

# The Bitter Fruits of "Democracy" in Kazakhstan

ERIC RUDENSHIOLD

## **Backwards Thinking**

"If this is democracy, give me stagnation," reads the graffiti on a wall outside a near-empty Almati state clothing store. Everywhere the sentiment is the same. The economic malaise and surfeit of consumer goods which was indigenous to the Soviet system has been supplanted in the minds of consumers by memories of bounty and a common longing to return to a time of stability where at least minimum needs were met. The most dangerous aspect of these yearnings for the restoration of normalcy is, for many, the image of economic chaos to the adoption of "democracy."

Within six weeks after the start of the new year, Kazakhstan experienced near-100 percent inflation with the ruble moving from an all-time low of 400 to the dollar to an even more unfathomable 800-to-one. The collapse of the former Soviet economy was seemingly unstoppable. The average man on the street was spreading rumors that the rate would be 1000:1 in two more weeks, and 10,000:1 by year's end.

Although such a collapse in the currency has failed to materialize, the existing hyperinflation has been sufficient to whip already downtrodden consumers into alternating states of near-panic and complete listlessness. "This is your democracy," one retired professor complains with bitterness. "The markets are full, but I can barely afford potatoes, let alone sausage."

## **The Widening Gap**

State enterprises have slowly doubled salaries and then doubled them again, but decisions to raise salaries are slow in coming and payouts are often delayed for several months after a decision is made. The result is that the indexing of salaries and pensions to the rate of inflation and other inflation-equalization measures, when they are eventually paid out, are often months behind the newest inflationary surge, and employees find the value of their wages slipping farther and farther down an economic abyss.

The disparity between the rich and the increasing numbers of the poor is manifestly apparent on the streets. The numbers of elderly beggars is growing, as is the number of rural families who come to the city to beg

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because they have “nowhere else to go.” Meanwhile a new Mercedes-Benz dealership recently sold more than 30 new cars during its first month in business. Western breakfast cereals sell in hard-currency stores to the *nouveau riche* for \$7 per box.

Popular discontent is also echoed up and down the corridors of power in Kazakhstan’s capital city, formerly known as Alma-Ata. Rumbblings from large enterprise managers, upset over their loss of control and dwindling power base, have exerted pressure on government and ministerial officials to return to a more “controlled atmosphere” of economic production. The theme has been picked up by bureaucrats who are concerned over the potential results of the country’s worsening economic conditions.

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Much of the blame for falling production rates and the failure of Kazakhstan’s economic system is due to a lack of conviction on the part of Kazakh officialdom to privatize, to an entrenched conservative elite, and to the philosophical and practical differences resulting from the ethnic composition of the post-Soviet republic. Even the half-hearted efforts at economic reform which have transpired in Kazakhstan are stymied by a variety of official and unofficial roadblocks. According to the president’s leading privatization advisor, the Korean-born American Dr. Chan Young Bang, efforts so far at privatizing in the republic have been a severe disappointment.

### **Resistance to Reform**

One of the first steps in the process is necessarily the reform of the cumbersome Soviet financial apparatus which is still predominant. But fears of economic displacement due to marketization have driven many bureaucrats and *apparatchiki* into the arms of those advocating re-centralization. With inflation having eaten up the value of any individual savings, few are willing to risk adopting a process of economic streamlining which would reduce the number of economy-related ministerial jobs and could well be tantamount to committing professional suicide. Also there is still a very prevalent legacy among workers and officials of expecting to be paid irrespective to the amount or quality of work generated. Hence, a negative incentive to reform is strongly reinforced throughout all levels of the government and *apparat*.

### **Ethnic Disparities**

Another hindrance to privatization derives from the philosophical differences

between the republic's two main dominant ethnic groups—Kazakhs and Russians. Whereas Russians have adopted a more Western belief in exploiting profits from the land's natural resources to then reinvest and develop a modern industrial and economic base, ethnic Kazakhs are often opposed to the further rape of their homeland by the exploitation from "foreigners." Many Kazakhs prefer instead a plan whereby the republic itself would develop its resource base and then reinvest those profits back into the economy. This boot-strap method, while politically popular among nationalists, is patently unfeasible as the republic has virtually no financial reserves to devote to the modernization and development of efficient production techniques.

### **Poor Judgement**

Liberals and conservatives alike point to the statistics describing the vast resources of the republic and remark that Kazakhstan is "a rich country." This is the commonly proposed solution to all of the country's ills. But a lack of market experience combined with an apparent overestimation of the worth of their raw commodities on the world market have hampered Kazakh negotiators for successfully entering into partnerships with Western firms. The Chevron-Tenghiz oil and gas project has been stymied since its inception and hampered, though Chevron is renowned in the international business community for its acumen in sealing hard-but-equitable bargains in developing countries. Other international partners, such as United World Trade, have run into problems with bureaucrats and enterprise managers who have failed to keep production agreements—costing considerable Western investment capital. They even threaten publicly that "Kazakhstan has the possibility to select more desirable trading partners."

### **Empowerment of Non-Kazakhs**

But a lack of experience in the international marketplace is not the only problem facing the country's reform process. Due to concentrations of ethnic Russians in the mineral-rich and comparatively developed northern industrial regions, many Kazakhs oppose the further institutionalization of Soviet ethnic colonial policies of rewarding Russians with the choicest of the republic's properties to be privatized. "There are villages in the south and west which have no electricity, no water, no hospitals . . . this is where Kazakhs live," says one nationalist party leader. "This is what privatization will give us." Hence, one of the critical components of economic reform faces a seemingly insoluble roadblock, the diversity of ethnic groups which are a historical by-product of the regions's settlement. It is this obstacle, more than many others, which has proven to be one of the stickiest in privatization—the transfer of property and resulting empowerment of non-Kazakhs.

### **New Power Elites**

There are other logjams in the process as well. Old Party and state-farm bosses, tribal leaders, workers' unions, and others wield a tremendous amount of weight and hold sway over vast reserves of political influence among rural populations. These influential leaders have proven resistant to the processes of privatization and democratization. Changes in the political status quo have resulted in the creation of new power elites: the rise of powerful local and regional mafiosi, repositioned former Communists, and their increased status of the rural *apparatus* to fill a vacuum of power. They, too, resist reform.

The apparent clash between old and new power brokers has tended to produce a condition where those seeking to hold on to their power are favoring a "return" to the system that they know best which opposes any form of divestment of state property. Those seeking power are building vertical ties that extend all the way into the presidential *apparatus* and reflect the neo-conservative line which is apparently emanating from President Nursultan Nazarbayev and his closest advisors. The end result of this contest between those vying for power is to create a further hindrance to the mechanism of economic reform.

### **Old Economic Ideas**

And, though there are members of the intelligentsia who know better than to attribute the current chaotic economy and marketplace to the transition to democracy, the path to a market economy has proven too steep and the

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cost too high for many. Hence, the late-January economic congress of Russian industrial lobby leader Arkady Volsky held in Almati which advocated the reintroduction of closer economic ties between Kazakhstan and Russia, the halt of the disintegration of ties with former trading partners, and the reintegration of economies of the former

Soviet republics was greeted enthusiastically by many.

It would appear that the many stumbling blocks to market reform in Kazakhstan are proving more than difficult to move, and in some instances, being held in place by vested interests. It would also appear that as economic pressures challenge the day-to-day existence of the republic's citizenry, more pressure will be brought to bear upon the country's leadership to acquiesce and exert more control, stronger leadership, and to put an end to the experimental nightmare of "democracy."

**Retrenchment in the Presidential Apparatus**

Although Western business has been beating a path to Kazakhstan's partially open door, the economic reality in the country has continued to become bleaker by the moment. With the unanticipated collapse of the financial system of the Soviet Union, and with the ineffectiveness of the Commonwealth of Independent States to replace it, the leadership of Kazakhstan has found itself in the position of trying to explain why a country rich in resources cannot provide for its people. Buried under the shards of the former Soviet planned economy, President Nazarbayev has for some time vacillated on whether or not he will risk trying to raise Kazakhstan from the rubble. However, in a series of speeches and public pronouncements, increasing pessimism and caution has begun to dominate the president's vocabulary.

One of the main points Nazarbayev made repeatedly during speeches and appearances throughout most of 1992 was for the need to establish strong executive rule in Kazakhstan, if the country was going to succeed in making severe economic changes. "Tough executive, vertical power is needed not for usurping power . . . [but] to implement a radical economic transformation," Nazarbayev told administration heads in the autumn of 1992.

During stalled arguments over the final form of Kazakhstan's to-be-adopted constitution, Nazarbayev succeeded in pressing forward decrees and in establishing a powerful executive apparatus which parallels many legislative bodies in form and function. In effect, this structure is a co-optation of the former Communist Party's organizational structure and membership. With its vertical flow of power, the president is able to use this body to exert considerable direct control and influence all the way to the local levels. Upon consolidation of this power, though, and with inflation taking ever-larger bites out of the ruble's value, executive rhetoric began to reflect a different set of priorities.

By December, while still describing the need for privatization in agriculture and the need to pursue a course toward a "socially oriented market economy," the president began to discuss the "very big mistakes that we have made in the process of reforms." A subtle shift in the *official word* began to make a distinction between the results of good and bad reforms.

**New Clans and New Necessities**

The newly created, presidentially sponsored Unity Party spelled out the new evils in Kazakhstan's post-Soviet era as *prikhvatizatsiya*, or the process where people with power try to take advantage of the state and the process of privatization. Party Chairman Serik Abdrakhmanov, a member of the Kazakh Parliament, stated in his first general announcement that new "clans" had emerged, dividing up what used to be the state "people's" property. He described this rise of a new, powerful class in derogatory terms reminiscent

of rhetoric from Russia's Menshevik and Bolshevik parties.

By late December, Prime Minister Tereshenko further detailed the necessity of *increasing* executive power as a means to "gain control of the wayward economic system." These "policy departures" introduced another necessity of "discontinuing the further disintegration of production and creating the preconditions for productive growth in the mid-term . . ." By January, this scheme was developed in a major speech by Nazarbayev at a parliamentary session to include the idea that monetary stabilization and economic liberalization were incompatible goals to attempt simultaneously.

Though the president continued to speak about massive privatization, he also railed against "extremist tendencies" in economic policies which had resulted in the country's fiscal chaos. "In my opinion, the main [economic] changes will be in strengthening the government's role in regulating the economy and we shall return to . . . where this role is extremely high," he said. Nazarbayev went on to add that "strong and responsible power" needed to be re-created and that the direct subordination of local administrations and lower agencies to higher bodies should be restored.

### **The Volsky Congress**

In late January the so-called Entrepreneurs' and Industrialists' International Congress (EIIC) met in Almati to focus on the widening of horizontal ties between former Soviet and east European trading partners. EIIC Chairman Arkady Volsky called for the renewed cooperation between these states for mutual benefits, particularly between Russia and Kazakhstan. This sentiment was echoed by Nazarbayev in a Congress speech which underlined the inability of the ex-Union republics to market their goods to the West and spoke of the need to form a "new economic partnership."

While the president warned against Congress members falling for the "false happiness" of the past, he also followed the proposition that successes from the past should be exploited for future economic well-being. To convert Kazakhstan's military-industrial complex into a maker of kitchen utensils, he said, was nonsense. Nazarbayev stated that the country needs to find buyers for its weapons products to "generate funds to produce more complicated technologies."

### **A Bleak Outlook**

Reports on the state of privatization during 1992 (released in February 1993), indicating the preponderance of "denationalized" industries, came from the small-to-medium-sized categories. Few large enterprises, representing a major drain on the economy, were privatized. Interestingly, though most privatization took place in the Almati region, a study of regional business people revealed a belief that the government and Parliament are regarded either as immaterial or a hindrance to the development of business in the

republic.

Throughout February a purge of "corrupt" local and regional administrators was carried out under the guise of removing those who were prospering at the expense of the average citizen. Chaos, economic displacement, and most of the country's financial ills were charged to these individuals. Numerous headlines and much broadcast time was spent detailing the crimes warranting the removal of these individuals from positions of authority.

In his address to regional and *oblast* heads, Nazarbayev portrayed a rising pessimism regarding the economic policies of the past and their results. Again he called for the necessity of strong executive power to fight corruption and to channel the flow of ungovernable privatization away from the mafia and the *nomenklatura*.

### **Where To from Here?**

Despite his ability to deflect attention for fiscal policy failure away from himself, how long can the president continue to do so? The proposition that strong leadership is an essential component for a successful transition to a free market economy (or to a democracy) is debatable. It was the argument Gorbachev and Yeltsin have used repeatedly in Russia. By necessity it begs a series of questions and assurances: When is enough power granted to a president without creating a complete autocracy? When does the extraordinary power revert back to a more balanced and representative system of government? With its lack of democratic history, is it necessarily a good idea to set an example of only being able to accomplish a difficult task by vesting near-absolute power in the hands of one man?

In the economic chaos and social anomie which comprise the post-Soviet existence, rationalizations are perhaps the most economical commodity available. Nazarbayev's *leitmotif* for increased executive power to fight corruption and chaos makes as much sense to many as any other proposal. Unlike in the Baltics, where Soviet symbols were torn down even prior to independence, monuments to the supposedly glorious times of socialist splendor are still standing throughout much of Central Asia. Billboards with smiling faces of successful workers, banners for five-year plans, monuments to the greater glory of the Soviet past abound and serve as omnipresent reminders of how far down "democracy" has brought the ex-Union republics.

The cupboard and the table are bare in the new Kazakhstan; the average citizen's life is becoming increasingly more difficult to cope with, as inflation is destroying any faith in the economy and the government which manages it. So far, Nazarbayev has remained above the fray and avoided much of the blame for the country's woes. He is a charismatic leader with an acute sense of which way the political winds blow. Yet, increasing pressures from below are igniting reciprocal pressures from above to bring the economy under control. During this process Nazarbayev has been highly successful in

consolidating considerable power and authority in the executive branch of government, and yet he still clamors for more. Coupled with high public popularity, the president of Kazakhstan is already a more-than-formidable political force to be reckoned with.

Little happens in the republic without the president's imprimatur. A multi-party political system is being created with Nazarbayev having had his hand in

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founding the only three political parties allowed to register in the country. All other parties and political organizations have been de-registered and potentially outlawed. Unscheduled laws and decrees are frequently handed down from the presidential *apparatus* and placed before an unprepared Parliament to be

passed with little discussion.

One cannot say specifically that President Nazarbayev is the sole navigator on Kazakhstan's ship of state, but his hand obviously weighs heavily upon the tiller. Whether this is a positive or negative influence on the transition away from autocratic government and centrally planned economies is difficult to tell. Kazakhstan's president has so far managed to stay aloof from the oppressive, authoritarian tactics of other Central Asian leaders. But Nazarbayev's once-optimistic verbiage has all but given away to far more cautions and conservative prognoses. And as Kazakhstan's economy continues to ebb into an inflationary morass, power also seems to be flowing steadily toward the new executive branch of government.

Given the conservative bent of many *apparatchiki* or former Communist Party members, the re-establishing of economic ties with former Union republic partners, the reticence to sanction independent governmental action from either the legislature or opposition groups, the re-tracing of steps, seems a logical departure. Though the trend has been toward a conservative use of presidential authority, the increasingly absolute concentration of power in the vertically organized executive structure is undeniable. It is also beyond doubt that Kazakhstan's economic and political policies have recently begun to exhibit far less elasticity than they have in the past. Currently, there seems to be no opposing force to check the advance of these prevailing trends.