

PARLIAMENTARY ELECTIONS, GOVERNMENT RESHUFFLES AND PROTECTIONISM IN KAZAKHSTAN

What foreign investors should expect from the new Government & how to adjust corporate GR engagement

26th January 2020

On 10 January 2021, Kazakhstan held elections to its lower house of parliament (Majilis) and regional parliaments (Maslikhats). The Majilis' party structure remained unchanged, with three parties making it into Parliament: incumbent ruling party Nur Otan (71.09%), the Democratic Party of Kazakhstan Ak Zhol (10.95%) and the People's Party of Kazakhstan (9.10%). The two other parties that ran in the elections failed to pass the 7% threshold, while the National Social Democratic Party (NSDP), considered to be the main opposition, boycotted¹ the election completely. Both the EU and the OSCE expressed concern over the validity of the results – citing the lack of fair competition and restriction of media and other freedoms from opposition parties.

Of the 98 seats in the Majilis, 76 went to Nur Otan, 12 to Ak Zhol and 10 to the People's Party of Kazakhstan. A further nine deputies to the Majilis were elected by the Assembly of People of Kazakhstan², chaired for life by Nursultan Nazarbayev, the first President of the Republic (Elbasy).

The Government formally resigned following the election, yet so far there has been no major Cabinet reshuffle; 20 of the 22 ministers have been reappointed to their previous roles. Importantly, both Askar Mamin and Nurlan Nigmatullin remain as Prime Minister and Lower House Speaker, respectively.

THE ELECTIONS IN THE CONTEXT OF A POWER SHIFT

The Majilis elections are part of an ongoing transition of power in Kazakhstan which was activated following the resignation of President Nursultan Nazarbayev in March 2019 (Nazarbayev turns 80 in 2021). Other elements included the 2019 presidential elections (won by Kassym-Jomart Tokayev, the politician hand-picked by Nursultan Nazarbayev as his successor) and the election of village heads (akims) scheduled for 2022.

¹ By boycotting elections the NSDP expressed its disagreement with the situation in the country, while also recognising that its chances of securing entry into Parliament were low considering the apparent control over the elections imposed by the authorities.

² An advisory and consultative body to the President of Kazakhstan. In 2007, the Assembly of People of Kazakhstan was granted constitutional status and the right to delegate nine deputies to the Majilis.

The overall purpose of the transition is to ensure that former President Nazarbayev's entourage remains in power. It is to be achieved by an array of political and policy changes, including those outlined below:

- › Changing the political system, for example by:
 - › gradually weakening the President's powers and redistributing them in favour of Parliament (moving from a Presidential to a Parliamentary-Presidential system);
 - › establishing parallel decision-making centres (the Security Council, security services and the Institution of the First President, Elbasy);
 - › strengthening security agencies (above all, the National Security Committee and the Interior Ministry controlled by Nazarbayev);
 - › demonstrating political debate and reform³ and launching new political projects.
- › Establishing a new system of checks and balances within Kazakhstan's elite, dominated by former President Nazarbayev and subsequently by his immediate family and entourage:
 - › the gradual promotion of the former President's eldest daughter Dariga Nazarbayeva and son-in-law (husband of his youngest daughter) Timur Kulibayev to leading positions;
 - › such promotions are currently being thwarted by a number of factors, including competition within Nazarbayev's entourage for the place of real successor (including between Dariga Nazarbayeva and Timur Kulibayev), the need to restrain President Tokayev and Kazakhstan's potential political isolation as the West frowns on plans for a 'hereditary' transfer of power.
- › Maintaining internal legitimacy (trying to avoid popular unrest and 'revolutions') and external legitimacy in the face of a severe economic downturn:
 - › Kazakh officials are concerned about the negative lessons learned from recent elections in neighbouring Kyrgyzstan (where mass protests forced the President to resign) and Belarus (with its rising protest sentiments and international isolation)⁴.
 - › the need to overcome the economic crisis triggered by falling oil prices and COVID-related restrictions, with minimal losses for the ruling elite.

On the whole, the transition process is beset by growing instability. Even Nazarbayev's formal departure from power sparked increased social activity and a series of protests in Almaty and Nur-Sultan in the spring and summer of 2019. Things were further exacerbated by the economic crisis, which has impacted the Kazakh people severely.

As [estimated](#) by the International Monetary Fund, Kazakhstan's GDP dropped by 2.7% in 2020. According to the Bureau of National Statistics, in October 2020 alone, real incomes fell by 8.3% year on year. The negative socioeconomic effects of the lockdowns worsen further in the spring of 2021.

Against this backdrop, the Kazakh authorities are faced with two considerable and, to a degree, contradictory challenges:

1. How to build a renewed political system based on Nur Otan's political dominance while subordinating the President and the Government to the ruling party (most ministers are now members of Nur Otan)

³ In particular, the law on the opposition adopted in 2020 secured the right of the parliamentary minority to initiate hearings, government hours, propose alternative bills and hold a number of leadership positions in the Majilis.

⁴ Please click [here](#) and [here](#) to find our earlier memos on the respective crises in Kyrgyzstan and Belarus.

Under Nazarbayev, the President himself was the center of political life, but as Nazarbayev becomes more distanced from power, the Nur Otan party should become the dominant decision-making force.

2. To mitigate the risks posed by growing public frustration, given the people's fatigue with the regime and growing demands for reform. A previously announced round of reforms has so far failed to materialise, leaving many to assume they are little more than political window dressing rather than a serious commitment to reform⁵.

ELECTION RESULTS AND POLITICAL SCENARIOS

Key characteristics of the elections to the Majilis and Maslikhats include the following:

- It was for the first time that the ruling Nur Otan party ran in an election without Nursultan Nazarbayev as President:
 - Nur Otan has secured a majority of parliamentary seats in every election since 1999⁶. Notably, however, in this election it won fewer votes than in the previous⁷. A better result⁸ could have provoked voter distrust and further protests, as well as a negative reaction from the West, up to the imposition of sanctions;
 - Nur Otan's result was slightly higher than that of Tokayev in the 2019 Presidential election (70.96%). Although slight, this difference is symbolically important in Kazakhstan, where President Nazarbayev always enjoyed greater support than any party. The message is clear: Nur Otan is now an institution of greater political influence than the Presidency;
 - the alignment of forces in the Majilis and Maslikhats is not crucial for the Government and regional executive bodies (akimats) as both satellite parties (the liberal Ak Zhol and the People's Party of Kazakhstan - formerly the Communist Party of Kazakhstan) are keen to cooperate with the Government-controlled Nur Otan.
- This was also the first time that elections were held under a proportional system, meaning a proportional number of elected deputies will enter parliament and the Maslikhats across the party spectrum:
 - on the one hand, the switch to a proportional system will expand the opposition's presence in Parliament (primarily in regional parliaments) but on the other it is designed to prevent players not accepted by the elite entourage from gaining access to power.
- The election has led to a qualitative upgrade of the elite:
 - The ruling Nur Otan party has renewed its membership by 70%, with the average age of its deputies dropping by four years to 49. This physical revival and rejuvenation of the party signals the end of the 'Nazarbayev era' and an acceleration of the power shift.

Looking ahead at the post-election landscape, further political confrontation could follow two potential scenarios:

- Our **baseline scenario** assumes continued intra-elite struggles in the absence of active external intervention. A key trend is the ongoing need to restrain President Tokayev, who has a great deal of

⁵ In September 2019, President Tokayev presented the concept of a 'Listening State', suggesting certain steps for democratising governance and implementing reforms. In January 2020, he announced a new 'soft liberalisation' plan, including lowering the electoral threshold for parties from 7% to 5%, introducing an 'against all' box on ballot papers and moving to direct elections for district akims.

⁶ In the 2007 election, Nur Otan's candidates won all 98 seats in parliament that were up for election.

⁷ In the 2016 parliamentary election, Nur Otan garnered more than 82% of the vote.

⁸ It may be assumed that the vote count was controlled, given the lack of alternative information on the election results (exit polls are conducted in Kazakhstan by government-accredited companies).

power (by virtue of his position) and is gradually strengthening his apparatus, threatening to emerge as an independent political figure in the future:

- › Tokayev's protégés control important Government positions allowing them to influence the legislative agenda, among other things. For example, Beibit Isabayev, head of the President's representation in Parliament, comes from Kazakhstan's Foreign Ministry (which was headed by Tokayev for years);
 - › the recent Government reshuffle also saw Mukhtar Tleuberdi promoted to Deputy Prime Minister (while retaining his ministerial post);
 - › a counterweight to Tokayev could be the former President's eldest daughter, Dariga Nazarbayeva. She previously headed Kazakhstan's Senate but was forced to leave after a series of public scandals⁹. Dariga Nazarbayeva's return to the ruling Nur Otan party is therefore an important signal, but tellingly her aspirations to become Deputy Speaker or chair a committee have not materialised – for now, she remains a rank-and-file MP, indicating a reluctance of the Nazarbayev clan to take drastic steps in the face of high political and economic risks.
- › Our **negative scenario** assumes 'outside influence' on Kazakhstan's political landscape:
- › one key risk in this context is the Presidency of Joe Biden. While Vice President, Biden spoke of the need for regime change in Russia's neighbouring countries to accelerate democratisation processes in Russia itself – although the incoming US administration's focus on the pandemic means this is unlikely to be a priority in the near-term;
 - › Washington's policy on Kazakhstan remains uncertain so the external influence risk is difficult to estimate. In any case, the Republic will remain in the focus of Washington's attention owing to its geopolitical position between Russia and China (*both formally dubbed US foes*);
 - › if foreign influence comes into play, the now unpopular Kazakh opposition in exile, as well as the marginalised hardline forces within the country, might have a more prominent role moving forward;
 - › a potential increase in the West's influence over Kazakhstan could affect the country's prospects for joining the Eurasian Economic Union.

IMPLICATIONS FOR BUSINESS

The conservative scenario for the power shift (minimal Government reshuffle and maintenance of party representation in Parliament) against the backdrop of the economic crisis will likely entail a rise in nationalist (in the social sphere) and protectionist (in business circles) sentiments across Kazakhstan.

Protectionism carries the greatest risks from a business perspective. In particular, it could take the following forms:

- › Revising arrangements to allow foreign investment and goods into the country:
 - › one of the first [statements](#) issued by the Senate (the upper house of Parliament) under the new Government concerned the need to introduce a permit-based system for transit traffic between Kazakhstan and Georgia (*this direction is dominated by Georgian carriers, as well as foreign companies registered in Georgia*);
 - › there is a high probability that protectionist policies will gradually be extended to other areas of business as well.

⁹ These include scandalous publications in the Western media about Nazarbayeva's foreign real estate portfolio, as well as those of her (now deceased) son Aisultan Nazarbayev, who claimed that his real father was Dariga's own father, former President Nursultan Nazarbayev.

- › A more active localisation policy, including in the financial sector:
 - › in particular, Kazakhstan may push ahead with the work launched in 2019 to set up a national payment system. In late November 2020, the National Bank approved a programme for development of Kazakhstan's payment system up to 2025 (not yet officially published);
 - › despite the lack of funding and expertise, the creation of a national payment system will serve to strengthen [Astana International Financial Centre](#) as a major Central Asia business and financial hub.
- › Increasing State control as anti-crisis business support measures¹⁰ (tax deferrals, soft loans, etc.) are extended:
 - › regulation may be tightened in such areas as architecture and construction, sanitary and epidemiological surveillance, veterinary medicine, certification and others.
- › A new wave of State asset privatisations:
 - › in late December 2020, the Government approved a Comprehensive Privatisation Plan for 2021 – 2025. This envisages sale of a number of major state assets (including Ust-Kamenogorsk HPP and the Shulbinsk HPP from the energy sector);
 - › the need to reduce the Government's share in the economy is also necessitated by the transition of power in the Republic (a shift from managerial control to ownership of assets);
 - › the moratorium imposed in 2019 on setting up new companies has been extended through 2021, as has the directive to reduce the number of existing State-owned companies;
 - › pending the privatisation processes, one of the key positions remains that of the head of Samruk-Kazyna, the State-owned holding company that controls most of the country's biggest state-owned assets.
- › A review of Kazakhstan's approaches to integration processes within the EAEU:
 - › from 2021, Kazakhstan is chairing the governing bodies of the EAEU (the Supreme Eurasian Council, the Eurasian Economic Commission, etc.). Nur-Sultan can use its chairmanship to promote the interests of local companies more actively (*removing barriers to trade within the EAEU, co-production and promotion of goods on foreign markets, etc.*);
 - › it should also be noted that Kazakhstan has recently been sceptical about the EAEU's prospects, citing the organisation's alleged failure fully to respect Kazakhstan's national interests.

RECOMMENDATIONS FOR CORPORATE SYSTEMS RESPONSIBLE FOR INTERACTION WITH THE GOVERNMENT

Given the changes and risks described above, an optimal strategy for businesses would focus on the following key pillars:

- › Renew contacts and forge ties with the new Parliament (especially with the key deputies of the Nur Otan ruling party) in order to be able to respond in a timely manner to the protectionist initiatives that are likely to be taken by the Government and Parliament.
- › Monitor staffing changes at the Government's middle management level (deputy ministers, heads of departments), as well as at the regional level (the President is expected to replace a number of regional heads).

¹⁰ In the spring of 2020, the Government announced a raft of measures to support households and businesses, allocating a hefty 9% of GDP in total.

- › Track trends in the process of shifting decision-making centres in the medium- and long-term (such as the likely promotion of Dariga Nazarbayeva and other members of the ex-President's family).
- › Build relations with Kazakhstan's representatives in the EAEU's governing bodies, primarily the Eurasian Economic Board.

Overall, the ongoing political climate in Kazakhstan points to growing risks associated with changes in the business environment. The processes accompanying the current transition of power, coupled with the effects of the economic crisis, clearly reinforce the need for businesses to ensure effective, nimble and strategic systems for interaction with the Government and a range of public institutions.

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About Kesarev

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