offsetting the shocks of low oil prices for some limited time. Political nationhood was built for both countries; national officials, bureaucracies, and states survived. Consumption of the goods increased, and overall living standards are growing. Certain investments are made in rural development, education, and healthcare. Still, all of these achievements have very little to do with diversification.

Diversification, linkage, and the political context in Kazakhstan

The Kazakhstani government started early after independence in 1991 to make declarations for plans to diversify. Kazakhstan adopted a major long-term

strategy called “Kazakhstan 2030” in 1997. This strategy declared the necessity of diversification:

Not to become a country whose economy is oriented to raw materials only, we must develop light and food industries, infrastructure, oil-and-gas procession, chemistry and petro-chemistry, certain sub-industries of machine-building, finite science-consuming industries, services industry, tourism, all these - by priority rates. Diversification of production would help us in ensuring sustainable growth ... The government must set about launching an active industrial policy of diversification thus transferring the emphasis from macro- to the microeconomic level. At first, up to 2010, we shall have to focus on labor-consuming industries fairly perspective from the point of view of opportunities and compatibility. They are - in order of priority - agriculture, timber and timber-processing industries, light and food industries, tourism, housing construction and creation of infrastructure. (The Strategy “Kazakhstan 2030.” 1997)

Later the government adopted a series of programs on diversification. The main one was the Strategy on Industrial Innovation Development of the Republic of Kazakhstan adopted in 2003 until 2015, which also referred to diversification of the economy.

The goal of the program was: *Achievement of sustainable development of the country by diversifying the branches of economy, contributing to departure from raw material direction, preparing conditions for transition in the long term to service based technological economy* (Strategy on Industrial Innovation Development of the Republic of Kazakhstan 2003–2015, 2003).

After the Parliamentary elections in 2005, the new government presented The State program of forced Industrial and Innovative Development 2010–2014 with the purpose: “To provide sustainable and balanced economic growth through diversification and increase its competitiveness” (The State program of Forced Industrial and Innovative development 2010–2014, 2010). The government updated this last program on development to the new period of 2015–2019 under the title State Program of Industrial-Innovative Development of Kazakhstan for 2015–2019. It has the same emphasis on diversification: “Program purpose: To stimulate diversification and improve competitiveness of the secondary Industry” (on approval of the state program of industrial-innovative development of Kazakhstan for 2015–2019, 2015). In 2014, Kazakh President Nursultan Nazarbayev noted, “The diversification is happening not just in words, but also in deeds. The pace of growth in the manufacturing industry is for the first time much higher than in the traditional mining industry” (Tengrinews, 2014).

All the programs have been introduced by President’s decrees. During the last Presidential elections in Kazakhstan in 2015, the current President, who has been in the office for 27 years, confirmed once more the importance of diversification (Nazarbayev, 2015). Kazakhstan’s government officially adopted several programs in industrial development and created government agencies. The last two are divided into periods for four years (2010–2014 and 2015–2019). The title is “State programs on industrial innovative development of Kazakhstan.”

The programs had quantifiable parameters and were elaborated in detail. Based on the reports, it appears that some parameters were achieved.

Backward linkages:

Kazakhstan has certain backward linkages that have existed since Soviet times for the oil industry. Kazakhstan produced pipes, drilling bits, casing, and drilling mud components. Geological exploration was in place as well. However, all of these products and services were not of the world quality. International Oil Companies (IOC) came with the certain entrance standard of quality for products and safety. Kazakh companies could not pass screening to be suppliers for IOCs. The later oil business boom in Kazakhstan naturally created some backward linkages in construction services, geological exploration, and production of metal structures and drilling equipment.

Forward linkages:

Kazakhstan is preparing to use more gas instead of gasoline for car engines and to build polypropylene and polyethylene plants where input for production will be sour gas (Tugelbayeva, 2015). It is a good example of forward linkage in which an output from a booming industry works as an input for further processing and adding value. The problem is the later development of electric engines and utilization of polypropylene and polyethylene.

An interesting example was a burden for IOCs in the development of a local supplier chain. The idea was if IOC gets a good lot for exploration or production, it has to take the responsibility to build a facility for backward or forward linkage. It was a kind of reimbursement for low taxation by the state. Examples are the plastic pipes plant by Chevron and the proposed shipyard by ENI. The latter has not been built yet (Zhuzhumina and Urazova, 2014).

Fiscal linkages:

Fiscal linkages, when taxes from natural resources subsidize lower taxation of more sophisticated infant industries, have been tried in Kazakhstan through the special economic zones for IT sector development with the absence of some taxes and extra funding from the state. This practice has not created any significant value, and many economists criticize the practice as vicious and corrupt in nature.

Labor linkage:

The Kazakh government first developed the concept of local content in 1996 with the Law of Subsurface and Subsurface Use, but international oil companies have not followed them in procurement and supplies, and the government introduced a new Law of Subsurface and Subsurface Use in 2004 and modified it in 2009. The government elaborated a special methodology for calculating the local content in labor, services, products, and defining Kazakh producer origins. The idea was that if Kazakh producers would meet the quality standard, the price of Kazakh producers had to be reduced by 20% in comparison with

a foreign producer. The target was set by the government as 90% of Kazakh content in services and 50% in supplies by 2012 (Osanova, 2009). Regarding the labor force, the Law on Employment of the People requires having no more than 50% of foreign labor in legally registered organizations.

Social relations and networks:

Energy business is united in the KazEnergy Association, and mining business is in their own Mining and Metal Association. Some businessmen are afraid of the strong lobbying capacity of these organizations in defending special tax breaks for their sectors. All businesspersons by law are members of the Atameken Association. Many small and medium businessmen are concerned that they have to be members of Atameken by law, not by their choice, and should pay a membership fee. One might say that the question of business associations is distorted in Kazakhstan. To end this section, we note that the media has counted projects opened by the President that were introduced and were shut down since 1996. The projects include production of a national car, an airplane for agroindustry, a cement plant, and many others (Mamashuly, 2013).

Table 1. *Some of the industrial projects implemented by the government of Kazakhstan*

Project	Dates	Investment	Current status
Utex textile plant	2004–2011	19 mln USD, 11 mln USD were invested by Kazakh Development Bank	Plant hasn't worked since 2011.
KazSat satellite	2006	65 mln USD	No connection since 2008.
Biochim ethanol plant	2006	88.6 mln USD	Declared bankruptcy in 2012. Some information was released on revival in 2017.
Aziya Keramik	2010	31.8 mln USD was a loan from state Kazakhstan Development bank and 4 mln USD was invested by Turkish businessmen	Plant does not work in 2017, land plots are on sale.
Airplane for agro-business "KazAviaSpektr"	2011	1.6 bln KZT or 8.8 mln USD on the rate of 2011	Airplanes were imported and none of them assembled yet. Management is under criminal investigations.

Source: information is taken from relevant websites

These cases demonstrated not even mismanagement or corruption but the conscious effort to create a project in which money is stolen in the process. This type of economy later became a widespread practice in Russia when commercial profits were not important in comparison with contractual price, as was demonstrated in the scandalous report of SIB Sberbank on the Gazprom construction of a pipeline from Russia to China (Fak, Kotelnikova 2018). One of the authors of this report was fired quickly.

How can we best explain the failure of these economic initiatives taken by

the Kazakhstani government? In this exploratory case study, we are primarily interested in identifying factors related to politics. There are, broadly, two types of factors: those that form part of the larger political context and work long-term and more indirectly, and those that pertain specifically to a particular type of linkage creation strategy. In the table below, we summarize the kinds of political factors that could be in play.

Table 2. *Linkage creation and political obstacles in Kazakhstan*

Type of linkage	Linkage efforts in Kazakhstan	Specific and known challenges to this linkage type in the political context of Kazakhstan	General challenges to this linkage type in the larger political context of Kazakhstan
Backward linkages	Existing backward linkages from the soviet period did not meet standards of International Oil Companies (IOC) and were discarded. Some new backward linkages in construction services, geological exploration, and production of metal structures and drilling equipment have emerged independently of official government efforts.	The Kazakhstani government has shares in all major oil projects and is heavily involved in the oil and gas sector in general.	New independent business initiatives face difficulties due to predatory behavior by state officials and state agencies.
Forward linkages	Kazakhstan is preparing to use more gas instead of gasoline for car engines and to build a polypropylene and polyethylene plant where input for production will be sour gas.	Government participation in these initiatives have created uncertainties since available financial resources have varied from year to year. There have also been cases where difficult bilateral relations with Russia, including possibilities of corrupt dealings in bilateral relationships where private rather than national interests trump, have undermined forward linkage creation.	Government actors are more concerned with initiating projects and reaping rents from them rather than ensuring the completion of these projects and establishing commercially viable entities.
Fiscal linkages	Creation of special economic zones for IT sector development with absence of some taxes and extra funding from the state.	Tax burden distribution on corporate sector is a subject for the debate in Kazakh business. In 2018, a New Tax Code was accepted, and mining companies lobbied for less taxation. SME were unsatisfied with the outcome, and there have not been any substantial tax breaks available for the (planned) special economic zones.	Government bureaucrats and agencies lack competencies (due to lack of meritocracy and de-professionalization) to oversee and manage special economic zones and IT development.
Labor linkages	Introduction of Law of Subsurface and Subsurface Use in 2004 (2009). The government elaborated a special methodology for calculating the local content in labor, services, products, and defining Kazakh producer origins.	Kazakhstan's government developed special rules on the methodology of calculation of "local content" since 2010. These rules are compulsory for all companies in which the government has shares. The calculation and adherence to the local content rules remains controversial. Labor is a subject for "local content" to increase employment. However, the Labor Code allows for firing people easier than before. Still, labor activists are sure that the government is more "pro-business" and supports corporations, not workers.	High corruption rates could undermine the way in which local content is calculated. Corruption could also undermine the monitoring of compliance with this law.

Social relations and networks	Establishment of business associations including the Atameken Association.	No specific challenges recorded in publicly available sources.	Interventionist and illiberal state policies order membership in Atameken, thereby possibly preventing or co-opting the “organic” or independent growth of business networks.
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Source: prepared by the authors

The factors above that pertain to the broader political context merit some further discussion. One of the key underlying issue seems to be too much state control in combination with an absence of interest from the private actors due to their lack of full control of private property. In Kazakhstan, there has been a lack of property rights protection and some selectivity in property rights issues. Moreover, property after a certain volume seems to require political protection. Current billionaires in Kazakhstan try to find possible ways to secure their rights when the political situation would change and transition would come. Pervasive corruption also adds to this challenge. State officials in Kazakhstan of high rank like the Prime Minister, Ministers, and heads of state companies are accused and sentenced to prison because of corruption. Some of the projects in diversification ended up in investigations of money squandering like the project on airplane for agriculture and ethanol plant. Vested interests of powerful actors was another underlying element. Finally, one of the problems with authoritarianism in Kazakhstan is that there is no motivation among officials for ensuring the success of diversification. State officials have an interest in reporting to higher level officials but not in the success of projects and their commercial viability. This is similar to plans of the USSR economy in which profit had not been as important compared to resources being distributed from the center located in Moscow. A lack of motivation manifested itself in Kazakhstan in costly projects that did not work and were closed later. Kazakhstan’s government launched many projects including a car manufacturing plant, airplane manufacturing plant, solar panel plant, and many others, and it did not work (Mamashuly, 2013). Success fees for fulfillment of the projects and their commercial viability for government officials is hard to construct because it would create further rent-seeking and conflict of interest situations.

Too much of the state property in the economy and absence of private actors was mentioned to us by our respondents as an issue for slow economic development in Kazakhstan in general and in diversification in particular. State officials are too dependent on powerful lobbies and clans. They are not immune to pressures. This leads to the loss of competency and promotion of not the most professional but the most loyal ones. De-professionalization of government officials was mentioned long ago as a problem in Kazakhstan and a consequence of non-accountability and a closed type of power without rotation and elections in Kazakhstan (Kosanov, 2009). One of the main signs of this phenomenon is that government officials do not see their mission as a public interest protector. On the contrary, they view their position as a tool for maximizing their individual interests. It is a classic rent-seeking behavior. Diversification, linkage building, and other government programs are not excluded from this rule.

Other authors see the reason in non-merit, crony, and nepotism styles of

recruitment and the absence of ethics and professionalism among government officials, and therefore they call young people to emigrate to find opportunities abroad and come back when the regime changes (Kusainov, 2014). The question of de-professionalization and promotion on a non-merit basis demotivates young people to pursue careers in state bodies, and some of them are inclined simply to leave Kazakhstan. Aside from identifying relevant political factors, the above explorative case study also highlights the stark contrast between stated policy aims and actual policy measures and results. How can we explain this discrepancy?

Anna Zelkina (2003) notes that in Soviet times, “An inherent contradiction [of the Soviet system] is the dichotomy between ideologically motivated declared goals and aims, and the actual political, social and economic practices the system bred” (Roy, 2000). Similarly, Jeffrey Brooks (2000) shows how state mass media in the Soviet Union presented a “stylized, ritualistic and internally consistent public culture that became its own reality,” helping to breed a “performative culture” in social and political life. Performance replaced reality. Brooks’ findings in Soviet history have been further developed by Andrew Wilson (2005), who has assessed the pervasiveness of “virtual politics” in the post-Soviet period. According to Wilson, in the domestic politics of many post-Soviet states, we have witnessed the creation of a spectacle of “pseudo-democracy.” In this way, performance as reality has continued in post-Soviet politics after independence.

Bhavna Dave (2004), in her study of the implementation of language policies in Kazakhstan and Kyrgyzstan, links reliance on performance or symbolic achievements to the weakness of today’s Central Asian states. She found that in Kazakhstan, the state implemented few pro-active, on-the-ground strategies aimed at enhancing language abilities. Consequently, there was little change in the actual language skills of the population (i.e., the creation of more Kazakh speakers). The state nevertheless claimed that the language issue had been “solved” and was “a success” via the adoption of laws and nominal targets. In this case, state statistics (the national census) were manipulated by altering the definition of “proficiency.”

Dave’s (2004) findings, in combination with Wilson (2005) and Zelkina’s (2003) insights, indicate that after independence in 1991, leaders in Kazakhstan might have been concerned with creating distinct state façades—façades that had little to do with the day-to-day practices of the state and its citizens. Performance in the field of economic policies and diversification might have been an important part of post-soviet symbolic statecraft. Seen from this perspective, it becomes more compressible why the states leaders, knowing how difficult implementation was, would still make such extensive efforts at pledging a move toward diversification.

CONCLUSION

In this article, we have examined efforts for diversification in Kazakhstan, the type of economic model that has been built, and the possibility to change it

and get out of the “path dependence.” Some declarations were made and some state investments were made, but results are modest. Diversification has to be a major change in a resource-led growth model to a more open and inclusive one, but growth is dangerous for political establishment groups as they might lose privileged positions.

Political factors are salient when accounting for the peculiar pattern of heavy promotion of diversification with little actual movement in relevant economic sectors in Kazakhstan. As noted earlier, we have not attempted to examine how salient political factors have been or whether they are more salient than economic factors. Instead, we have identified which political factors typically come into play and how these factors make linkage creation difficult in resource-rich countries such as Kazakhstan.

A key argument from our side is that not only did political factors act as barriers to diversification, but the actual linkage creation initiatives that were taken served as useful vehicles for rent-seeking behavior, thereby further entrenching skewed political and economic structures that are typical of states with oil-led development. State ownership in the economy is still pervasive in Kazakhstan. To make the situation worse, the state is captured by the ruling group. The building of strong institutions is undermined by the need for short-term gains of the ruling group. The lack of these institutions makes any diversification efforts futile. Capital is provided, programs are created, and projects are selected, but these efforts do not bring results in the end. Arguably, this happens because the actors and project managers are interested not in the success of the projects but in building personal loyalty networks and personal enrichment. The state control makes no one responsible for failure or success of the project. The programs for diversification have a declarative nature, and financial resources are squandered because they aim to buy loyalty of the elite groups. Too many agencies, national companies, and parastatals are created to employ people in the state because business and science do not create opportunities for employment. This claim of overstaffed national companies has been discussed for years.

We note that the government-led promotion of linkage creation works without institutional reforms because public investments from the authoritarian state do not encourage private ones. This is because private actors are discouraged more by unstable property protection and monopoly of the powerful cronies. This political economic process when economic development threatens the vested interests of the political class in power is a <missing word>.

Kazakhstan has developed an education system with full literacy, universities and vocational schools, engineering capacity, urbanization level, overall healthcare system, and women’s rights. The underlying problem for Kazakhstan is that it still has not finished the reforms of the economy toward private ownership and overreliance on state ownership of the economy. Without meritocratic selection, mismanagement and oil income is squandered. The main problem is that the ruling group and their loyal elites control the state. They have enriched themselves and did it at the expense of society and neglecting public interest protection. State money and state ownership are associated with the ruling political class. The main interest of the political class was not to create

a new class of private owners with new businesses but to buy the loyalty of local regional groups via corruption and stealing money. We conclude that real diversification with successful private businesses would create a threat for the current regime because property would be more dispersed and delinked with political affiliation, and business owners would be more independent in their actions and political choices. Thus, etatization of the economy means more control over the economy by the ruling group, and diversification fails by lack of political motivation.

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